Integrated Annual Report **2021**

CAPITEC
BANK

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agility
and digitalisation

Our purpose is to make banking simple and transparent so that our clients can live better. We achieve this by applying our fundamentals of simplicity, affordability, accessibility and personalised experience. This unwavering focus, combined with agility and digitalisation, allows us to deliver value to our stakeholders despite difficult social and economic conditions.

About this report

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

What we cover

This report provides information about Capitec's operational and financial performance for the financial year 1 March 2020 to 28 February 2021.

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

Materiality

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

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

What guided us

This report was compiled in accordance with:

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

The figures presented from page 6 to page 31 in this report are those of the Capitec Bank Holdings Limited group. The Capitec Bank Limited group figures do not differ significantly from those of the Capitec Bank Holdings Limited group.

Forward-looking statements

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

Assurance

Our joint external auditors, PricewaterhouseCoopers Inc. (PwC) and Deloitte & Touche, independently provided assurance on the fair presentation of the annual financial statements for the year ended 28 February 2021. The external auditors also read the integrated annual report and considered whether any information is materially inconsistent with the annual financial statements or their knowledge obtained during the course of their audit or otherwise appears to be materially misstated. No such misstatement was reported.

We appreciate your feedback

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

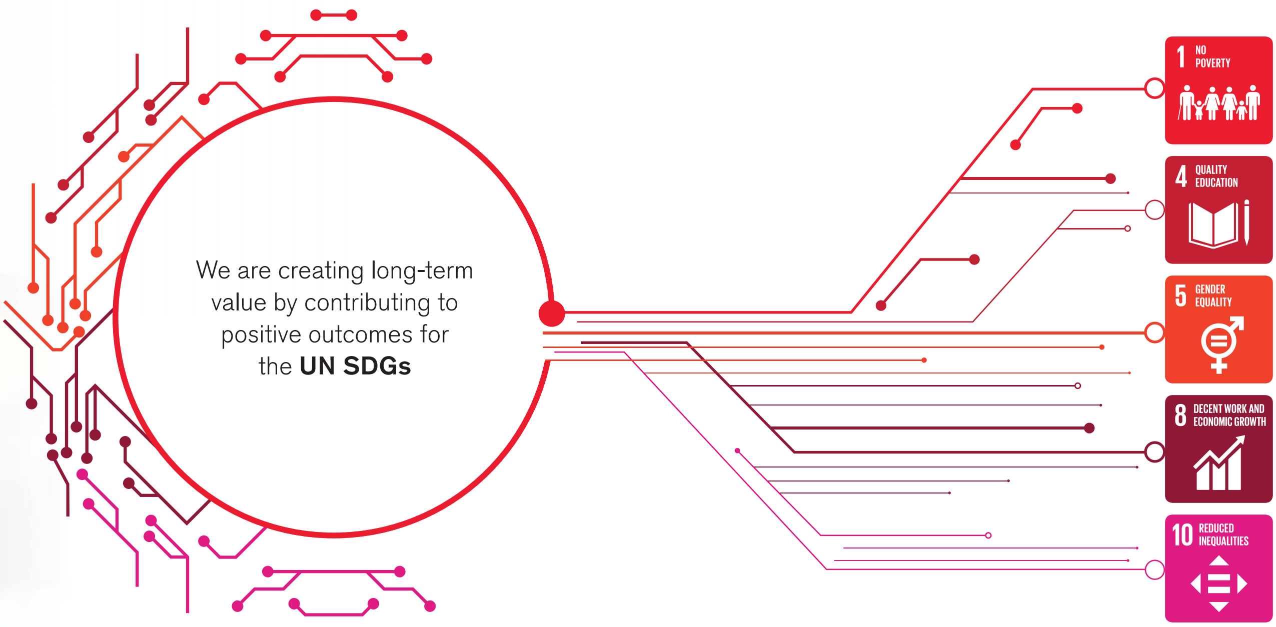
We welcome any feedback stakeholders may have on this report. Kindly email us at **enquiries@capitecbank.co.za**.

Board approval

The Capitec board is responsible for overseeing the integrity and completeness of this report. The board, the audit committee, the human resources and remuneration committee (REMCO) and the social and ethics committee (SECO) considered the accuracy and completeness of the report and are satisfied with the reliability of all data and information. The board members collectively applied their minds to the preparation and presentation of the information contained in this report and approved it on 13 April 2021. It is signed on behalf of the board by:

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer (CEO)



Read more about our contribution on page 72.

Our total **active client base** grew by approximately

160 000

clients per month which as at 28 February 2021 was

15.8 million

(2020: 13.9 million).

performance and outlook

Final dividend per share

1 600 cents

We look back on how we have transformed banking and it inspires us to continue to improve the financial lives of our clients.

Agility and digitalisation will be the focus of our efforts to make banking simpler, more affordable, more accessible and more personalised.

Simplicity | Affordability | Accessibility | Personalised experience

5 years at a glance

		2021	2020*	% change 2021/2020	2019	2018	2017
Profitability							
Interest income on loans[1]	R'm	**13 401**	13 552	(1)	12 723	13 216	13 225
Interest income on investments	R'm	**3 143**	3 489	(10)	2 778	2 258	1 709
Total interest income	R'm	**16 544**	17 041	(3)	15 501	15 474	14 934
Net loan fee and insurance income	R'm	**1 863**	1 871		1 507	1 380	495
Total lending, investment and insurance income less loan fee expense	R'm	**18 407**	18 912	(3)	17 008	16 854	15 429
Interest expense	R'm	**(4 985)**	(5 680)	(12)	(4 510)	(4 184)	(3 552)
Net lending, investment and insurance income	R'm	**13 422**	13 232	1	12 498	12 670	11 877
Net transaction fee income	R'm	**8 708**	7 416	17	6 464	5 127	3 923
Other income	R'm	**114**	32	>100	3	(1)	–
Foreign currency income	R'm	**111**	38	>100	–	–	–
Funeral plan income	R'm	**650**	413	57	54	–	–
Income from operations	R'm	**23 005**	21 131	9	19 019	17 796	15 800
Credit impairment charge[1]	R'm	**(7 825)**	(4 474)	75	(4 450)	(5 280)	(5 121)
Net income	R'm	**15 180**	16 657	(9)	14 569	12 516	10 679
Operating expenses	R'm	**(9 463)**	(8 612)	10	(7 494)	(6 364)	(5 439)
(Loss)/income from associates and joint ventures	R'm	**(7)**	11		2	3	–
Impairment of investment in associate	R'm	**(122)**	–		–	–	–
Income before tax	R'm	**5 588**	8 056	(31)	7 077	6 155	5 240
Tax	R'm	**(1 130)**	(1 805)	(37)	(1 781)	(1 685)	(1 434)
Preference dividend	R'm	**(4)**	(7)	(43)	(9)	(12)	(16)
Discount on repurchase of preference shares	R'm	**(2)**	(1)	100	(2)	–	–
Earnings attributable to ordinary shareholders							
Basic	R'm	**4 452**	6 243	(29)	5 285	4 458	3 790
Headline	R'm	**4 586**	6 277	(27)	5 292	4 461	3 793
Net transaction fee and funeral plan income to net income	%	**62**	47		45	41	37
Net transaction fee and funeral plan income to operating expenses	%	**99**	91		87	81	72
Cost-to-income ratio	%	**41**	41		39	36	34
Return on ordinary shareholders' equity	%	**17**	28		28	27	27
Earnings per share							
Attributable	cents	**3 850**	5 400	(29)	4 571	3 855	3 278
Headline	cents	**3 966**	5 428	(27)	4 577	3 858	3 281
Diluted attributable	cents	**3 848**	5 391	(29)	4 562	3 843	3 267
Diluted headline	cents	**3 963**	5 420	(27)	4 568	3 846	3 270
Dividends per share							
Interim	cents	**–**	755		630	525	450
Final	cents	**1 600**	–		1 120	945	800
Total	cents	**1 600**	755		1 750	1 470	1 250
Dividend cover	times	**2.5**	7.2		2.6	2.6	2.6
Assets							
Net loans and advances	R'm	**57 189**	62 043	(8)	44 515	40 927	39 205
Financial instruments at amortised cost[2]	R'm	**84 312**	59 439	42	49 208	39 387	30 605
Financial instruments at fair value through profit and loss (FVTPL)	R'm	**2 970**	1 504	97	–	–	–
Financial assets – equity instruments at fair value through other comprehensive income (FVOCI)	R'm	**69**	101	(32)	100	100	100
Other	R'm	**11 967**	11 481	4	6 605	4 307	3 448
Total assets	R'm	**156 507**	134 568	16	100 428	84 721	73 358
Liabilities							
Deposits and wholesale funding	R'm	**120 908**	103 343	17	76 443	64 030	55 582
Other	R'm	**5 684**	5 644	1	2 309	2 447	1 658
Total liabilities	R'm	**126 592**	108 987	16	78 752	66 477	57 240
Equity							
Shareholders' funds (total equity)	R'm	**29 915**	25 581	17	21 676	18 244	16 118
Capital adequacy ratio (CAR)	%	**37**	31		34	35	34
Net asset value per ordinary share	cents	**25 872**	22 061	17	18 676	15 681	13 809
Share price	cents	**133 875**	129 999	3	130 621	83 246	72 500
Market capitalisation	R'm	**154 796**	150 314	3	151 033	96 255	83 830
Number of shares in issue	'000	**115 627**	115 627		115 627	115 627	115 627
Share options							
Number outstanding	'000	**552**	491	12	640	777	963
Number outstanding to shares in issue	%	**0.5**	0.4		0.6	0.7	0.8
Average strike price	cents	**91 395**	70 889	29	50 644	38 561	31 755
Average time to maturity	months	**30**	21		18	19	20

			2021	2020*	% change 2021/2020	2019	2018	2017
Operations								
Branches			**857**	864	(1)	840	826	796
Employees			**14 672**	14 590	1	13 774	13 333	13 069
Active clients		'000	**15 829**	13 887	14	11 386	9 868	8 569
ATMs, DNRs and CNRs								
Own			**2 660**	2 388	11	2 090	1 895	1 653
Partnership			**4 065**	3 264	25	2 921	2 750	2 371
Total			**6 725**	5 652	19	5 011	4 645	4 024
Capital expenditure		R'm	**837**	1 403	(40)	1 141	829	1 000
Credit sales								
Value of credit card disbursements/drawdowns		R'm	**10 039**	9 934	1	6 193	3 949	864
Value of access facility disbursements/drawdowns		R'm	**6 398**	–		–	–	–
Value of term loans advanced[3]		R'm	**14 262**	28 809	(50)	23 475	24 343	26 362
Value of credit facility disbursements/drawdowns		R'm	**206**	651	(68)	1 300	1 833	2 836
Value of mortgage loans advanced		R'm	**1 553**	509	>100	–	–	–
Value of other loans advanced		R'm	**674**	531	27	–	–	–
Value of overdraft disbursements/drawdowns		R'm	**45 120**	14 324	>100	–	–	–
Value of total loans advanced		R'm	**78 252**	54 758	43	30 968	28 292	27 226
Credit book								
Gross loans and advances		R'm	**75 026**	75 783	(1)	55 895	47 642	45 135
Up-to-date	Stage 1	R'm	**47 696**	57 626	(17)	41 587	37 165	39 076
Up-to-date with significant increase in credit risk (SICR)	Stage 2	R'm	**4 349**	3 616	20	3 765	4 401	
Forward-looking SICR	Stage 2	R'm	**4 564**	954	>100	–	–	–
Total up-to-date		R'm	**56 609**	62 196	(9)	45 352	41 566	39 076
Arrears	Stage 2	R'm	**1 034**	1 200	(9)	1 087	1 003	1 641
Arrears	Stage 3	R'm	**1 904**	1 550	23	1 483	1 697	1 214
Total arrears		R'm	**2 938**	2 750	7	2 570	2 700	2 855
Application for debt review within 6 months	Stage 3		**137**	83	66	70	108	–
COVID-19 reschedules	Stage 2	R'm	**1 267**	–		–	–	–
COVID-19 reschedules	Stage 3	R'm	**61**	–		–	–	–
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)	Stage 2	R'm	**172**	226	(24)	–	–	–
Up-to-date that rescheduled from arrears (not yet rehabilitated)[4]	Stage 3	R'm	**2 105**	1 130	86	900	1 085	1 088
Up-to-date that rescheduled from arrears (not yet rehabilitated)	Stage 2	R'm	**92**	71	30	–	–	–
Up-to-date that rescheduled from arrears (not yet rehabilitated)[4]	Stage 3	R'm	**2 403**	1 471	63	1 354	1 277	1 583
Total up-to-date that rescheduled (not yet rehabilitated)		R'm	**6 100**	2 898	>100	2 255	2 362	2 671
More than 3 months in arrears and legal status	Stage 3	R'm	**9 242**	7 856	18	5 649	–	–
Expected recoveries receivable	Stage 3	R'm	**–**	–		–	906	533
Total provision for credit impairments		R'm	**17 837**	13 740	30	11 380	6 715	5 930
Net loans and advances		R'm	**57 189**	62 043	(8)	44 515	40 927	39 205
Total provision for credit impairments to stage 3 and stage 2 (excluding SICR) coverage		%	**97**	101		108	130	107
Gross credit impairment charge[1]		R'm	**8 757**	5 737	53	4 917	6 560	6 246
Bad debts recovered		R'm	**932**	1 263	(26)	467	1 280	1 125
Net credit impairment charge[1]		R'm	**7 825**	4 474	75	4 450	5 280	5 121
Net credit impairment charge to average gross loans and advances (credit loss ratio)[1]		%	**10.4**	6.3		8.6	11.4	11.9
Total lending and insurance income (excluding investment income)[5]		R'm	**15 335**	15 517	(1)	14 448	15 008	14 362
Net credit impairment charge to total lending and insurance income (excluding investment income)[1][5]		%	**51.0**	28.8		30.8	35.2	35.7
Deposits and wholesale funding								
Wholesale funding		R'm	**2 376**	3 694	(36)	5 078	6 206	7 543
Call savings		R'm	**78 113**	62 582	25	45 141	34 909	30 117
Fixed savings		R'm	**39 176**	36 183	8	26 224	22 915	17 922
Foreign currency deposits		R'm	**1 243**	884	41	–	–	–

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

(1) *Under IFRS 9, the credit impairment charge is recognised on a net basis for all loans classified as stage 3, reducing interest received and bad debts written off by R1 779 million for this year (2020: R1 526 million).*

(2) *Cash, cash equivalents, money market funds and other financial investments are included here.*

(3) *Net of loans settled through loan consolidation.*

(4) *Not yet rehabilitated – Loans are deemed to be rehabilitated once contractual payments for 6 consecutive months have been made. Once rehabilitated, the loan is classified as up-to-date.*

(5) *Interest received on loans, initiation fees, monthly service fees and net insurance income.*

Review by the Chairman and Chief Executive Officer

Headline earnings -27% to

R4.6 billion

Headline earnings per share

-27%

to 3 966 cents

17%

return generated for our ordinary shareholders

Headline earnings

Headline earnings decreased by 27% to R4.6 billion (2020: R6.3 billion) and we generated a return on equity (ROE) of 17% for our ordinary shareholders (2020: 28%). Headline earnings comprised R4.6 billion for the Retail bank and a loss of R1.0 million for the Business bank. The amortisation of the intangible assets created on acquisition of the Mercantile Bank group totalled R10 million and is included in the Business bank headline earnings.

For the first 6 months of the financial year, while the country was in lockdown, headline earnings decreased by 78% to R650 million compared to the prior year comparative period. During the second 6 months of the year ended February 2021, headline earnings amounted to R3.9 billion against our target of achieving similar headline earnings as during the 6 months to February 2020 (R3.3 billion). Headline earnings for the 6-month period ended February 2021 increased by 18% compared to the prior year comparative period.

Net transaction fee income increased by 17% year-on-year as our digital transformation journey continued despite the COVID-19 pandemic. Our credit life insurance product performed well and generated R965 million profit after tax, a decrease of only 2% compared to the prior year despite the increase in claims that resulted from the COVID-19 pandemic and not reinsuring the retrenchment risk since 1 May 2020. Funeral plan income increased by 57% year-on-year and totalled R650 million after tax as the number of active policies continued to increase and premium collections improved.

Our total active client base grew by approximately 160 000 clients per month and as at 28 February 2021, was 15.8 million (2020: 13.9 million).

Retail bank

Clients

The number of active Retail bank clients grew by 1.1 million during the 6 months ended February 2021, bringing the total number of Retail bank clients to 15.7 million. This represents an increase of 14% over the previous year (2020: 13.8 million).

Transact

Total net transaction fee income increased by 9% year-on-year from R7.4 billion to R8.1 billion. Transaction volumes increased by 17% to 5.3 billion. The average cost per transaction decreased from R1.62 in the comparative year to R1.52 for the 2021 financial year.

The COVID-19 pandemic presented the biggest challenge since our inception but it also gave us an opportunity to adapt and think differently. We saw a fundamental shift in how clients do their banking and we proactively enhanced our banking app with new functionalities.

A virtual card was designed for safer online shopping and there are no virtual card fees. The necessity for our clients to carry cash has been reduced. Using the Scan to pay functionality on our banking app to scan a QR code is easier, quicker and safer. Send Cash allows clients to send funds to anyone who doesn't have a bank account. The cash is conveniently collectable at any Capitec ATM or partner store.

We are the biggest digital bank in South Africa with 8.6 million active users of either the Capitec banking app, USSD channel or a combination of digital channels. As at the end of February 2021, active Capitec banking app users totalled 5.3 million. Active USSD users increased from 4.9 million users as at the end of February 2020 to 5.0 million users as at the end of February 2021. The total number of digital transactions performed grew by 36% to 1.1 billion. Clients performed 526 million banking app transactions (2020: 327 million) and 536 million USSD transactions (2020: 454 million) during the 2021 financial year.

Although card machine transaction volumes decreased by 6% for the 6 months ended August 2020 due to the lockdown, a recovery occurred during the 6 months ended February 2021.

Active banking app users increased from 3.3 million users as at the end of February 2020 to **5.3 million** users as at the end of February 2021.

The number of transactions increased year-on-year by 6% to 1.0 billion (2020: 940 million).

We maintained the affordability of our products but not increasing digital transaction costs, debit order fees or the monthly administration fee on our Global One account in March 2021. This is the 3rd consecutive year without an increase. The cost of immediate payments via our banking app was reduced from R8.00 to R7.50 so that clients can conveniently perform instant realtime payments to clients of other banks.

We have partnered with Shell. All Capitec clients get 20 cents per litre back on fuel and 0.5% cash back on selected items in-store at participating Shell service stations when paying with a Capitec card.

We are the biggest digital bank with **8.6 million** active users of digital channels

The total number of digital transactions performed grew by

35%

to 1.1 billion

Clients performed

526 million

banking app transactions and

536 million

USSD transactions

Card machine transaction volumes grew by

6%

to 1.0 billion

Save

Retail deposits grew by R17.8 billion to R105.3 billion (2020: R87.5 billion). As a result, interest paid to clients on retail call deposits, fixed deposits and credit cards amounted to R4.1 billion (2020: R4.7 billion) despite the significant decrease in the repo rate from 6.25% per annum in March 2020 to 3.50% at the end of February 2021. Our clients still earn a minimum of 2.25% on call savings and positive balances on credit cards. Fixed deposits earn up to 7.71%.

Capitec funeral plan

Funeral plan income increased by 57% year-on-year to R650 million (2020: R413 million). Active policies numbered 1.2 million as at the end of February 2021 (2020: 0.9 million). We issued on average 85 000 policies per month during the year.

Clients are offered lower premiums on policies issued via the banking app. In total, 16% of policies were issued via the banking app during the 2021 financial year (2020: 15%).

The average premiums and collections are in line with our expectations. Persistency is calculated using the number of policies that remain active 3 months after commencement date. Persistency is at 41% (February 2020: 48%; August 2020: 42%).

Credit

Despite a challenging year, we continued innovating. The access facility, launched in May 2020, provides clients with access to revolving credit whenever they need it. It is an affordable alternative to a term loan as clients only pay when they use it. There is no interest or monthly service fee if the access facility has not been used. The product is more flexible than a traditional term loan as the repayment amount or period can be increased or decreased.

Capitec Home Loans, in association with SA Home Loans, provides clients with competitive interest rates and a discount of up to 50% on conveyancing fees. The application process has been simplified with an online application that can be tracked in realtime. The product was launched in November 2020 and 300 loans were granted and booked in SA Home Loans by the end of February 2021.

Loan sales and disbursements

Total loans advanced and disbursements made decreased by 25% year-on-year to R29.3 billion (2020: R39.1 billion). Term loan sales decreased by 55% to R13.0 billion, while credit card disbursements decreased by 1% to R9.7 billion. Disbursements of the new access facility totalled R6.4 billion for the 10 months since launch and credit facility sales amounted to R0.2 billion.

Credit granting criteria were tightened during lockdown and, as a result, only 40% of total sales for the financial year were made in the 6 months ended August 2020 (August 2019: 46%). As lockdown restrictions eased and economic activity began to increase, lending criteria were proactively managed. Combined with increased accessibility to the branch network for clients following lockdown, this led to improved sales during the 6 months ended February 2021. During the initial lockdown, only 50% of branches were open but by the end of August 2020, all branches had resumed operations.

Economic indicators, media reports, credit bureau data and branch area intelligence will continue to be closely monitored by sector, industry and income level to manage lending criteria and credit risk.

Net credit impairment charge

Payment relief was granted to clients affected by the lockdown from 27 March 2020 to 19 July 2020. COVID-19-related reschedules took the form of payment breaks and variable payment reschedules. Relief was granted based on predetermined criteria and balances of R7.5 billion were rescheduled. Subsequent to the middle of July 2020, rescheduling rules were tightened and the value of reschedules granted during the rest of the financial year normalised.

It was anticipated that COVID-19-related rescheduled clients' payment behaviour would be better than that of other rescheduled clients. This was in fact the case, with payment success on payment breaks and variable reschedules exceeding 80% and 90%, respectively, in the first month in which payments were due.

In order to manage risk proactively and encourage good payment behaviour by clients who took payment relief, we undertook an interest refund programme. An interest refund of 50% of the interest charged during the 3-month payment break or variable payment term was refunded into the client's loan account if 6 consecutive successful payments were made. If 12 consecutive successful payments are made, the remaining 50% of the interest charged during the 3-month period will be refunded in the same way. The total amount currently included in the credit impairment charge in respect of these refunds is R404 million. In terms of IFRS 9 *Financial Instruments,* this amount was treated as a loan modification loss. An amount of R211 million has already been refunded to clients.

The impact of the COVID-19 pandemic on the South African economy was taken into consideration in our forward-looking view. The forward-looking adjustments in our models therefore considered uncertainty surrounding the timing of future defaults related to the pandemic's impact on the economy, increased default due to unemployment and other macroeconomic variables. Negative, baseline and positive scenarios were determined based on independently sourced economic data and these scenarios were weighted in order to determine a probabalistic view of the economy going forward. This view was used in calculating the expected credit loss (ECL) charged to the income statement.

An amount of R2.5 billion of the gross credit impairment charge for the year relates to our forward-looking view of the economy. For the 6 months ended August 2020, this amount was R4.2 billion. As the COVID-19-related reschedules rehabilitated, payment behaviour remained good and the collections environment stabilised. The required credit impairment provision therefore decreased during the 6 months ended February 2021.

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

	Full year ended		6 Months ended		
R'm	**Feb 2021**	**Feb 2020**	**Feb 2021**	**Aug 2020**	**Feb 2020**
Bad debts written off[1]	**6 311**	5 106	**3 427**	2 884	3 007
Movement in provision for credit impairments[1]	**1 978**	517	**(1 434)**	3 412	(187)
Gross credit impairment charge[2]	**8 289**	5 623	**1 993**	6 296	2 820
Bad debts recovered[3]	**(929)**	(1 263)	**(454)**	(475)	(575)
Net credit impairment charge	**7 360**	4 360	**1 539**	5 821	2 245

(1) *Due to the transition to IFRS 9, the bad debts written off and the movement in credit impairment lines should be considered together.*
(2) *Under IFRS 9, the credit impairment charge is recognised on a net basis for all loans classified as stage 3, reducing interest received and the credit impairment charge by R1 779 million for this year (2020: R1 526 million).*
(3) *Bad debts recovered include R199 million (2020: R67 million) in recoveries on loans written off since 1 March 2018 under the write-off policy adopted on transition to IFRS 9.*

COVID-19 presented the biggest challenge since our inception but it also gave us an opportunity to adapt and think differently. We saw a fundamental shift in how clients do their banking and proactively enhanced our banking app with new functionalities.

Loan book

The gross loan book decreased by 2% from R65.4 billion to R64.0 billion. The gross credit card book grew by 17% to R6.8 billion (2020: R5.8 billion).

The coverage ratio on the total loan book was 26.9% (2020: 20.5%).

	Stage 1	Stage 2				Stage 3					
R'000	Up-to-date	Up-to-date loans with SICR and applied for debt review >6 months	Forward-looking SICR[2]	Up to 1 month in arrears	COVID-19 reschedules[1]	COVID-19 reschedules[1]	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	Total
Balance as at 28 February 2021											
Gross loans and advances	**38 711**	**4 220**	**4 564**	**1 008**	**392**	**24**	**1 904**	**2 105**	**2 403**	**8 655**	**63 986**
Provision for credit impairments (ECL)	**(3 638)**	**(1 262)**	**(1 037)**	**(701)**	**(136)**	**(7)**	**(1 578)**	**(894)**	**(837)**	**(7 094)**	**(17 184)**
Net loans and advances	**35 073**	**2 958**	**3 527**	**307**	**256**	**17**	**326**	**1 211**	**1 566**	**1 561**	**46 802**
ECL coverage (%)	**9.4**	**29.9**	**22.7**	**69.5**	**34.7**	**29.2**	**82.9**	**42.5**	**34.8**	**82.0**	**26.9**
Balance as at 29 February 2020											
Gross loans and advances	48 311	3 492	954	1 172	–	–	1 550	1 130	1 471	7 358	65 438
Provision for credit impairments (ECL)	(3 304)	(863)	(198)	(651)	–	–	(1 130)	(455)	(567)	(6 257)	(13 425)
Net loans and advances	45 007	2 629	756	521	–	–	420	675	904	1 101	52 013
ECL coverage (%)	6.8	24.7	20.8	55.5	–	–	72.9	40.3	38.5	85.0	20.5

(1) *COVID-19-related reschedules prior to the Prudential Authority (PA) Directive 3 of 2020 were treated as stage 3 in terms of the existing policy. From 6 April 2020 to 19 July 2020, up-to-date loans that were rescheduled and met SICR criteria were classified as stage 2 COVID-19-related reschedules.*

(2) *Comprises loans where the forward-looking information indicates a SICR trigger. The comparatives have been updated to align to this more granular disclosure of SICR from one into two columns.*

Indicates information that was audited.

The stage 1 up-to-date book decreased to R38.7 billion (2020: R48.3 billion). Balances in arrears by between 1 to 3 months increased to R2.9 billion (2020: R2.7 billion). Balances in arrears by more than 3 months (including debt review and other legal recovery states) amounted to R8.7 billion (2020: R7.4 billion). The coverage ratio on these loans decreased to 82.0% (2020: 85.0%).

As at February 2021, unrehabilitated COVID-19-related reschedules amounted to R416 million and were provided at an average provision percentage of 34.4% (August 2020: 32.2%). Further balances of R1.9 billion relating to COVID-19-related reschedules that were subsequently rescheduled again are included in reschedules not yet rehabilitated in stage 3.

Following a drop to 58.8% of the total gross loan book as at August 2020, the stage 1 book now comprises 60.5% of the total loan book (2020: 73.8%). Balances in arrears comprise 4.6% of the book as at February 2021 compared to 4.2% as at February 2020. Loans in default, at 13.5%, comprise a higher percentage of the book (2020: 11.2%).

Credit life insurance

Credit life policies cover clients against the risk of retrenchment, death, permanent or temporary disability and the inability to earn an income. Net insurance income decreased by 2% to R965 million (2020: R981 million).

Premium income increased by 17% from R2.4 billion to R2.8 billion. The increase is attributable to an increase in premium rates. The premium rates were increased in response to the increased risk of retrenchment and death created by the COVID-19 pandemic.

We did not renew the retrenchment reinsurance agreements that were in place to the end of April 2020. As a result, we are responsible for settling retrenchment claims with a retrenchment date subsequent to 30 April 2020. All valid claims with a retrenchment date before 1 May 2020 were and will be settled by the reinsurer.

For the period from 1 May 2020 to 31 July 2020, we were not reinsured for death risk and we are therefore also responsible for settling all death claims with a death event date during this period. We reinsured the entire loan book for death events from 1 August 2020 to 30 April 2021.

Going forward, we will assess the relative benefits of self-insurance versus reinsurance.

The change in the insurance model resulted in the reinsurance premium expense decreasing by 55% from R918 million to R416 million.

Total claims paid for the year, before reinsurance recoveries, amounted to R1 443 million (2020: R779 million). Reinsurance recoveries totalled R546 million (2020: R715 million). We therefore carried R897 million in claims.

Retrenchment claims amounted R1.0 billion compared to R498 million for the year ended February 2020. The number of claims was affected by the COVID-19 pandemic which resulted in an increase in business failures and retrenchments in South Africa. Death claims increased from R253 million to R414 million partly due to the impact of the pandemic.

As at the end of February 2021, we hold an incurred but not yet reported (IBNR) provision of R267 million for retrenchments. Due to the uncertainty surrounding the timing of the full impact of the pandemic, a cautious approach was applied in determining the IBNR.

> The number of credit life insurance claims was affected by the COVID-19 pandemic which resulted in an increase in business failure and retrenchments in South Africa.

We participated in the COVID-19 Loan Guarantee Scheme through which loans, substantially guaranteed by the government, were advanced to eligible businesses to assist them during the COVID-19 pandemic.

Business bank's client base increased by

33%

to 90 534

We remain well capitalised with a CAR of

36.7%

Business bank

The year under review was one of consolidation, integration and investment to drive the future sustainable growth of the Business bank. This, combined with the negative impact of the COVID-19 pandemic, and our cautious approach to raising credit losses, resulted in the Business bank making a loss of R1.0 million for the year.

Clients

The Business bank's client base increased by 33% to 90 534 as our strategy to build the bank got underway.

Credit

The Business bank's loan book remained static given the prevailing economic environment exacerbated by the COVID-19 pandemic.

A total of 1 017 clients were assisted with payment breaks and moratoriums on balances totalling R4.2 billion. As at the end of February 2021, the outstanding balance on the payment breaks and moratoriums amounted to R3.6 billion.

We participated in the COVID-19 Loan Guarantee Scheme through which loans, substantially guaranteed by government, were advanced to eligible businesses to assist them during the COVID-19 pandemic. Funds borrowed from this scheme, through the banking industry, can be used by the client for operational expenses such as salaries, rent and lease agreements and contracts with suppliers. A total of R659 million was disbursed to eligible clients. As at the end of February, outstanding balances amounted to R636 million.

The net credit impairment charge for the 12 months ended 28 February 2021 amounted to R405 million. This includes a COVID-19 forward-looking charge of R89 million. The provision coverage ratio is 5.9% (2020: 3.0%).

Cost-to-income ratio

The cost-to-income ratio remained at 41% despite the impact of the COVID-19 pandemic on income. Operating expenses increased by 10% compared to the comparative period. The year ended February 2020 included Business bank expenses for 4 months compared to 12 months for the year ended February 2021.

Cash handling and cash-in-transit expenses decreased by 10% year-on-year due to diminished demand for cash during the pandemic as well as the switch to digital banking by clients. We implemented paperless banking and this resulted in efficiencies and a cost saving of R60 million on printing.

All employees were considered for salary increases during the 2021 financial year and there were no retrenchments. The number of employees remained stable at 14 672 (2020: 14 590). Due to the decrease in headline earnings and the small increase in the share price during the year (2021: R1 338.75; 2020: R1 299.99), the incentive expense reduced by 38%.

Credit ratings

S&P Global ratings affirmed the sovereign rating together with the ratings of Capitec and other South African banks with a stable outlook on 20 November 2020. We have a global long-term rating of BB- and a short-term global rating of B. The South African long-term national scale rating is zaAA and the short-term rating is zaA-1+.

Capital and liquidity

As at 28 February 2021, we remain well capitalised with a CAR of 36.7%.

We comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 2 459% and the NSFR is 221% as a result of our conservative liquidity strategy. The Basel 3 requirement for the NSFR is 100%. The PA issued Directive 1 of 2020 on 31 March 2020 temporarily relaxing the minimum LCR requirement from 100% to 80%.

Tax

The tax attributable to the profits on cell captives is deducted from the net insurance income and funeral plan income and excluded from the tax expense line. This has resulted in the reported effective tax rate decreasing to 20.2% for the current year (2020: 22.4%). Together with the tax paid in the cell captives, the effective tax rate for the group is 28.3% (2020: 27.4%).

Employees

We pay tribute to all employees who had to work, in a tough physical environment, despite the COVID-19 pandemic. The courageous and selfless behaviour of our client-facing employees is truly appreciated.

Many employees worked from home during the COVID-19 pandemic period and call centres were operated remotely using laptops. Employees are returning to the office in a responsible manner.

Prospects

On 1 March 2021, we officially celebrated our 20th anniversary. We look back on how we have transformed banking and it inspires us to continue to improve the financial lives of our clients. Agility and digitalisation will be the focus of our efforts to make banking simpler, more affordable, more accessible and more personalised.

Our strategy remains to shift clients towards a digital banking platform, underpinned by self-service. Our focus will be on digital e-commerce product opportunities and driving client behaviour.

We are excited about the Business bank offering being enhanced into a more efficient, client-friendly market competitor.

Dividend

A final gross dividend of 1 600 cents per ordinary share (2020: Rnil) was declared on 12 April 2021, bringing the total dividend for the 2021 financial year to 1 600 cents per share (2020: 755 cents per share). There are 115 626 991 ordinary shares in issue.

The final dividend meets the definition of a dividend in terms of the Income Tax Act, Act 58 of 1962. The dividend amount, net of South African dividend tax of 20%, is 1 280 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade *cum* dividend	Tuesday, 4 May 2021
Trading *ex*-dividend commences	Wednesday, 5 May 2021
Record date	Friday, 7 May 2021
Payment date	Monday, 10 May 2021

Share certificates may not be dematerialised or rematerialised from Wednesday, 5 May 2021 to Friday, 7 May 2021, both days inclusive.

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

On behalf of the board

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
13 April 2021

Report from the Chief Financial Officer

Agility in the face of change.

A once-in-a-lifetime crisis hit the global economy in 2020. The COVID-19 pandemic reached every corner of the world and has impacted millions of people worldwide.

Governments around the world responded rapidly to stem the health and economic impacts of the crisis. The crisis responses, however, entailed difficult choices between saving lives and saving livelihoods, between speed of delivery and efficiency and between short-term costs and long-term impacts.

World gross domestic product (GDP) fell by an estimated 4.3% in 2020 – the sharpest contraction of global output since the Great Depression. South Africa's GDP contracted by 7.2% in 2020. The recovery will be slow, with growth of 3.3% predicted for 2021, 2.2% for 2022 and 1.6% for 2023.

While the external environment is uncertain and poses significant downside risk, governments across the globe have deployed significant fiscal stimulus packages in an effort to support a turnaround in the global economy and economic growth. The South African government announced a relief package with a total value of R500 billion or approximately 10% of South Africa's GDP.

The COVID-19 pandemic and the commencement of the national lockdown in March 2020 required a refocused approach to the group's strategy for the 2021 financial year. Our short-term focus shifted to understanding the potential impacts of the COVID-19 pandemic on our people, operations and, most importantly, our clients.

In order to ensure the safety of our client-facing employees, we decreased our branch capacity to 50% by temporarily closing certain branches and implemented rotating shifts to limit contact with other employees and clients. Strict COVID-19 protocols were implemented at all our branches, business centres and centralised campuses to ensure that we operated within government's regulations. Non-client-facing employees were requested to work from home. The availability of appropriate technology made the transition to a fully remote working environment seamless.

The national lockdown substantially impacted the retail sector, which resulted in a decrease in banking transaction volumes that increased as the lockdown restrictions eased. The uncertainty surrounding the potential impact of the COVID-19 pandemic resulted in the continuous assessment of our credit granting models to support responsible lending and proactively manage risk.

As lockdown restrictions eased and economic activity increased, the proactive management of the impact of COVID-19 during the early stages of the 2021 financial year allowed us to shift our focus back to creating sustainable value.

Non-client-facing employees began to return to our campuses as we believe they are an integral part of our strategy. Face-to-face interaction is required to build a culture that is conducive to collaboration.

The impact of the COVID-19 pandemic can be seen in headline earnings, which decreased by 27% from R6 277 million to R4 586 million for the financial year. Our ability to be agile is reflected in the headline earnings for the second half of the 2021 financial year which increased by 18% to R3 936 million from R3 334 million in the second half of the previous financial year.

Retail bank

Insure

Capitec funeral plan income increased by 57% to R650 million (2020: R413 million). The substantial growth in income was driven by robust sales, continued book growth and improved collection rates. These factors muted the fact that funeral claims increased by R754 million to R1 204 million.

As at 28 February 2021, we had 1.2 million active policies (2020: 0.9 million) with a book persistency ratio of 41% (2020: 48%). The average collection rate for the year was 85% (2020: 75%), which contributed to a lower provision for unpaid premiums.

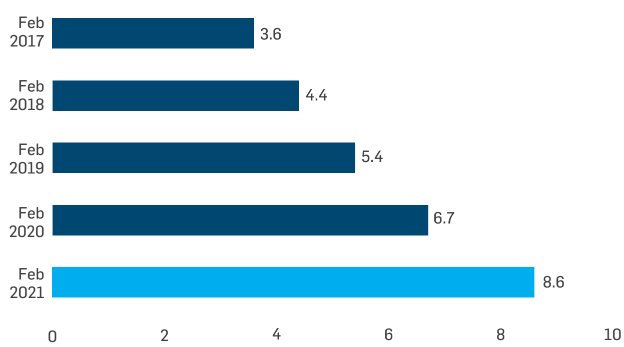
Transact

Net transaction fee income for the year amounted to R8.1 billion, an increase of 9% over the comparative period. This is despite the fact that our monthly fees remained unchanged and our branch capacity was 75% or less for 3 months of the year. The increase in net transaction fee income is primarily driven by robust client acquisition and accelerated digital adoption.

As at 28 February 2021, we had 15.7 million active clients (2020: 13.8 million). Of our total Retail bank clients, 64% are under the age of 40, which bodes well for the further implementation of our digital strategy.

Total transaction volumes increased by 17% to 5.3 billion (2020: 4.6 billion). As at 28 February 2021, we had 8.6 million active digital users of the Capitec banking app, USSD channel or a combination of digital channels. On average, a digital client performs 10 transactions per month.

ACTIVE DIGITAL CLIENTS (millions)

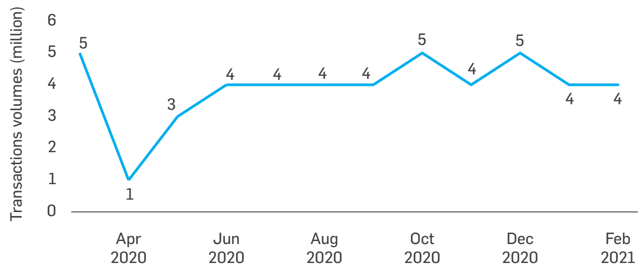


Send Cash was launched in May 2019 and, by the end of the current financial year, the transaction volumes amounted to 12.3 million (2020: 3.8 million). More than 50% of the Send Cash transactions are performed via the banking app. Clients are now also able to collect cash from Pick n Pay, our own ATMs and Massmart stores.

Branch-related transactions (including self-service terminals (SST)) totalled 47.8 million (2020: 73.6 million).

The transactions per month in the graph below illustrate the impact of COVID-19 on branch activity.

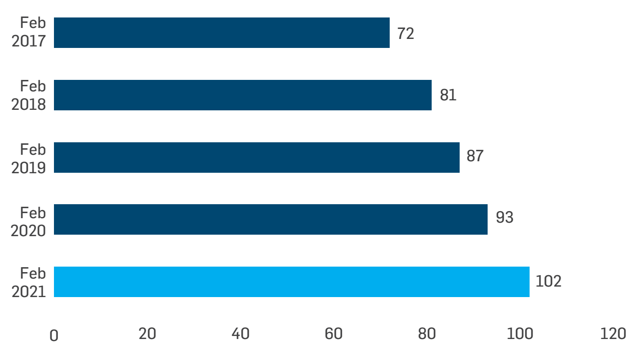
BRANCH VOLUMES
(including SST)



As at 28 February 2021, the self-service ratio was 96% (2020: 85%). This means that 96% of all transactions for the year that could be performed either in-branch or via a self-service channel (remote app, USSD, internet, SST or dual-note recycler (DNR)) were being performed on a self-service channel. Consequently, our service consultants now have more time to focus on more complex transactions.

Net transaction fee income and funeral plan income is 61% of net income (2020: 47%) and the net transaction fee income and funeral plan income to operating expenses ratio increased to 102% (2020: 93%), above our target of 100% that was set for the 2022 financial year.

NET TRANSACTION FEE AND FUNERAL PLAN INCOME TO OPERATING EXPENSES (%)



Credit

Credit market

The impact of the national lockdown on the South African economy will have an effect extending well beyond the end of the 2021 financial year. Strict regulations imposed by the government, which only allowed essential services to operate during April 2020, resulted in an increase in business rescues and retrenchments, a subdued client demand for banking products, a higher volume of defaults on loan repayments and an increase in an already high unemployment rate.

According to the National Credit Regulator (NCR) Consumer Credit Market Report (CCMR), the total number of all types of credit applications during the 3-month period ended 30 June 2020 decreased by 48% to 5.8 million (June 2019: 11.3 million).

Total South African credit market (loans and advances for the 3 months ended 30 June 2020)

Credit type R'm	2020	2019	2018	2017	2016
Secured credit	20 512	41 203	41 541	39 162	35 956
Mortgage	12 985	40 184	40 175	36 832	35 867
Unsecured	10 218	28 637	26 001	20 066	20 603
Credit facility	9 505	21 108	18 618	15 316	12 052
Short term	1 037	2 367	3 579	3 092	2 919
Development	426	1 211	1 733	5 614	922
Total	54 683	134 710	131 647	120 082	108 319

Source: NCR CCMR

The gradual easing of the lockdown restrictions resulted in an increase in consumer spending and other economic activities. Concurrently, this led to an increase in client demand for banking products, including credit. Total credit applications in Q3 of the calendar year approximated applications in Q1 of the calendar year.

The table below illustrates the recovery in client demand for all credit categories, especially secured credit and mortgages.

Total South African credit market per quarter (loans and advances)

Credit type R'm	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3
Secured credit	43 250	20 512	39 081	46 191	43 334
Mortgage	49 252	12 985	38 933	43 733	43 161
Unsecured	20 292	10 218	25 314	30 224	30 067
Credit facility	13 998	9 505	19 215	21 306	22 572
Short term	1 582	1 037	2 122	2 466	2 343
Development	1 072	426	1 686	1 460	1 527
Total	129 446	54 683	126 351	145 380	143 004

Source: NCR CCMR

The total number of applications for all types of credit for the 12 months ended September 2020, decreased by 19% to 37.2 million (September 2019: 45.9 million). Inversely, the decline rate increased to 62% (September 2019: 56%). The decline rate excludes cancelled applications.

The Retail bank's total credit applications (term loan, credit card and access facility) for the 2021 financial year decreased by 33% to 2.9 million (2020: 4.2 million). Our decline rate for the same period was 53% (2020: 45%).

Total market unsecured and short-term credit granted during the 12 months ended 30 September 2020 decreased to R93.3 billion (September 2019: R128.4 billion). This comprises 20% (September 2019: 23%) of total credit granted.

Total South African credit market (loans and advances for the 12 months ended 30 September 2020)

Credit type R'm	2020	2019	2018	2017	2016
Secured credit	149 035	169 800	171 378	162 418	149 458
Mortgage	144 903	160 572	156 693	145 981	142 906
Unsecured	86 049	118 080	102 816	85 477	85 182
Credit facility	64 025	85 615	71 693	61 705	53 868
Short term	7 207	10 369	13 585	12 568	12 660
Development	4 644	5 791	6 451	15 435	13 078
Total	455 863	550 227	522 616	483 584	457 152

Source: NCR CCMR

Credit strategy

We applied our agile risk management strategy across all areas of the credit life cycle (granting, collections, provisioning and recoveries) during the COVID-19 pandemic. Our focus at the beginning of the financial year was to identify the most vulnerable client groups impacted by the pandemic and offer appropriate relief solutions.

In order to mitigate increased credit risk, significant credit granting restrictions were placed on specific industries and smaller-sized employers who were directly impacted by the COVID-19 pandemic. Throughout the financial year, granting restrictions were adjusted to appropriately respond to specific risk events at various employers and to evolve with the easing of the lockdown and the pandemic. As stability returned and client salary patterns began to normalise, we began adjusting our granting criteria to be less restrictive.

Our credit relief programme took the form of payment breaks and variable payment reschedules. In total, Retail bank COVID-19-reschedules amounted to R7.5 billion in balances between 6 April 2020 and 19 July 2020.

We encouraged good client payment behaviour on the rescheduled accounts by introducing an interest refund programme. A refund of 50% of the interest charged during the 3-month payment break or variable payment term was refunded into the client's loan account if 6 consecutive successful payments were made. Once 12 consecutive successful payments are made, the remaining 50% of the interest charged during the 3-month period will be refunded in the same way. As at 28 February 2021, the group had refunded R211 million in interest to its Retail bank clients. Another R193 million is estimated to be paid after year-end. This was accrued as at 28 February 2021.

Loan sales and disbursements

Term loan

Term loan sales (including credit facility) decreased by R16.0 billion to R13.3 billion (2020: R29.3 billion). Concurrently, the number of loans granted decreased to 0.6 million (2020: 1.5 million). The decrease in loan sales is attributable to the application of our credit granting restrictions and the introduction of the access facility.

Loan sales do not include any rescheduled loans. Rescheduling is an amendment to an existing loan agreement with no credit granted. No initiation fees are charged on rescheduled loans. The consolidation of loans is also excluded. Loan sales represent only new credit to clients.

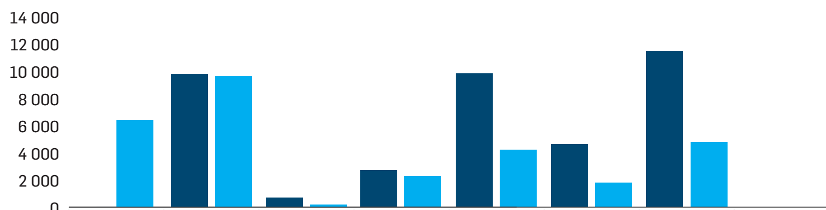
Credit card

Credit card disbursements decreased by 1% to R9.7 billion (2020: R9.8 billion). There are 0.7 million active credit cards (2020: 0.7 million), of which 0.5 million (2020: 0.6 million) are performing (with balances aged 0 to 90 days).

Access facility

In May 2020, we launched our access facility product which gives clients direct access to revolving credit whenever they require it. The benefit of the product to the client is that we don't charge any initiation fee, interest or monthly service fees when the client does not use the facility. Since inception, we have disbursed R6.4 billion on access facilities.

LOAN SALES BY PRODUCT (R'm)



	Access facility	Credit card	1 month loan and credit facility	2 to 12 months	13 to 36 months	37 to 48 months	49 to 84 months	Total
2020	–	9 799	690	2 723	9 815	4 625	11 464	39 116
2021	6 398	9 659	208	2 276	4 227	1 802	4 764	29 334
Change (R'm)	6 398	(140)	(482)	(447)	(5 588)	(2 823)	(6 700)	(9 782)
Change (%)	–	(1)	(70)	(16)	(57)	(61)	(58)	(25)

Lending and insurance income

Total net lending and insurance income

R'm	2021	2020	Change	Change %
Interest income on loans and advances to clients	**12 056**	12 544	(488)	(4)
Loan origination fees	**475**	651	(176)	(27)
Monthly service fees	**965**	975	(10)	(1)
Net insurance income[1]	**965**	981	(16)	(2)
Total lending and insurance income	**14 461**	15 151	(690)	(5)
Loan fee expense[2]	**(71)**	(90)	19	(21)
Total net lending and insurance income	**14 390**	15 061	(671)	(4)

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

Total lending and insurance income decreased by 5% from R15 151 million to R14 461 million. Lower sales resulted from subdued client demand for credit products and the application of stricter granting restrictions caused loan origination fees to decrease by R176 million to R475 million (2020: R651 million).

Interest income on loans and advances to clients decreased by R488 million to R12 056 million (2020: R12 544 million). In terms of IFRS 9, interest income is recognised on a net basis for stage 3 loans. The reduction in interest income increased by R247 million to R1 779 million (2020: R1 526 million) which contributed to the decrease in interest income when compared to the prior year.

Net insurance income decreased by 2% from R981 million to R965 million. The decrease in income is primarily attributable to the impact of COVID-19, which resulted in a change in our insurance model and an increase in claims settled.

On 30 April 2020, our previous reinsurance agreements covering retrenchment and death risk expired. From 1 May 2020 we self-insured these risks. Given the increased death risk resulting from COVID-19, we were able to enter into a reinsurance agreement from 1 August 2020 to 30 April 2021. This resulted in the group being liable to settle the following claims without reinsurance cover:

- Retrenchment: All claims with an event date post 1 May 2020
- Death: All claims with an event date between 1 May 2020 and 31 July 2020
- Disability: All claims. No reinsurance agreement was in place prior to or after 30 April 2020.

In reaction to the expected impact of COVID-19 and the change in our insurance model, we increased our credit life premium rates to R4.50 per R1 000 for non-government employees and R4.00 per R1 000 for government employees from 1 May 2020. This resulted in an increase in insurance premium income that mitigated the impact of higher claims.

Total claims settled increased by R664 million to R1 443 million (2020: R779 million). In addition, our IBNR increased to R267 million (2020: R46 million).

> Net insurance income decreased by only 2% despite the material impact of the COVID-19 pandemic on insurance claims settled.

Credit book

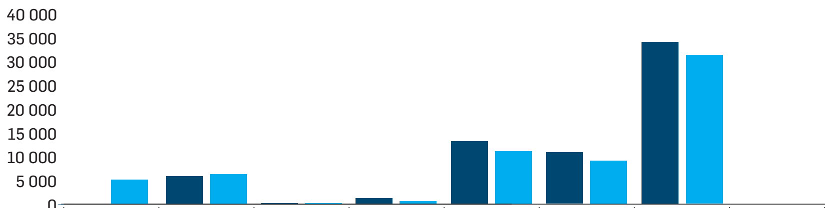
Analysis of net loans and advances by stage – Retail bank

R'000	Stage 1	Stage 2				Stage 3					Total
	Up-to-date	Up-to-date loans with SICR and applied for debt review >6 months	Forward-looking SICR[2]	Up to 1 month in arrears	COVID-19 reschedules[1]	COVID-19 reschedules[1]	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	
Balance as at 28 February 2021											
Gross loans and advances	38 711	4 220	4 564	1 008	392	24	1 904	2 105	2 403	8 655	63 986
Provision for credit impairments (ECL)	(3 638)	(1 262)	(1 037)	(701)	(136)	(7)	(1 578)	(894)	(837)	(7 094)	(17 184)
Net loans and advances	35 073	2 958	3 527	307	256	17	326	1 211	1 566	1 561	46 802
ECL coverage (%)	9.4	29.9	22.7	69.5	34.7	29.2	82.9	42.5	34.8	82.0	26.9
Balance as at 29 February 2020											
Gross loans and advances	48 311	3 492	954	1 172	–	–	1 550	1 130	1 471	7 358	65 438
Provision for credit impairments (ECL)	(3 304)	(863)	(198)	(651)	–	–	(1 130)	(455)	(567)	(6 257)	(13 425)
Net loans and advances	45 007	2 629	756	521	–	–	420	675	904	1 101	52 013
ECL coverage (%)	6.8	24.7	20.8	55.5	–	–	72.9	40.3	38.5	85.0	20.5

[1] *COVID-19-related reschedules prior to the PA Directive 3 of 2020 were treated as stage 3 in terms of the existing policy. From 6 April 2020 to 19 July 2020, up-to-date loans that were rescheduled and met SICR criteria were classified as stage 2 COVID-19-related reschedules.*

[2] *Comprises loans where the forward-looking information indicates a SICR trigger. The comparatives have been updated to align to this more granular disclosure of SICR from one into two columns.*

LOAN BOOK BY PRODUCT (R'm)



	Access facility	Credit card	1 month loan and credit facility	2 to 12 months	13 to 36 months	37 to 48 months	49 to 84 months	Total
2020	–	5 842	125	1 305	13 259	10 798	34 109	65 438
2021	5 200	6 260	79	839	11 142	9 199	31 267	63 986
Change (R'm)	5 200	418	(46)	(466)	(2 117)	(1 599)	(2 842)	(1 452)
Change (%)	–	7	(37)	(36)	(16)	(15)	(8)	(2)

The gross retail loan book decreased by R1.4 billion to R64.0 billion (2020: R65.4 billion). The decrease in the gross loan book is attributable to lower sales as a result of subdued client demand for credit products and the application of our stricter granting restrictions in reaction to the COVID-19 pandemic.

As at 28 February 2021, the weighted average outstanding term of the Retail loan book was 42 months (2020: 41 months).

The up-to-date gross loans and advances book (including loans with SICR and rescheduled loans not yet rehabilitated) decreased by R4.3 billion to R49.6 billion (2020: R53.9 billion) and represents 78% (2020: 82%) of the total gross retail loan book.

The total SICR balance increased by 98% to R8.8 billion (2020: R4.4 billion). The balance includes the forward-looking SICR of R4.6 billion, which comprises loans where the forward-looking information indicates a SICR trigger. The coverage ratio on this segment of the book increased to 26% (2020: 24%).

Indicates information that was audited.

As at 28 February 2021, the not yet rehabilitated COVID-19-reschedules amounted to R416 million compared to R5.5 billion as at the end of August 2020. A total of R3.7 billion of the COVID-19-reschedules have been rehabilitated or settled. Further balances of R1.3 billion relating to the COVID-19-reschedules that were subsequently rescheduled again are included in rescheduled not yet rehabilitated in stage 3.

Loans and advances up to 3 months in arrears increased by R190 million to R2.9 billion (February 2020: R2.7 billion). A larger proportion of the total arrears book is 2 and 3 months in arrears compared to the previous financial year, illustrating the impact of the pandemic on our clients.

Loans and advances more than 3 months in arrears, with legal statuses increased by 17% to R8.7 billion (2020: R7.4 billion). The loans and advances in this category are provided for at 52% (2020: 85%). Debt review loan balances contributed 41% to the growth in the default book.

The easing of lockdown restrictions, together with the rebound in economic activity, resulted in a recovery in the composition of the loan book during the second half of the financial year. The stage 1 book now comprises 61% of the total loan book (2020: 74%).

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

	Full year ended		6 Months ended		
R'm	**Feb 2021**	**Feb 2020**	**Feb 2021**	**Aug 2020**	**Feb 2020**
Bad debts written off[1]	**6 311**	5 106	**3 427**	2 884	3 007
Movement in provision for credit impairments[1]	**1 978**	517	**(1 434)**	3 412	(187)
Gross credit impairment charge[2]	**8 289**	5 623	**1 993**	6 296	2 820
Bad debts recovered[3]	**(929)**	(1 263)	**(454)**	(475)	(575)
Net credit impairment charge	**7 360**	4 360	**1 539**	5 821	2 245

[1] *Due to the transition to IFRS 9, the bad debts written off and the movement in credit impairment lines should be considered together.*
[2] *Under IFRS 9, the credit impairment charge is recognised on a net basis for all loans classified as stage 3, reducing interest received and the credit impairment charge by R1 779 million for this year (2020: R1 526 million).*
[3] *Bad debts recovered include R199 million (2020: R67 million) in recoveries on loans written off since 1 March 2018 under the write-off policy adopted on transition to IFRS 9.*

The gross credit impairment charge increased by 48% from R5.6 billion in 2020 to R8.3 billion. The increase in the gross charge is predominantly driven by an amount of R2.9 billion, which relates to our forward-looking view of the economy.

The interest refund programme is accounted for as a loan modification loss in terms of IFRS 9 *Financial Instruments*. An amount of R404 million is included in the gross credit impairment charge.

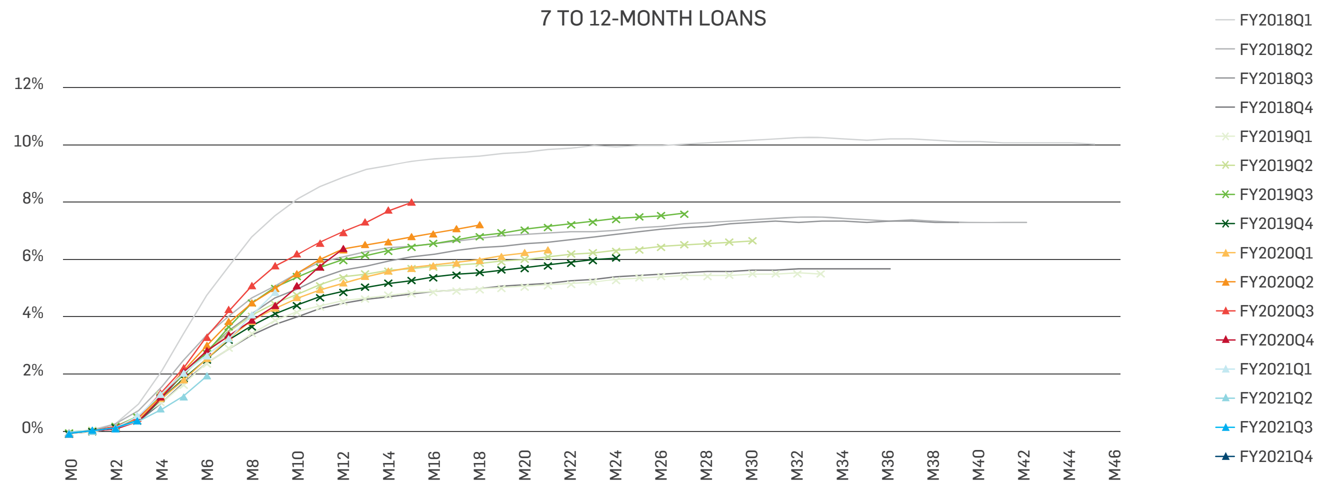
The net credit impairment charge to average gross loans and advances (credit loss ratio) increased to 11% (2020: 7%).

Vintage graphs

We grant credit on risk-based pricing that includes the probability that a client may default on payments. Default is defined as the client being more than 90 days in arrears, handed over to external debt collectors (EDCs), placed under debt review or with a legal status.

The vintage graphs below express the balance at risk at the time a loan goes into arrears as a percentage of the total original instalments (capital, interest, initiation fees, monthly fees and insurance) expected for loans granted in a given quarter. The vintage graphs reflect our expectation of a client defaulting on payment and our ability to appropriately adapt pricing in specific loan categories to match our granting strategy and risk appetite.

Vintage graphs are monitored monthly against price risk targets, which ensures that our risk appetite is not exceeded.


7 TO 12-MONTH LOANS
12%
10%
8%
6%
4%
2%
0%
M0 M2 M4 M6 M8 M10 M12 M14 M16 M18 M20 M22 M24 M26 M28 M30 M32 M34 M36 M38 M40 M42 M44 M46
FY2018Q1
FY2018Q2
FY2018Q3
FY2018Q4
FY2019Q1
FY2019Q2
FY2019Q3
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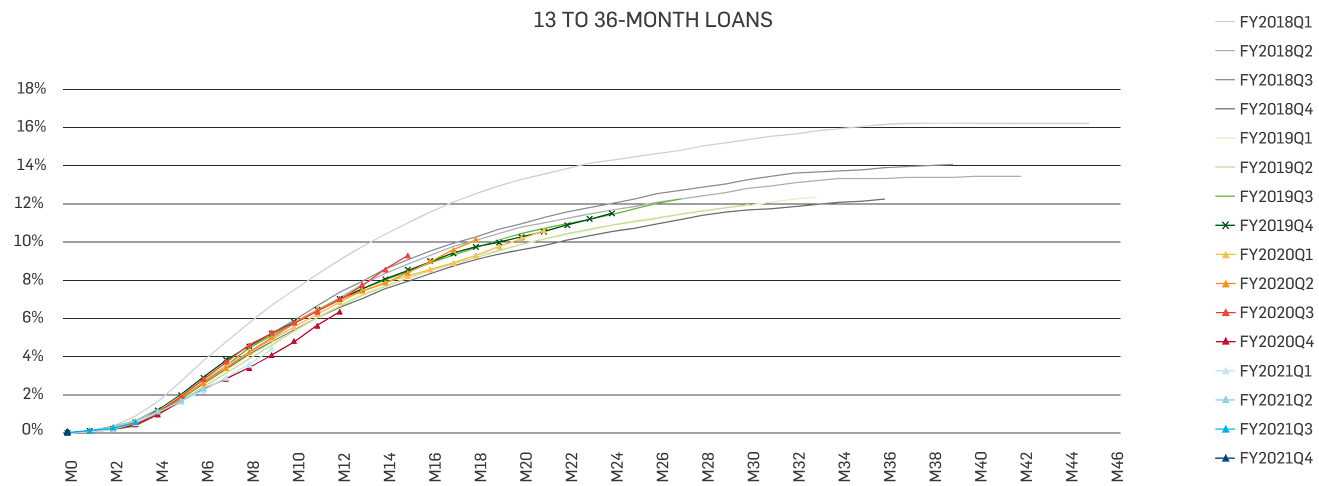
13 TO 36-MONTH LOANS
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
M0 M2 M4 M6 M8 M10 M12 M14 M16 M18 M20 M22 M24 M26 M28 M30 M32 M34 M36 M38 M40 M42 M44 M46
FY2018Q1
FY2018Q2
FY2018Q3
FY2018Q4
FY2019Q1
FY2019Q2
FY2019Q3
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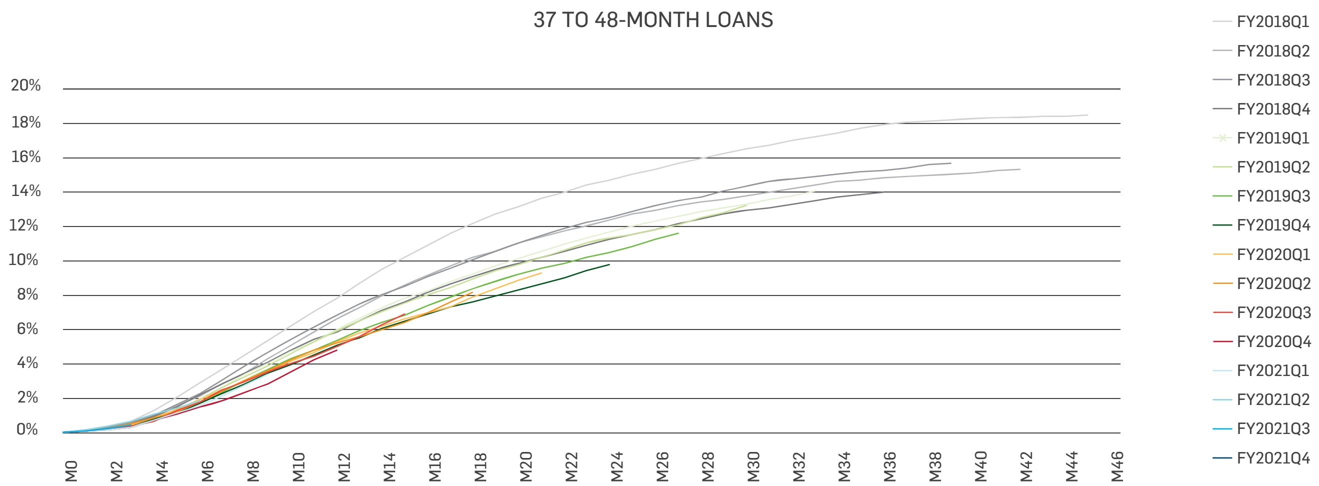
FY2021Q2
FY2021Q3
FY2021Q4


37 TO 48-MONTH LOANS
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
M0 M2 M4 M6 M8 M10 M12 M14 M16 M18 M20 M22 M24 M26 M28 M30 M32 M34 M36 M38 M40 M42 M44 M46
FY2018Q1
FY2018Q2
FY2018Q3
FY2018Q4
FY2019Q1
FY2019Q2
FY2019Q3
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FY2020Q4
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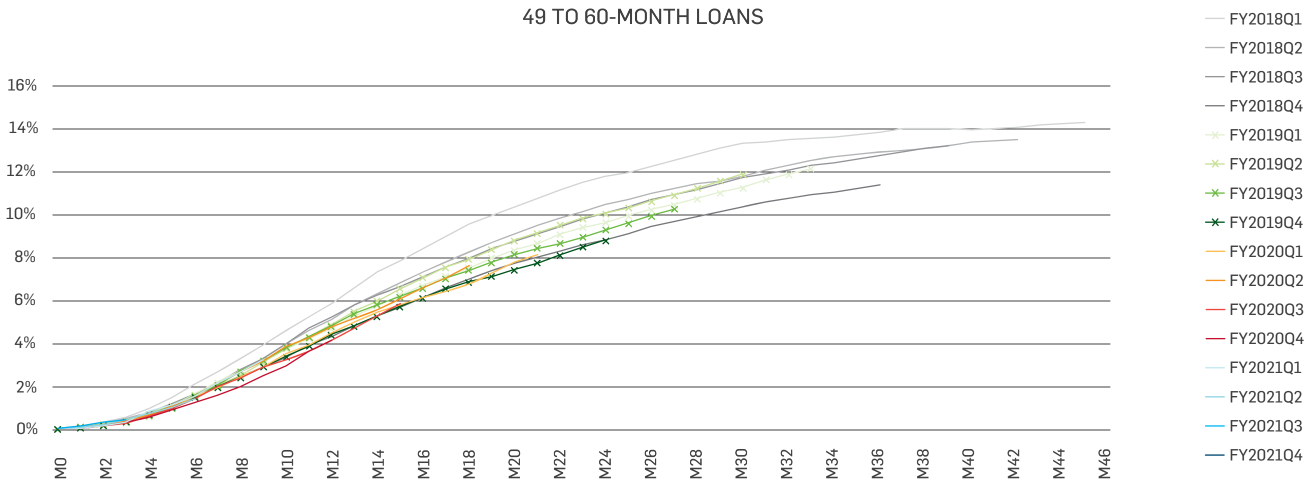
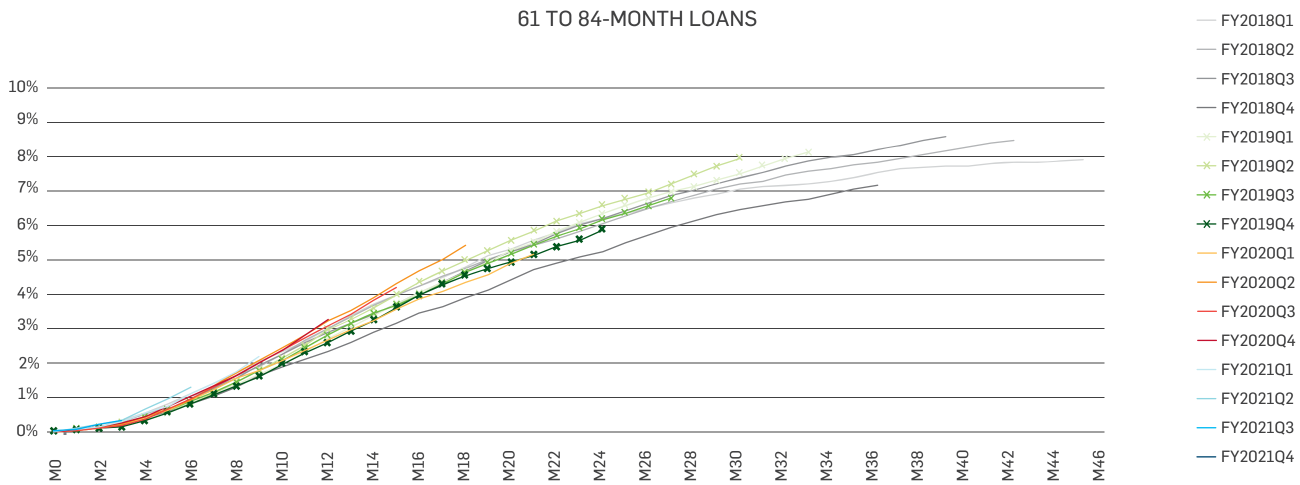
FY2021Q2
FY2021Q3
FY2021Q4





Cost management

Operating expenses for the year amounted to R8.5 billion, which represents an increase of 2%. Our refocused approach and our ability to be agile enabled us to effectively manage the cost of our operations during the lockdown.

Costs such as handling fees, training, as well as travelling and entertainment, decreased during the current year due to the pandemic which has resulted in a new way of working. IT-related costs, premises and cleaning service costs increased in the current year as additional expenditure was incurred to ensure the safety of our employees and their ability to work remotely.

It should be noted that no employees were retrenched during the year – Capitec has never had a retrenchment programme since its inception.

Effective cost management resulted in our cost-to-income ratio remaining unchanged at 40% (2020: 40%).

Taxation

The tax attributable to the profits on cell captives is deducted from net insurance income and funeral plan income and excluded from the tax expense line. This resulted in the reported effective tax rate decreasing to 20% for the current year (2020: 22%). Together with the tax paid in the cell captives, the effective tax rate for the Retail bank is 27% (2020: 27%).

Business bank

Business bank generated an after-tax loss of R1 million for the 12-month period ended 28 February 2021 (2020[(1)]: R3 million). Total lending and investment income amounted to R980 million (2020[(1)]: R479 million).

The division adopted the group's cautious credit loss provision philosophy, which resulted in the total credit impairment charge for the year amounting to R405 million (2020[(1)]: R113 million).

Operating expenses for the year were R907 million (2020[(1)]: R216 million). The increase in operating expenses relates to the future development of the Business bank.

Similar to the Retail bank, the division provided COVID-19 moratorium relief (3-month and 6-month payment holidays) to business clients who were severely affected by the national lockdown. In total, the moratorium support, which was provided to 1 017 clients, amounted to R4.2 billion.

We participated in the COVID-19 Loan Guarantee Scheme which was announced by the South African President in April 2020. Through the scheme we assisted small- to medium-sized enterprises to survive the impact of COVID-19. As at 28 February 2021, the Business bank had approved R673 million under the loan scheme, of which R659 million has already been disbursed to clients. The first repayments on these amortising loans were due during December 2020 and only 3 accounts are classified as non-performing. Specific monitoring is in place for this portfolio.

As at the end of February 2021, the gross loan book amounted to R11 040 million with an ECL provision of R653 million. The net credit impairment charge to average gross loans and advances was 4% (2020: 1%).

Group

Save

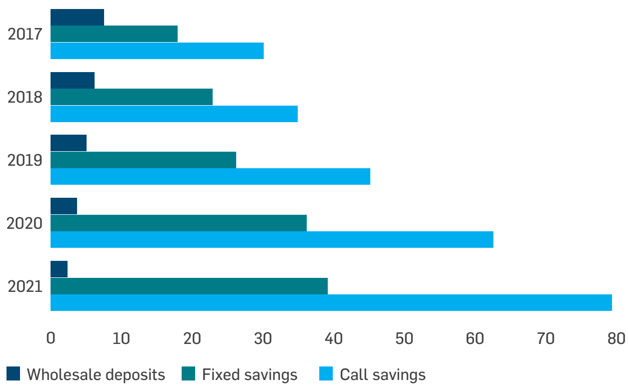
Funding

Total deposits increased by 18% to R118.5 billion (2020: R99.6 billion). Call savings and fixed savings grew by 25% and 8%, respectively.

The growth in our deposit book was primarily driven by lower client spending during the national lockdown and strong client acquisition. Our active client base increased by 14% to 15.8 million (2020: 13.9 million).

The average maturity of retail fixed funding was similar to the prior year at 15.4 months (2020: 15.5 months).

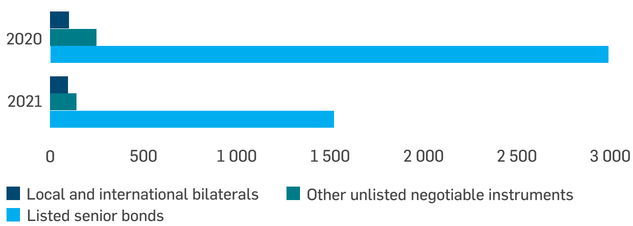
COMPOSITION OF DEPOSIT BOOK (R'b)



The debt-to-equity ratio remained fairly stable at 4.2:1 (2020: 4.3:1).

Wholesale funding for the group declined by 36% to R2.4 billion in the current year. The South African Reserve Bank (SARB) COVID-19 loan, which amounts to R620 million, is included in the group wholesale funding.

RETAIL WHOLESALE FUNDING BY NATURE (R'm)



The weighted average maturity of wholesale funding was 15.1 months as at 28 February 2021 (2020: 16.4 months).

During the 2022 financial year, R1.6 billion of the senior bonds will mature.

Liquidity

The group's conservative approach towards risk management mitigated the impact of COVID-19. Our approach inherently ensures our compliance with the Basel 3 LCR and the NSFR requirements.

As at 28 February 2021, our LCR was 2 459% (2020: 1 696%) and our NSFR was 221% (2020: 196%).

To reduce liquidity risk, call deposits are only allowed to fund cash flows shorter than 6 months. The funds surplus to operational requirements totalled R75.8 billion as at 28 February 2021 (2020: R51.1 billion). These funds are invested in low-risk, liquid, interest-bearing instruments.

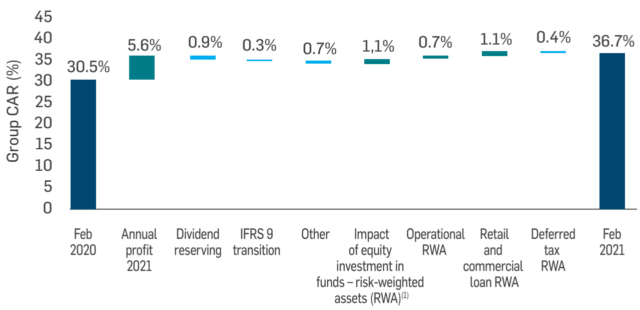
(1) *The comparative figures for the Business bank only included the 4-month period ended 29 February 2020.*

The weighted average remaining maturity of the investment portfolio as at 28 February 2021 was 256 days (2020: 60 days). The increase in remaining maturity is due to our investment in government bonds, which comprises 6.1% of the investment portfolio and has a contractual maturity of greater than 9 years.

Capital

Capitec remains well capitalised with a CAR of 36.7% (2020: 30.5%) and a common equity tier 1 (CET1) of 35.8% (2020: 29.5%). Capitec Bank has a CAR of 36.1% (2020: 31.7%) and a CET1 of 35.2% (2020: 30.8%).

YEAR TO DATE CHANGE IN CAR (%)



[1] *The new regulations relating to the capital requirements for banks' equity investments in funds became effective on 1 January 2021. In terms of the new regulations, banks are allowed to adopt a look-through approach to calculate the RWA exposures for equity investments in funds. Capitec invests in money market unit trust (MMUT) investment funds, which are included in the scope of the new regulations. The underlying assets of MMUT investment funds are typically invested in a combination of government bonds, treasury bills and interest-bearing deposits with banks. Up until 31 December 2020, the investments in these MMUTs were classified as corporate investments and included under credit risk, which were risk-weighted at a 100% risk weight. From 1 January 2021, these investments are classified as equity investments in funds and are now included under investment risk. Capitec adopted the look-through approach per the new regulations to calculate the risk-weighted exposures of these investments. The effective risk weighting of these funds amounted to 55% for the month of February 2021.*

Credit ratings

S&P Global Ratings lowered the sovereign rating together with the ratings of Capitec and other South African banks with a stable outlook on 7 May 2020. We have a global long-term rating of BB- and a short-term global rating of B. The South African long-term national scale rating is zaAA and the short-term rating is zaA-1+. Our global rating is the same as the sovereign rating and those of other large South African banks.

On 20 November 2020, S&P Global Ratings affirmed the sovereign rating and the ratings of Capitec and the other South African banks with a stable outlook.

Accounting matters

Provisioning methodology

Forward-looking methodology

Retail bank

The significant increase in credit impairments is primarily attributable to our forward-looking model. As at 28 February 2021, the forward-looking model charge was R2.9 billion (August 2020: R4.2 billion). The decrease since our interim results relates to some of the forward-looking information being incorporated into the business-as-usual provisioning models, the rehabilitation of COVID-19-related reschedules, better than expected payment behaviour and a stabilisation in our collections environment.

In line with the fundamental principles of IFRS 9 *Financial Instruments*, the group holds a provision against potential future losses resulting from changes in the economic environment. The group utilises the latest Bureau of Economic Research (BER) macroeconomic outlook for South Africa to assess the planning horizon of at least 4 years and estimate the effects of changes to the economic environment.

We take 3 economic scenarios (negative, baseline and positive) into consideration when calculating the impact of macroeconomic factors on ECLs. The probability of each scenario is estimated by management. Management assigned a probability of 35% to the negative scenario, 60% to the baseline scenario and 5% to the positive scenario for the 12-month forecast. This approach is the same as last year. The economic data utilised in the model is, however, more negative due to the impact of COVID-19.

Business bank

The forward-looking model is modified for the Business bank as there is less correlation between the performance of its loans and advances relative to the macroeconomic indicators. A management overlay is therefore applied for specific types of exposure based on collaborative opinions and assessments.

Impairments

Goodwill arising from the acquisition of Mercantile

As at 28 February 2021, management reviewed the assumptions and estimates used in the impairment assessment calculation and determined that the recoverable amount exceeded the carrying amount.

The calculation used cash flow projections based on our financial budget, which was approved by management and the board of directors and which includes management assumptions. The risks associated with the impact of COVID-19 were taken into account by stressing the variables used in the calculation.

Refer to note 3 to the annual financial statements for more comprehensive disclosure on the assumptions used in our impairment testing.

Investment in Cream Finance

The group considered the economic environment in which Cream Finance currently operates to be an indicator of potential impairment in terms of IAS 36 *Impairment of Assets*. An impairment of R122 million was determined. A stress test of any one of the key assumptions used in the assessment will not result in a materially different calculated impairment.

Refer to note 3 to the annual financial statements for comprehensive disclosure on the assumptions used in our impairment testing.

Other matters

Successful implementation of SAP

The Retail bank went live on the SAP general ledger in March 2020. The implementation addressed the need for greater efficiency. SAP is fully integrated with BOARD, our budgeting and forecasting tool. The combination of these two systems assisted us immensely in the past year, and is the platform that provides fast, insightful information that supports informed business decisions. This gives the business the agility and the ability to understand potential scenarios that ultimately result in a proactive approach.

During the 2022 financial year, the Business bank will be transferred onto the SAP platform. This forms part of our integration plan for the Business bank.

Business reorganisation in terms of section 54 of the Banks Act, Act 94 of 1990 (Banks Act)

On 30 November 2020, the group finalised the transfer of the assets and liabilities of Mercantile Bank Limited to Capitec Bank Limited through a business reorganisation in terms of section 54 of the Banks Act. From 1 December 2020, Mercantile Bank became the Business bank division of Capitec Bank Limited. This is a significant step in integrating the Business bank into Capitec.

Migration of cell captive arrangements

It is considered good governance for the insurance business of a banking group to be held outside of the licensed bank in order to keep the risk, capital management and regulation of the banking and insurance businesses separate. We agreed with the SARB to transfer the shareholding in the insurance cells out of Capitec Bank Limited. The shares in the insurance cell captives were sold to Capitec Ins Proprietary Limited, a wholly-owned subsidiary of Capitec Bank Holdings Limited, effective 31 March 2021. The sale is subject to a number of suspensive conditions that will only be fulfilled at the end of April 2021.

The impact of this transaction is that the insurance-related income and expenses will be recognised by Capitec Ins Proprietary Limited from 1 April 2021. There is no impact on the profitability of the group.

Regulation

The regulatory environment changes constantly. We proactively contribute to and manage our regulatory environment by taking care of the interests of all our stakeholders and clients.

The table below summarises the status of the recent regulatory developments:

Regulator	Status
South African Revenue Service (SARS)	The Minister of Finance announced in the National Budget Speech on 24 February 2021 that the corporate tax rate will reduce from 28% to 27% from years of assessment commencing on or after 1 April 2022. This benefit will therefore only apply to the group from the February 2024 tax year. The reduced tax rate will be partially funded by government through a reduction of certain tax incentives and by limiting the set-off of assessed losses against taxable income.
South African Reserve Bank (SARB)	The new regulations relating to the capital requirements for banks' equity investments in funds became effective on 1 January 2021. In terms of the new regulations, banks are allowed to adopt a look-through approach to calculate the RWA exposures for equity investments in funds. Capitec invests in MMUT investment funds, which are included in the scope of the new regulations. MMUT investment funds typically invest their underlying asset portfolios into a combination of government bonds, treasury bills and interest-bearing deposits with banks. Up until 31 December 2020, the investments in these MMUT's were classified as corporate investments and included under credit risk, which were all risk-weighted at a 100% risk weight. From 1 January 2021, these investments were classified as equity investments in funds and are now included under investment risk. Capitec adopted the look-through approach as outlined in the new regulations to calculate the risk-weighted exposures of each of these investments. The effective risk weight of these funds amounted to 55% for the month of February 2021.
	The PA issued a proposed directive on 16 March 2021 regarding the large exposure framework, which instructed banks to manage their businesses in such a manner that the aggregate amount of its concentrated credit exposure does not exceed certain thresholds. The revised date of the implementation of the large exposure framework has been amended to 1 July 2021. For the period 1 July 2021 to 31 December 2024, the aggregate exposure which a domestic systemically important bank (D-SIB) has to a single counterparty may not at any time, on an average daily balance basis for the month, exceed 25% of the sum of the bank or controlling company's qualifying tier 1 capital.
	The authenticated collections (AC)/DebiCheck system, which aims to provide a more secure debit order collection system to replace the existing authenticated early debit order (AEDO) and non-authenticated early debit order (NAEDO) systems, was implemented on 1 August 2018. Business and consumer adoption of the DebiCheck system is slower than expected. The SARB directive stated that the system must be fully implemented by 31 October 2019; it further directed that from 1 May 2020 no entity may introduce new NAEDO debit orders for collection. Capitec Bank completed its implementation in April 2020 and new loans are issued with authenticated mandates. All the bank's branches and support departments operate on DebiCheck for all new mandates. Due to the COVID-19 pandemic, the SARB extended the 1 May 2020 deadline to 1 May 2021. The DebiCheck system is very complex and a world first in obtaining upfront authentication of a debit order mandate. Banks and users are continuously improving the system performance and rules to deal with greater volumes. Despite the benefits that DebiCheck should bring to consumers, the rate of authentication for new debit orders by consumers remains below 40%. This low approval rate puts businesses that rely on non-face-to-face marketing at risk as they may not register the debit order as a DebiCheck without the authentication by the consumer. SARB approved the introduction of a Registered Mandate Service to allow businesses to register a debit order mandate if the payer failed to respond to the authentication request in order to reduce the business risk. This system was successfully implemented in November 2020. The SARB indicated in February 2020 that it will not grant a further extension of the compliance date, and requested participants to address the remaining pain points to promote adoption of the DebiCheck system. Many businesses are still not ready and will be required to do further enhancements to the DebiCheck system to reduce the business risk associated with DebiCheck to businesses. The SARB also indicated that the AEDO and NAEDO systems must be closed down from 1 November 2021.

Regulator	Status
Financial Sector Conduct Authority (FSCA)	**Conduct of Financial Institutions Bill (CoFI Bill)** The CoFI Bill is the next phase of the legislative reforms aimed at strengthening the regulation of how financial institutions should treat its clients. Capitec and the other banks, through the Banking Association South Africa (BASA), commented on the initial version of the CoFI Bill. Taking into account the submissions received on the first draft, a second draft of the CoFI Bill was subsequently published for comment on 29 September 2020. Capitec and the other banks submitted comments on the second draft through the BASA. **Conduct standards for cell captives** The FSCA published a draft revised conduct standard on 28 July 2020 for public comment. The proposed conduct standards seek to set out the requirements for third-party cell captive insurance businesses. Capitec provided commentary through the BASA. Comments were received from 14 commentators. Currently, the FSCA is considering all public comments received. If no significant changes are required to the draft conduct standard following the comments received, the next step will be for the FSCA to table the draft conduct standard for parliamentary scrutiny.
National Treasury (NT)	**Financial Sector Laws Amendment Bill** Financial Sector Laws Amendment Bill 15 of 2020 seeks to amend various financial sector laws. The amendments seek to provide for the establishment of a framework for the resolution of designated institutions to ensure that the impact or potential impact of a failure of a designated institution on financial stability is managed appropriately; to designate the SARB as the resolution authority; to establish a deposit insurance scheme, including a Corporation for Deposit Insurance and a Deposit Insurance Fund; to provide for coordination, cooperation, collaboration and consultation between the Corporation for Deposit Insurance and other entities in relation to financial stability and the functions of those entities; to make provision for designated institutions in connection with resolution matters and to further provide for information required to assess a levy. **Financial Intelligence Centre Act, Act 38 of 2001 (FICA)** On 19 June 2020, the Minister of Finance published proposed amendments to Schedules 1, 2 and 3 to FICA. The proposed amendments to FICA aim to strengthen South Africa's financial system and to provide additional protection against money laundering and the financing of terrorist activities. The proposed amendments to Schedule 1 seek to widen the application of FICA by including additional categories of institutions and businesses as 'accountable institutions' to include credit providers contemplated under the National Credit Act, Act 34 of 2005 (NCA), clearing system participants and money or value transfer providers.
Prudential Authority (PA)	PA Guidance Note 3 of 2021 was published in 2021. During 2020, the PA issued Guidance Note 4 of 2020, suggesting that best practice would be for banks not to pay dividends on ordinary shares and bonuses to executives in order to conserve capital resources and retain the capacity to serve the economy. This note was issued in the context of the then developing pandemic. Due to the development and approval of various vaccines, the SARB has revised its outlook on global economic growth and the PA has replaced Note 4 of 2020 with Note 3 of 2021, which now advises that the board of directors may approve dividends and bonuses subject to: ▪ a review of current and forecast capital and profitability levels ▪ internal capital targets ▪ the bank's risk appetite ▪ consideration of current and future risks posed by the pandemic ▪ the exclusion of benefits accrued from relief measures provided in 2020 ▪ the duty placed on the board in terms of regulation 39(16) to ensure compensation is adjusted: – for all relevant and material types of risks – to promote the long-term safety and soundness of the bank. There are two remedial actions available to the PA should it find that approved payout ratios are not prudent and 'commensurate with the assessment of current conditions and potential future uncertainty' in terms of regulation 38(4): ▪ Issue a directive in writing to maintain additional capital ▪ Issue a directive to the bank to align its compensation arrangements with its risk exposure. Capitec may therefore now cautiously pay dividends and bonuses again.

<table>
<tr><th>Regulator</th><th>Status</th></tr>
<tr><td>Protection of Personal Information Act, Act 4 of 2013 (POPIA)</td><td>POPIA gives effect to section 14 of the constitution, which provides that everyone has the right to privacy. The Act promotes the protection of personal information processed by public and private bodies and seeks to balance the right to privacy against other rights such as access to information. POPIA has been implemented incrementally, with the President proclaiming 1 July 2020 as the commencement date of sections of the Act with a 12-month grace period for compliance: Sections 2 to 38 which set out provisions dealing with the application of POPIA, the listed conditions for lawful processing of personal information as well as the respective exemption from conditions for processing of personal information and sections 55 to 109, which regulate the following aspects:
▪ The information officer
▪ Prior authorisation
▪ Codes of conduct
▪ Data subject's rights in terms of direct marketing
▪ Trans-border information flow
▪ Enforcement
▪ Offences, penalties and administrative fines
▪ Fees and transitional arrangements.

Sections 111 and 114(1), (2) and (3) of POPIA became effective as of 1 July 2020, with the compliance deadline being 30 June 2021. Sections 110 and 114(4) will commence on 30 June 2021 and these sections pertain to the amendment of laws and the effective transfer of functions of POPIA from the South African Human Rights Commission to the Information Regulator.

There is a data privacy project registered and supporting systems have been procured in order to ensure compliance to POPIA.</td></tr>
<tr><td>National Payment System Act, Act 78 of 1998 (NPSA)</td><td>The Payment Association of South Africa published a draft discussion document in February 2021 on the adoption of credit card push instructions as a new transaction type by ATM payment clearing houses. This will be optional for originators/acquirers, but mandatory for all card issuers to accept.

This initiative seeks to allow a cardholder from any bank to make cash deposits into their savings or credit card account at participating banks' ATMs. The benefit of this service will be to all card issuers and their clients/card holders, but especially to smaller issuers who do not have an extensive branch network where cash deposits can be made as this will be the first time inter-operable/interbank deposits are made available at ATMs. A high priority and full cooperation by issuers are requested.

It is suggested that the cash interchange rate be R1.30 per transaction.

As a card issuer, it may be mandatory for Capitec to make system changes to their existing infrastructure to accommodate these transactions. Furthermore, this may have an enormous impact on Capitec's cash environment in terms of profitability and further possible impact within the Interbank environment.

From an ATM and client service perspective it will increase the strain on our estate that is already under pressure due to the high number of cash transactions, and potentially also cause some devices to fill up, requiring cash-in-transit to more frequently remove funds. Furthermore, it can increase our queues, which may lead to negative client experience as a result of longer waiting periods, which is already a key matter.

An increase in cash transaction volumes will have a large impact on the monitoring and transaction reporting environment within the anti-money laundering department and resources within these departments. It is expected that the automated transaction monitoring alerts will increase significantly.</td></tr>
</table>

Outlook for 2022

Our founding fundamentals will remain the basis of our strategy for the 2022 financial year. We are cognisant of possible further waves of COVID-19 but, given our performance during the 2021 financial year, we are confident in our ability to provide an agile, simplified, accessible and affordable banking solution regardless of the circumstances and economic environment.

We believe in our people and clients to overcome the challenges brought by the pandemic and seize the opportunities that it creates.

Special thanks and recognition

I would like to thank and commend all employees of the group for their hard work, perseverance and contribution during this very difficult and challenging COVID-19 year.

Andre du Plessis
Chief financial officer

Stellenbosch
13 April 2021

Our purpose

To enable clients improve their financial lives

Our core values

live **ceo**

Client first | Energy | Ownership

how we create value

How all our efforts are concentrated on meeting **our purpose** Page 34

How **our business model** uses our resources to create and protect value Page 38

Our products that underpin the business Page 40

How **our structure** supports our purpose and products Page 44

The **recognition** that we received for the value we delivered Page 45

More about the **stakeholders** whose needs we consider Page 46

How all these factors influence **our strategy** Page 48

Our latest innovations in delivering on strategy Page 50

Our 4 fundamentals

Simplicity

Affordability

Accessibility

Personalised experience

Read more on pages 36 and 37.

Our strategic objectives

Client experience

Client quality

Digital

World-class data business

Business delivery

People

New capabilities

Read more on pages 48 and 49.

Our purpose

Our purpose is to improve the financial lives of our clients and create value for our stakeholders.

Agility in a changing environment

The COVID-19 pandemic affected the South African economy on a large scale during the current financial year. We were agile in response to the constraints and despite them used the opportunities available to us to assist our clients during the COVID-19 lockdown and launch new products.

We continued to deliver on our promise of simplified, affordable banking that puts clients in control of their financial lives.

What inspires us

Our purpose starts by improving the financial lives of our clients. By striving for this goal, we improve the lives of all South Africans and make a meaningful contribution to the growth and prosperity of our country. We guide and assist our clients to interact with the evolving financial world.

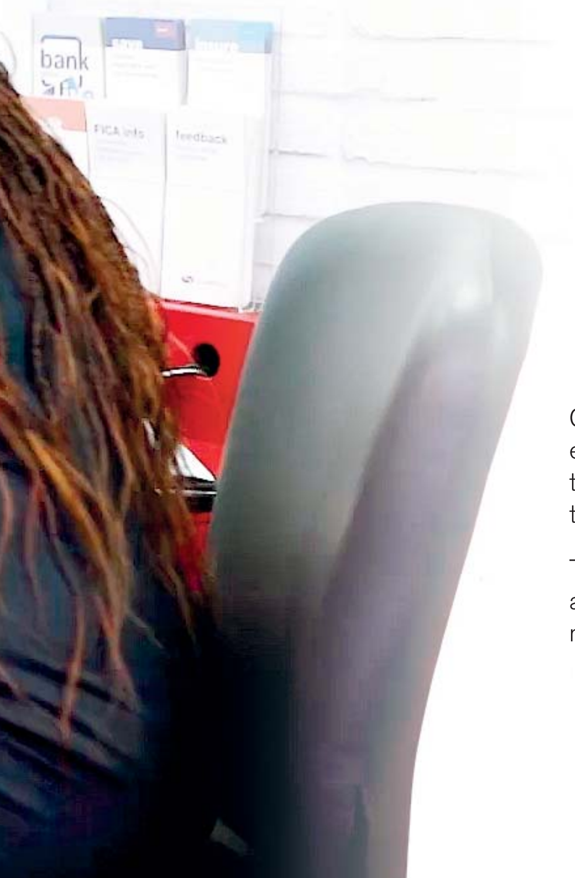
We believe in making banking simpler, more affordable, accessible and personalised. We achieve this by being transparent and by listening to our clients. We understand that while banking is not everyone's first priority, it is a necessity.

The continued growth in our client numbers show that the solutions we provide are relevant to people's needs.

Our market opportunity

We are the largest digital bank and the largest bank by active banking clients in South Africa. We turn challenges into opportunities with agility as demonstrated this year in the way we assisted our clients in facing the impact of the COVID-19 pandemic on their financial lives. We not only facilitated our Retail bank clients' shift to digital banking as they looked for safer, more convenient ways to transact, but we also launched a number of new products, each with digitalisation at its core.

Our Business bank affords us the opportunity to change the way that small businesses and entrepreneurs bank through digitalisation and agile innovation.



Our core values drive our behaviour

Capitec and its employees are committed to ethical behaviour. We believe in putting clients first, working with energy and taking ownership.

We behave in a way that builds trust and long-term relationships, externally with clients and internally with colleagues. The values that govern the behaviour of our employees in their interactions are:

1 Client first

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

2 Energy

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

3 Ownership

- Take responsibility
- Take initiative
- Care about the outcome

We are ceo

Our corporate values are manifested in a range of policies that specify the ethical conduct expected from all employees. We frequently communicate these policies as well as our commitment to legal and regulatory compliance to our employees.

The SECO monitors and reviews the relevant policies regularly to ensure that an ethical culture is effectively embedded. The board remains ultimately responsible for creating an ethical culture at Capitec.

Our unique value proposition

We do business according to 4 fundamentals that guide us in applying our commitment to responsible banking:

Simplicity

The easier it is to access their funds and perform banking activities, the better clients can control their financial lives. Banking should not be complicated. We remove complexity from banking with technology that cuts costs and puts the value back in clients' pockets.

Digitalisation makes banking quick and easy. Our pricing is transparent with 1 offering for Retail bank clients, irrespective of their income or profile, and we use technology to engage with and service our clients.

Affordability

We have a client relationship with a third of the banked population of South Africa and we want our clients to get value for money.

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

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

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

At the onset of the COVID-19 pandemic, we provided relief to clients with respect to transaction fees in a number of ways:

- The minimum merchant account fee and monthly card machine rental were waived for Capitec merchants who could not trade during the lockdown
- We participated in industry initiatives for clients who needed cash and offered no cash withdrawal fees for SASSA grant recipients and the same withdrawal fee at any other bank's ATM as at a Capitec ATM
- We offer lower interest rates to clients who take loans lower than the maximum amount they qualify for, or take a shorter-term loan
- Clients were granted payment relief on loans during the COVID-19 lockdown
- An interest refund, based on keeping their rescheduled accounts up-to-date for 6- and 12-month periods, was also offered to Retail bank clients who made use of the payment relief.

Accessibility

We aim to place our Retail bank clients in control of their banking by making our Global One solution accessible from anywhere, at any time and in any way. Even though we are South Africa's biggest digital bank, offering internet banking via a web browser and smartphone app banking, we have an omni-channel approach.

Clients can also access our services through our client care centre or they can visit a branch if they want direct personal interaction. Branch capacity was at 50% from the beginning of the national lockdown and gradually increased as lockdown restrictions eased. Currently, all branches are open. Call centres operated remotely during lockdown. We have 857 branches, which are easy to access and offer longer trading hours than other banks.

As digitalisation has increased, branches are changing from places where cash is drawn and deposited to sales and service centres.

Personalised experience

We design the banking experience with client convenience and excellent service in mind. Our immediate focus is to build a relationship with each client and assist them in taking control of their financial decisions.

On our Retail banking app, clients can customise their accounts, views, favourites and shortcuts.

In a branch, clients are served seated so that they and the consultant can engage with the information on a computer screen. This empowers clients to choose the personalised options they want and to feel in control of the process.

Our consultants are recruited from the areas in which their branch operates. This means that they are familiar with their community and can serve clients in their home language.

We use digital tools to measure a Retail bank client's experience from the moment they enter a branch to the time they leave the branch. This helps us improve the client's overall experience of our service.

We also apply machine learning to create a personalised experience and better outcomes for our Retail bank clients by understanding them and our processes better.

Our business model

We use the resources and expertise at our disposal to create sustainable, long-term value for all stakeholders:

Our resources

Financial capital is derived from retained earnings, shareholder funds and deposits to ensure that we remain well capitalised.

Manufactured capital constitutes infrastructure such as leased buildings, data centres, ATMs, IT systems and remote banking solutions. Our products are supported on a single system with appropriate disaster recovery plans and security.

Human capital comes from people's competencies, capabilities and experience and their ability to motivate and innovate. We employ people for their potential and their fit with our culture and values. They provide us with the attitude and skills to achieve our strategic objectives. We create employment in local communities, remunerate fairly and are committed to providing equal opportunities.

Our business activities

Our purpose is to help clients improve their financial lives and create value for our stakeholders

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

GlobalOne

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

The risks we face

- Model risk
- Losing focus
- Diminishing client service

- Business continuity
- Scalability of systems

- Internal/external fraud
- Conduct risk

The outputs we created

17% (2020: 28%) ROE

857 (2020: 864) branches

6 725 (2020: 5 652) ATMs, DNRs and coin and note recyclers (CNRs)

14 672 (2020: 14 590) employees

Our desired outcomes

Investors enjoy the benefits of sustainable growth and financial returns. Their confidence in us is affirmed by rating agencies and by the fact that key management holds shares in Capitec.

Employees are valued, recognised and rewarded for their unique potential and talent as they maintain the client relationships that we value.

How we shared the value

Dividends paid	Interest paid to wholesale funders	Value retained for growth	Supply of goods and services	Employee remuneration and benefits
Rnil million	**R603 million**	**R4 888 million**	**R6 300 million**	**R4 749 million**
(2020: R2 174 million)	(2020: R792 million)	(2020: R4 584 million)	(2020: R5 760 million)	(2020: R4 229 million)

Intellectual capital entails Capitec-specific knowledge. With extensive data collection and analysis capabilities, we use artificial intelligence to enhance innovative thinking in line with our core fundamentals. We continuously offer new ways of banking such as virtual card features.

Social and relationship capital encompasses our relationships with clients, employees and other stakeholders including shareholders, regulators as well as the communities in which we operate.

Natural capital includes the renewable and non-renewable environmental resources which are impacted by our operations and business activities.

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

Simplicity

Affordability

Accessibility

Personalised experience

Read more about our 4 fundamentals on pages 36 and 37.

- Cyberrisk
- Data theft
- Data optimisation
- Disruptive technologies
- Reputational risk

8.6 million
(2020: 6.7 million)
digital clients

Clients receive a transformed banking experience and we elicit feedback that enables us to review our products and services to differentiate Capitec.

Interest paid to clients

R4 381 million
(2020: R4 887 million)

- Third-party risk
- Regulatory change
- Fake news

15.8 million
(2020: 13.8 million)
active clients

Society is served by our offering of affordable basic banking services and our investments to develop and empower people through consumer financial education and employment.

Regulators and government can rely on us to maintain healthy CARs, be a responsible lender and comply with all governmental and regulatory requirements.

Corporate social investment (CSI)

R66 million
(2020: R34 million)

Income and other taxes

R2 426 million
(2020: R2 824 million)

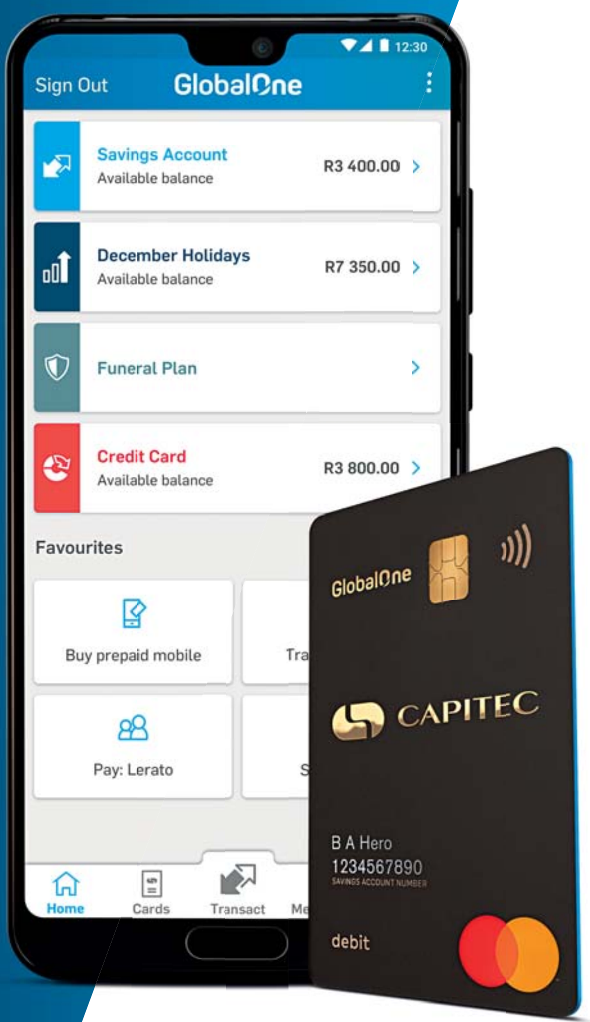
- Climate change

22%
decrease in carbon footprint intensity per employee compared to the 2012 baseline

Climate change is everyone's responsibility and we conduct our business with a conscious effort to minimise harm to the environment.

Our products

15.7 million people use our Global One and Business bank solutions for money management. The solutions are personalised according to each client's preferences.



5.3 billion

Retail bank transactions for the year 2021

transact

Our clients use our offerings to transact globally at any time.

Our transaction fees are among the lowest in the market.

Retail bank transaction offering

- Card
- Online shopping
- Internet banking
- Mobile banking app
- USSD mobile banking
- Employer salary transfer facility.

New this year

- Scan to pay
- Virtual card
- Banking app updates.

Refer to page 50 for more information on these and other innovations.

Achievements this year

- 526 million banking app transactions
- Active banking clients grew by approximately 160 000 per month

Business bank transaction offering

- Merchant solutions
- Business current account: a transactional account designed for day-to-day use
- Private banking: a bundled product designed for entrepreneurs
- Credit card: with a personalised credit limit.

9.4%

share of retail deposit market in South Africa, an increase of 16%

save

We want to make it easy for clients to save and plan for their financial futures.

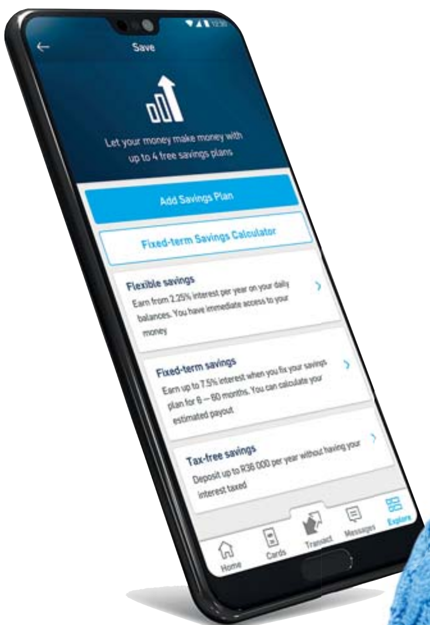
We encourage savings by paying clients interest on their savings from day 1. Our interest rates are high: from 2.25% to 7.71%. Interest of R4.4 billion was earned by our clients during the past 12 months.

Retail bank savings offering

- **Transaction savings account:** serves as the client's main account
- **Flexible savings account:** clients can choose the amount and the term
- **Fixed-term savings account:** this can be single or multiple deposits
- **Tax-free savings account:** clients can invest up to R36 000 a year and R500 000 in a lifetime and get tax-free returns.

Business bank savings offering

- **Call account:** allows clients instant access to their money. Withdrawals and deposits can be made at any time, while earning interest
- **Notice deposits:** clients have access to funds after placing notice to withdraw a specific amount.



1 million

Capitec funeral plan policies issued during the financial year

2.7 million

Capitec funeral plan policies issued since inception

insure

Insurance safeguards a client's future cash flows and protects them against the impact of unexpected events.

Capitec funeral plan

We personalise the Capitec funeral plan according to client needs. Clients can select a level of cover or premium, depending on their requirements.

Funeral cover is a simple agreement, and one that we can leverage through branches or the banking app using existing infrastructure and systems.

We understand that our clients want a plan that pays out quickly following a death to assist with funeral and related expenses. We also understand that clients want to talk through their options and benefits when buying a funeral plan. Since inception, 84% of the more than 2.7 million Capitec funeral plan policies were issued in branches.

Capitec funeral plan offering:

- New-born premium over waiver for 6 months
- Double accidental death benefit
- Death premium waiver for 6 months
- Voluntary policy pause for up to 6 months
- Burial repatriation benefit.

Credit life insurance for Retail bank clients

Credit life insurance is required for credit terms of 7 months and longer to cover death, permanent or temporary disability, unemployment, the inability to earn an income or retrenchment. While we offer this insurance, clients have the option to provide us with an alternative policy of their choice, as long as it meets our minimum requirements.

The cover is based on a client's employment status.

Credit life insurance offering:

- Immediate availability of the agreement
- No paperwork when applying
- A simple claims process
- Cover up to the age of 65
- A decreasing credit insurance premium as the value of the loan decreases
- The full outstanding amount is paid for death and permanent disability
- Temporary disability is covered for a maximum of 12 instalments
- Unemployment or inability to earn an income covers the instalments for the shorter of:
  - a period of 24 months
  - the remaining term of the credit agreement
  - until the client finds employment or is able to earn an income.

R6.4 billion

Access facility disbursements

credit

Our credit offering is personalised to achieve the best possible credit limit, over the optimal repayment terms, with the best interest rate.

We reduced our exposure to the lower-income, short-term credit market. Our focus is on clients with quality credit behaviour; they receive better interest rates and we focus on reducing their cost of credit.

Retail bank credit offering

- **Personal term loans:** personalised credit and term loans up to R250 000 over 84 months
- **Access facility:** up to R250 000 credit limit
- **Credit card:** with up to R250 000 credit limit
- **Home loan:** up to R5 million over 240 months.

Credit features

- Clients can choose between the amount they want, the monthly instalment that suits their pocket or the option that gives them the lowest interest rate
- Credit is approved within minutes and the money is available immediately
- Interest rates are fixed for the period and start at prime
- Credit can be managed proactively using the Capitec banking app.

New this year

- Access facility
- Home loans
- Vehicle finance.

Refer to page 50 for more information on these and other innovations.

Achievements this year

- The average interest rate on loans granted decreased from 23% to 21%
- An average of 4 500 new credit card clients signed up every month.

Business bank credit offering

- **Overdraft facility:** A fluctuating credit facility linked to a Business bank account allowing the client to cover monthly obligations by managing cash flow and working capital requirements
- **Instalment sale agreement:** A credit facility that enables clients to pay affordable instalments for moveable and durable goods for their business requirements
- **Residential home loan:** Long-term finance for residential property, structured over a fixed period, providing access to surplus funds in the account
- **Commercial property loan:** Business property finance which can be utilised for acquiring new business premises or expanding businesses
- **Medium-term loan:** loans with specific repayment periods.

Group structure

* *Previously known as Portion 2 of Lot 8 Sandown Proprietary Limited.*

Excluding dormant companies and companies in liquidation.

Recognition received

We are recognised for how we do business. We acknowledge the recognition of our efforts and value this as a confirmation of our strategy of doing what is in the best interest of our clients.

Third strongest banking brand in the world

Brand Finance ranks banking groups by their brand value, which is calculated by measuring a brand's performance on intangible measures, relative to its competitors. Factors that are considered include marketing investment, stakeholder equity and their impact on business performance. Capitec was ranked as the strongest banking brand in South Africa and the third-strongest banking brand in the world – up from sixth position in 2019.

February 2020

Forbes names Capitec as South Africa's best bank

Capitec Bank was ranked South Africa's best bank for the second consecutive year in a survey conducted by media group Forbes. Banks were rated on overall recommendation and satisfaction while trust, terms and conditions, client service, digital services and financial advice were surveyed.

June 2020

Coolest bank 2020

Capitec Bank was named the coolest bank in South Africa at the Sunday Times Gen Next Awards. The annual survey has established itself as the leading barometer of what local youths find on-trend and aspirational and delivers insights that are valued by brand managers, advertising executives and marketing professionals across multiple industries.

August 2020

Interacting with our stakeholders

We create long-term value for Capitec and its stakeholders. We engage on the issues that are material to each group and respond appropriately through our strategy.

The group executive committee (EXCO) and the board's SECO monitor our relationships.

Clients

We enable our clients to improve their financial lives by transforming their banking experience

Our clients come first

We engage with stakeholders on the channels they prefer, which range from social media to our call centre, banking app and face-to-face meetings

Our strategy: | | |

Investors, analysts and rating agencies

Investors, analysts and rating agencies enable us to invest in growth while maintaining conservative liquidity levels

The ratings assigned by rating agencies affect the availability and pricing of funding for operations and growth

To enable improved interaction we live-stream the annual general meeting (AGM) and other presentations

Our strategy: | |

Government and regulators

We contribute to a healthy banking system and credit market in South Africa for government and regulators

Good relationships with these stakeholders enable us to provide input on policies and regulations that may affect our operations

Our strategy:

Our employees

Our employees are valued for their unique potential and talent. They are also our main source of intellectual capital and innovation

We develop our employees as talent and grow future leaders. We discuss our development of our employees in detail from page 74 onwards

Our strategy: |

Strategic objectives

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

Suppliers

Suppliers look for opportunities, fair treatment and prompt payment	We treat all suppliers fairly while actively participating in transformation (refer to page 90)

Our strategy:

Society at large

Society requires fair treatment and employment opportunities	We actively contribute to society through the UN SDGs (refer to page 72), society upliftment (refer to page 86) and transformation (refer to page 90)

Our strategy: |

The environment

Responsible interaction with the environment	We actively counter climate change (refer to page 91)

Our strategy:

We describe the value that we create for each stakeholder in our business model on page 38 and expand on our strategic objectives on pages 48 and 49.

Our strategic objectives

Every year, we define our medium- to long-term intent by agreeing our strategic objectives, which underpin our collaborative business planning and budgeting process. Our people know what is expected of them and performance flows through to remuneration.

Client experience

We want to create better banking through exceptional experiences

Retail bank

- Live Better
- Business support centre client service
- Capitec Direct
- Branch of the future

Business bank

- Drive adoption of the new Business bank service and relationship model
- Implement new self-service capabilities and focus on improvements to internet banking
- Drive the new merchant services service methodology, guided by merchant segmentation

Shared services

- Protect and build trust
- Prioritise work that will ensure that we protect and maintain the client and Regulators' trust in us

Client quality

We want to grow quality clients

Retail bank

- Next-best action (automated decision delivered to all channels)
- Complete visibility (client history) to all channels
- Triggers (data-driven reaction to events) driving key personalised messaging

Business bank

- Optimise Retail bank forex flows (inward and outward)
- Drive sales out of new Business bank initiatives
- Focus on cross-sell opportunities into merchant services' base
- Targeted approach from payment solutions aiming to on-board 4 high transaction-volume clients
- Business units to start defining a 'quality client' guide by specific metrics
- Rebrand MRF, Mercantile Payment Solutions (MPS) and Forex to Capitec

Shared services

- One Capitec
- Strive to create efficiencies that align with the organisation's drive for uplift in delivery throughput and decrease in spend/risk

Digital

We want to become the number 1 digital bank

Retail bank

- Roll-out and continuously improve QR (Scan to pay) offering
- Enable both QR-based and other low-friction person-to-person payments
- Become the best e-commerce experience (put the Capitec card at top of wallet)
- Enable more types of digital payments at more points of need

Business bank

- Digital client on-boarding, including debit order switching
- Merchant portal incremental improvement
- e-Commerce for merchants
- QR integration/optimisation
- Card machine integration
- Rental finance system modernisation
- Complete foundations for common data lake

Shared services

- Drive digitalisation through an increased focus on internal integration, remote recruitment, training and on-boarding

World-class data business

We want to evolve into a trusted data bank

Retail bank
- Credit for purpose
- Launch self-help granting to market for banking clients
- Iteratively extend to more clients and further reduce friction
- Improve scale and efficiency for collections
- Credit to non-salary earner

Business bank
- A single view of the client to enable the client experience, credit and decision-making

Shared services
- Instil trust in and increase the value of our data assets
- Develop and share insights to make better decisions in service of our clients
- Enable our clients to make better decisions to improve their financial lives

Business delivery

We want to deliver optimally with accountability and predictability

Business bank
- Uncomplicated, affordable product offering
- Virtual card and ability to schedule physical card delivery on the banking app
- Instant access to flexible credit, enabled by scoring, with automated fulfilment
- A uniform, scalable service model, centred on a single point of contact, side-by-side virtual consulting and new business centre format
- A personalised banking portal to give clients a single view and complete control of their finances as well as full integration into accounting packages

Shared services

Support the Retail bank
- Each initiative to have a positive client and stakeholder experience as the core focus
- Achieved by enhancing product functionality, reducing client friction and supporting proactive planning capabilities

Business bank support and integration
- Each initiative to ensure we integrate the Business bank into our common shared services capabilities that drive business process efficiencies and reduce overheads

People

We want to develop people and great leaders

Shared services
- Develop and enable great leaders
- Develop a learning organisation
- Live better, work better
- Establish an environment in Capitec that is increasingly diverse and inclusive

New capabilities

Retail bank

Insurance
- Launch a white label simplistic life insurance offering to the market
- Continuously improve our funeral plan offering

Business bank
- Leverage data to help improve credit processes and improve collection rates for MPS clients
- Continue to grow regional presence for the Business bank
- Adoption and roll-out of full remote on-boarding process
- Business Direct will focus on becoming the primary channel for new client acquisition

Our latest innovations

Live better
BENEFITS

Capitec launched a number of innovations during the year to deliver on our purpose despite the COVID-19 pandemic. Our agility enabled us to utilise the opportunities that were available to us.

Retail bank

Live Better Benefits

With our Live Better Benefits, you get immediate savings simply by being a Capitec client. Whether it's making new memories, achieving new dreams or reaching new goals, our benefits will help clients on their journey to live better.

DStv Live Better Benefit

Get a 15% discount on a monthly DStv Compact subscription when signing a 12-month agreement and paying by debit order from a Capitec account.

Educate24 Live Better Benefit

Get 50% off all Educate24 courses across numerous career sectors when booking and paying with a Capitec card directly on the Educate24 website:

- Free Personal Management for Success course
- Free SmartCV which can be updated online and printed out for prospective jobs
- Careers24 job platform integration
- Do more courses and keep saving. The discount is applicable every time one pays for a course with a Capitec card
- Get a 75% discount on a monthly Hello Doctor subscription when paying with a Capitec debit order.

JOOX Live Better Benefit

Exclusive to Capitec clients, get a 30% saving on a monthly JOOX VIP subscription when signing up and paying on joox.com using a Capitec debit or credit card.

Rental cars

Save 10% on car rental in 53 000 locations worldwide when booking and paying with an activated Capitec card.

Shell V+

All Capitec clients now get 20c per litre back on fuel and 0.5% cash back on selected items in-store at participating Shell service stations. Simply swipe a registered Shell V+ card and pay with a Capitec card when filling up on fuel or snacks.

Travelstart

Save on domestic flights and international flights when booking and paying with an activated Capitec card.

New products and technology

We now offer home loans

We partnered with SA Home Loans to launch our first full home loan offering. The new offering enables clients to initiate an application in under 5 minutes – alongside competitive linked interest rates from 6%. We've also made it easy for clients to track the progress of their application in realtime through our online portal.

Clients receive a discount of up to 50% on lawyer fees through SA Home Loans' national panel of attorneys. There is also a further benefit for government employees who, if they apply for a new home loan or switch their existing bonds, could qualify for a discounted interest rate.

New 'flexible' credit option

We launched a new access facility aimed at providing affordable revolving credit to clients. The facility can be fully managed from the banking app, allowing clients to decide how much of the facility they want to use at any given point in time as well as select a monthly repayment amount or period they are comfortable with.

It gives instant access to money, which can be used as it is required, for example, to renovate your home, purchase equipment needed to start a new business or pay for education.

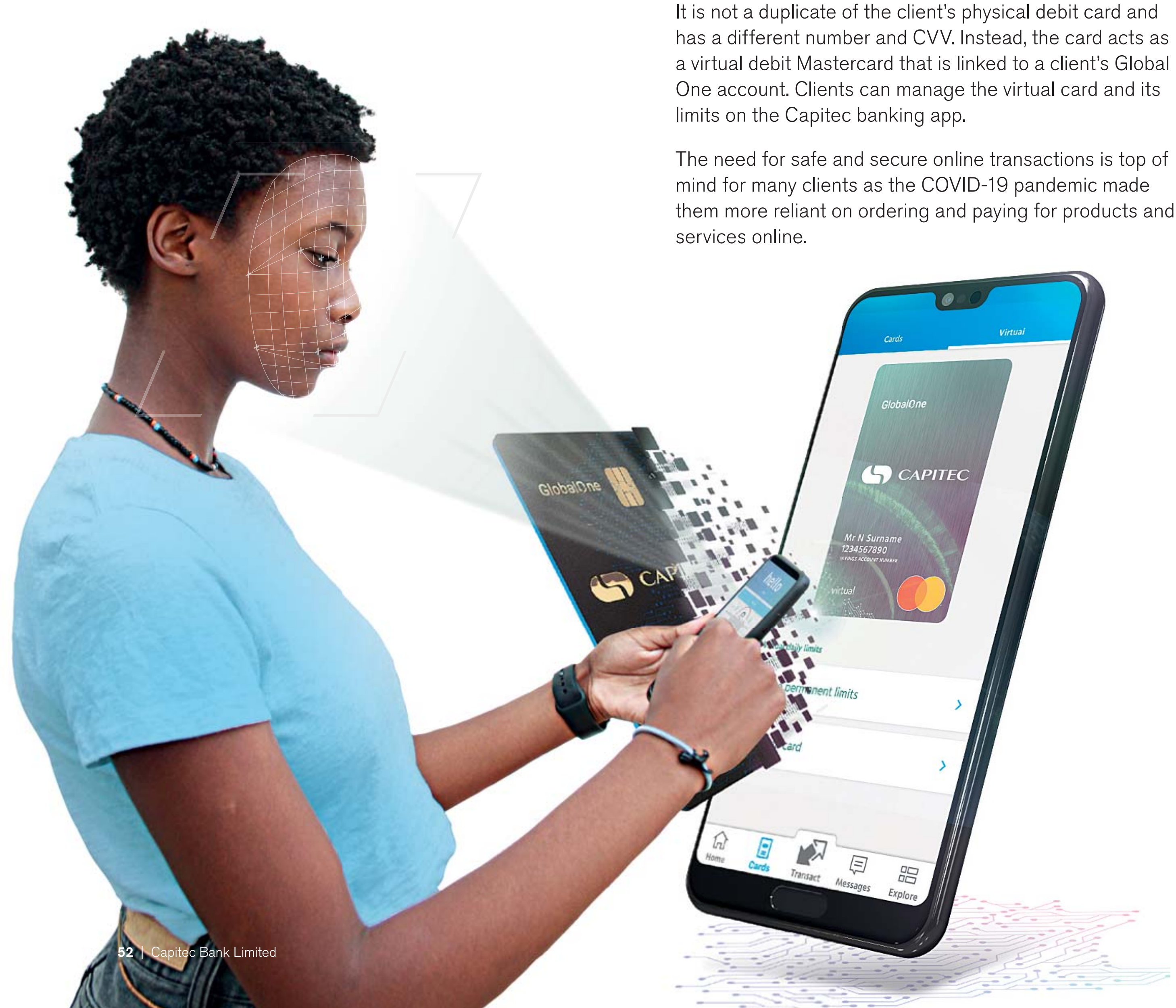
If a client doesn't use the facility, no fees are charged, which means no interest or monthly admin fees are payable. This flexibility makes the Capitec access facility great for unplanned life events.

Virtual banking card

We launched a new virtual banking card to allow clients to shop more safely online. The virtual card is a completely digital bank card that is saved on a client's Capitec banking app. Like a physical card, clients can use it online, but it's safer than a physical card as no one can steal or duplicate it.

It is not a duplicate of the client's physical debit card and has a different number and CVV. Instead, the card acts as a virtual debit Mastercard that is linked to a client's Global One account. Clients can manage the virtual card and its limits on the Capitec banking app.

The need for safe and secure online transactions is top of mind for many clients as the COVID-19 pandemic made them more reliant on ordering and paying for products and services online.



Capitec's new banking app reaches top spot on local app stores

Capitec's new banking app reached the number 1 spot on both the South African Google Play and Apple app store charts. We noted a significant increase in popularity during the pandemic as clients transitioned from traditional service channels to digital offerings.

In future years, bank branches will continue to be an important point of personalised service, but will also serve as digital service centres, able to help clients across the country in realtime.

Sign documents digitally on the banking app using facial biometrics

Capitec recently announced that it has taken the final step in its paperless journey with the introduction of an e-signature capability, by means of a biometric fingerprint. This makes us the first South African bank to introduce a legally compliant e-signature. The bank will extend this capability to facial biometrics later this year, allowing our clients to e-sign documents from anywhere, 24/7 on the banking app.

Scan to pay functionality introduced in banking app

We launched QR code payment functionality in the new banking app, which is the only Scan to pay offering from a South African bank that can be used across all major QR code-based payment providers including SnapScan and Zapper.

The new addition was fast-tracked during the pandemic as it allows clients to pay without touching any surface other than their own phone. Payments can be made at till points, restaurants, for parking and for online shopping.

Social media

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

Facebook

Capitec Bank

We have more than **670 000 followers** – the second largest following among South African banks.

Our Facebook page grew by **21.8%** over the past year.

Twitter

Capitec Bank SA

We have more than **236 000 followers** – one of the highest organic engagement rates per post of any South African bank on Twitter.

Our followers increased by **10.5%** in the past year.

Instagram

CapitecBank

Our Instagram account reached our **47 400 followers** – this is the largest following of all the financial service providers in South Africa.

The page grew by over **39.4%** in the past year.

YouTube

Capitec Bank

We have more than **31 000 subscribers** on YouTube. Subscribers increased by **21.6%** in the past year.

In 2020, the videos on the platform achieved 6.5 million views and 57 500 hours total watch time.

LinkedIn

Capitec Bank

Our highly engaged audience on LinkedIn has grown by **44.9%** to more than **322 000** over the past year.


SUSTAINABLE DEVELOPMENT GOALS
1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS
USERNAME
PASSWORD
OK

Capitec is a constituent company in the FTSE4Good Index Series

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

Our governance structure

We achieve the 4 outcomes:

- Ethical culture
- Good performance
- Effective control
- Legitimacy

More about the sound **corporate governance** in place at Capitec **Page 56**

Our leadership, who lead our value creation efforts. We include details about the board committees and the work they do **Page 62**

A report from the **social and ethics** committee about its activities in providing social governance **Page 70**

How we contribute to the **UN SDGs** **Page 72**

How we **develop our employees** **Page 74**

Our contribution to **society and communities** **Page 86**

and combating **climate change** **Page 91**

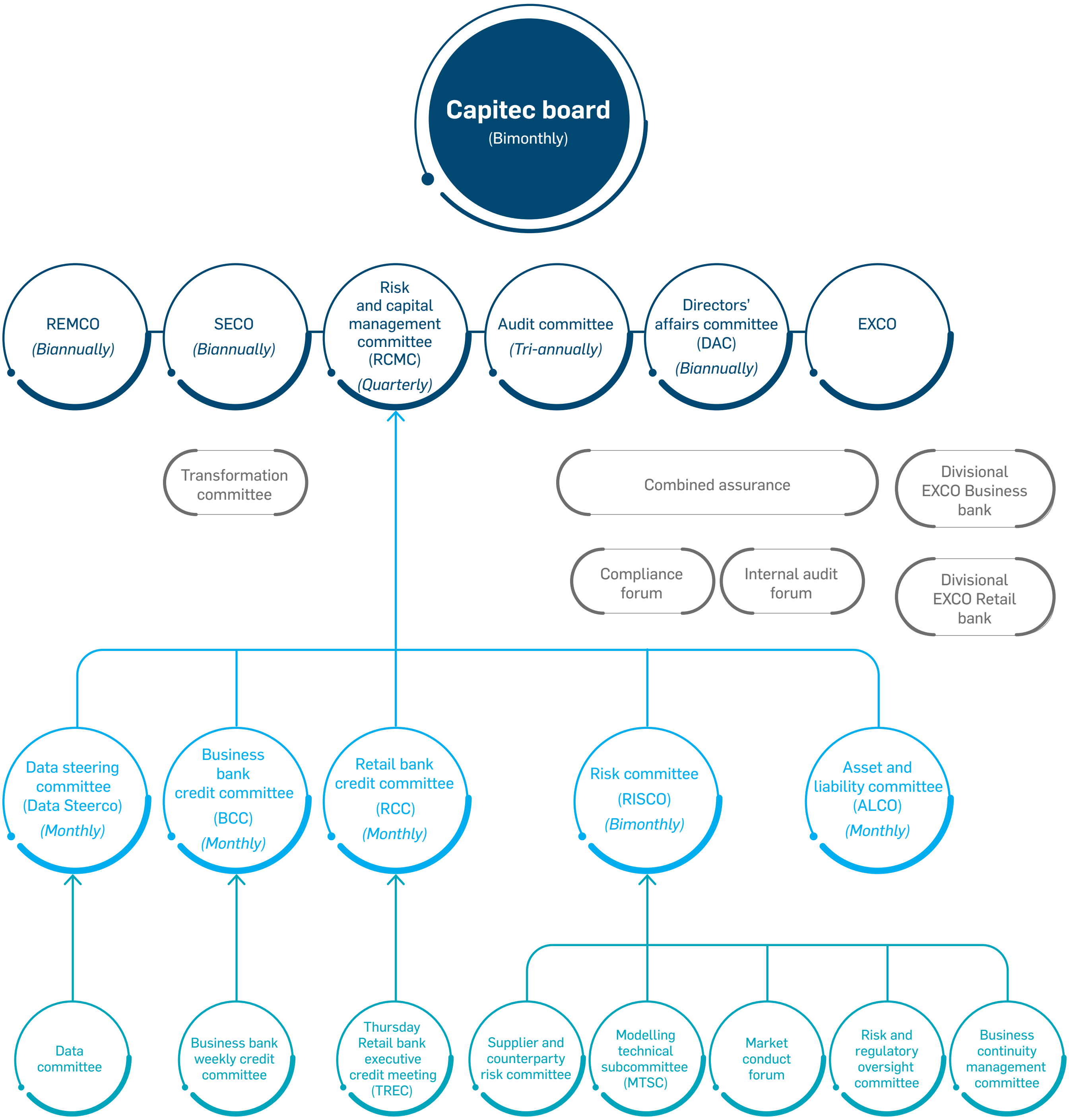
We conclude this section with our comprehensive **risk management report** **Page 94**

and **remuneration report** **Page 118**

environmental, social and corporate governance

Corporate governance

By living our principles of simplicity and transparency, we strengthen control and achieve sound corporate governance. This was particularly important in a year with all the abnormality caused by the COVID-19 pandemic.



> Our working environment demands high ethical standards and our rules apply equally to all, regardless of position. Ethical practices pervade our business dealings and our interactions with stakeholders.

- The directors of Capitec confirm that Capitec complied with the laws of establishment, Capitec's memorandum of incorporation and the Companies Act
- We applied the King IV principles, explained our arrangements on our website and made the related disclosures in this report
  The online register in the investor relations centre on **www.capitecbank.co.za** contains a summary and references
- Our risk management approach and arrangements are set out in the risk management report on page 94.

Maintaining an ethical culture

Our working environment demands high ethical standards and our rules apply equally to all, regardless of position. Ethical practices pervade our business dealings and our interactions with stakeholders.

Our code of ethics, supported by a range of policies that guide employees on ethical conduct, set common ethical standards to promote consistency in behaviour across all levels of employment. These policies are available on the company's intranet. Employees are encouraged to live out the Capitec Way behaviours: to act with energy, take ownership and put the client first. This is done by challenging upwards and downwards to ensure robust

The Capitec Way is to create ownership and use measurement to facilitate improved performance.

To strengthen our drive to improve people's financial lives and make banking better, we foster strong relationships with all contributing stakeholders.

decision-making and by reporting suspicious behaviour to management. Employees can also use Tip-offs Anonymous – the contact details are on the company's intranet.

The SECO monitors ethical behaviour by the company and its employees. No material ethical breaches were reported this year. The committee's report can be found on page 70.

Measuring good performance

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

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

Ensuring effective control

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

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

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

Maintaining legitimacy

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

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

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

The DAC is tasked with monitoring corporate governance. There were no material breaches during the year. The key focus for the past financial year was board succession planning with the aim to improve independence on the board.

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

Our board

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

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

- act in good faith towards the group
- avoid conflict between their other interests and the interests of the group
- place the interest of the group and its depositors above all other interests.

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

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

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

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

How the board functions

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

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

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

Our board-approved delegation of authority framework consists of charters and policies. Detailed roles and responsibilities, as well as

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

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

The board remains ultimately responsible for ensuring that its approved strategy is implemented, and that the group's purpose is fulfilled.

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

Board composition and diversity

We support the principle of diversity to enhance the board's perspective. The composition of the board is reviewed continuously by the DAC to facilitate an appropriately diverse board, including a relevant range of expertise, experience, industry knowledge, age, gender, race and culture. The DAC set the following targets for gender and race diversity in accordance with the board policy on the promotion of broader diversity in the 2021 financial year:

Number of employees attending courses	FY2021 Target %	Actual* %	FY2022 Target %
Race diversity	**35**	29	35
Gender diversity	**25**	21	25

* *With the retirement of Jock McKenzie in May 2021, the ratios will improve to 31% (race) and 23% (gender) respectively, supporting the board's objective of increased race and gender diversity on the board.*

Read more about the diversity in skills and experience of our board members in the profiles from page 62.

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

The board appointed Cora Hedwick Fernandez, Stanislaus (Stan) Alexander du Plessis and Vusumuzi (Vusi) Mahlangu during the year. Directors are appointed according to a policy that prescribes a transparent process. The DAC, under leadership of the chairman of the board, presides over board appointments. When specific skills are required, candidates are identified and recommended to the full board for endorsement. With the board's sanction, and subject to the PA not objecting to the appointment, the individual is approached, and subject to passing fit and proper assessments, formally appointed. Shareholders have the opportunity at the AGM, following the appointment of a new director, to endorse or veto the appointment.

The DAC considered the following attributes in its deliberation of the prospective nominations to the board in the past year: a need for business acumen and increased technical expertise such as risk management and chartered accountants. In addition, the board wished to appoint more women to the board and increase racial diversity. The appointments of Cora Hedwick Fernandez, Stan du Plessis and Vusi Mahlangu fulfil these attributes for appointment to the boards.

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

The board is satisfied that its composition reflects an appropriate mix of knowledge, skills, experience, diversity and culture, and that the board and its respective committees function effectively. The board nevertheless continuously reflects on its composition to ensure it has the required qualities to facilitate appropriate supervision.

Board performance and independence evaluations

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

The results of the assessment for the 2021 financial year indicated that the board may be further strengthened by increased race and gender diversity with due consideration of the size of the board. Institutional knowledge and increased technical knowledge to challenge risk reports will be considered. The board is satisfied that it continues to function well and that the evaluation contributes to continuous improvement of the board's performance and effectiveness.

The independence of non-executive directors and factors that may impair their independence are evaluated annually against a list of specified characteristics defining independence. The board is satisfied that the independence of Santie Botha, Emma Mashilwane, Danie Meintjes, Jean Pierre Verster, Stan du Plessis, Cora Hedwick Fernandez and Vusi Mahlangu is unfettered and there is no relationship or interest that affects their independence. Jock McKenzie has served the board for 9 years and from March 2021 will no longer be considered independent. He will retire from the board at the end of May 2021.

The Chairman

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

The Chief Executive Officer

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

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

The REMCO formally evaluates the performance of the CEO against agreed performance measures and targets at least annually. The REMCO oversees the succession planning for the CEO.

Company secretary

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

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

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

Board committees

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

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

Our leadership

Our leaders balance the need for sustainable growth with the well-being of our shareholders.

Non-executive directors

Michiel Scholtz du Pré le Roux (71) (Michiel)

BCom LLB, DCom (hc)

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

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

Petrus Johannes Mouton (44) (Piet)

BCom (Mathematics)

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

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

Chris Adriaan Otto (71) (Chris)

BCom LLB

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

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

Independent non-executive directors

Susan Louise Botha (56) (Santie)

BEcon (Hons)

Chairman of the boards and the DAC

Santie was appointed as the chairman of the boards of Capitec Holdings and Capitec Bank effective 1 June 2019. She served as an executive director of MTN Group (2003 to 2010) and Absa Bank (1996 to 2003). She was Chancellor of Nelson Mandela University from 2011 until 2017. She is currently the chairman of Curro Holdings and Famous Brands. Santie has received a number of awards, including Business Woman of the Year (2010) and Top 100 Most Reputable Africans (2018).

Santie was appointed to the boards of Capitec Holdings and Capitec Bank on 1 June 2019.

Stanislaus Alexander du Plessis (48) (Stan)

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

Chairman of the RCMC effective 1 March 2021

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

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

Cora Hedwick Fernandez (47) (Cora)

BCom, BCompt (Hons), CA(SA)

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

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

Vusumuzi Mahlangu (50) (Vusi)

BSc (Chemical Engineering), MBA

Lead independent director from 1 March 2021

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

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

Kabelo Makwane (44)

BCom

Kabelo served on the boards of Capitec Holdings and Capitec Bank from 6 April 2017 until 25 September 2020.

Thetele Emmarancia Mashilwane (45) (Emma)

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

Chairman of the SECO from 25 September 2020

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

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

John David McKenzie (74) (Jock)

BSc (Chemical Engineering), MA

Chairman of the RCMC and lead independent director[(1)]

Jock serves on the boards of a number of companies. He was the chairman and CEO of Caltex Petroleum Corporation until 2001. He was extensively involved in the merger of Caltex, Chevron and Texaco and was president – Asia, Middle East and Africa of Chevron-Texaco until 2004.

Since 2004, he has served as a consultant to the Energy Market Authority and Temasek Holdings in Singapore and acted as the chairman of the Commission of Inquiry into the Singapore Electricity and Gas Supply Systems. In South Africa, he has consulted for, among others, Sasol, the South African Petroleum Industry Association's investigation into the impact of the global economic crisis on the South African oil industry and other related topics. He currently serves on the board of Coronation Fund Managers and is the chairman of the Carleton Lloyd Educational Trust and the Rondebosch Schools Education Trust.

Jock was appointed to the boards of Capitec Holdings and Capitec Bank on 1 March 2012.

[(1)] *Jock had served as an independent non-executive director on the boards of Capitec Holdings and Capitec Bank for 9 years by the end of February 2021. From 1 March 2021, he is no longer deemed to be independent and therefore retired as chairman of the RCMC and lead independent director on 28 February 2021.*

Daniel Petrus Meintjes (64) (Danie)

BPL (Hons) (Industrial Psychology), AMP

Chairman of the REMCO

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

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

Jean Pierre Verster (40)

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

Chairman of the audit committee

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

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

Executive directors

Gerhardus Metselaar Fourie (57) (Gerrie)

BCom (Hons), MBA

CEO

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

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

André Pierre du Plessis (59) (André)

BCom (Hons), CA(SA)

CFO

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

André was appointed to the boards of Capitec Holdings and Capitec Bank on 2 May 2002.

Nkosana Samuel Mashiya (45) (Nkosana)

MCom (Economics)

Executive: risk management

Nkosana joined Capitec Bank on 1 November 2015. He was the deputy registrar of banks at the SARB from 2011. He was responsible for the policy framework to guide the prudential supervision and regulation of the financial conglomerates in South Africa since 2014 and was acting managing director of the Co-operative Banks Development Agency since 2011. Previously, he worked at the NT as chief director: international finance (2010 to 2011), chief director: financial sector development (2006 to 2010) and director: banking development (2002 to 2006).

Nkosana started his career as a lecturer at the University of Johannesburg (1998 to 2001). He later moved to the University of KwaZulu-Natal as a lecturer (2001 to 2002) before joining NT.

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

Company secretary

Yolande Mariana Mouton (54) (Yolande)

BSc (Hons), MSc

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

Group executive committee

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

Rizwana Butler (46)

BSocSc (Hons)

Executive: human resources

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

Willem de Bruyn (50) (Wim)

BSc (Hons) (Computer Science)

Executive: business development and technology

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

Karl Rainer Kumbier (49) (Karl)

BCompt, PGDA, CA(SA), CFA

Executive: Business bank

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

Hendrik Albertus Jacobus Lourens (55) (Henk)

BCom (Hons), CA(SA)

Executive: Retail bank

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

Francois Viviers (38)

BCom (Hons)

Executive: marketing and communications

Francois joined Capitec Bank as national brand manager in 2011. He served on the group EXCO as a development member during 2015. During 2015 and 2016, he fulfilled various positions at Capitec Bank, namely head: client relationship marketing and head: marketing and corporate affairs. He was appointed as executive: marketing and communications on 1 June 2016. Previously, he was marketing manager at Shoprite (Africa and Indian Ocean Islands) (2006 to 2011) and gained extensive experience as part of Shoprite's South African brand team (2005).

There are 2 development seats on the group EXCO to provide senior employees the opportunity to gain experience at an executive level. The incumbents rotate annually. The seats were filled by Thozama Ngqakayi, manager: complaint management and Jacqui Richardson, manager: project management office during the 2021 financial year. The development members for the 2022 financial year are Monique Palmieri, head: compliance and Blessing Mgaga, head: solutions delivery and academy, technology services.

Executives who retired during the year

André Olivier (53)

BCom (Hons), CA(SA)

Executive: business development

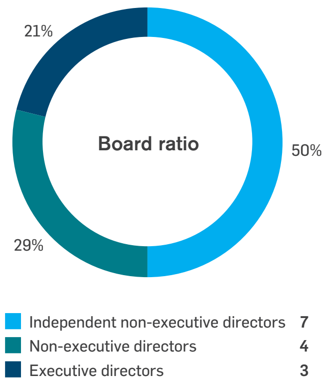
André joined Capitec Bank in 2000 and has been responsible for business development ever since. He was the financial risk manager at Boland PKS, after which he was head of operations for Pep Bank, in the bank's micro-lending division (1997 to 2000). He gained audit and business advisory experience with Arthur Andersen. Andre retired on 31 May 2020.

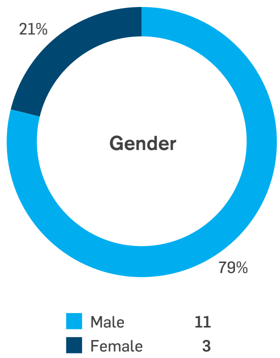
Leonardus Venter (59) (Leon)

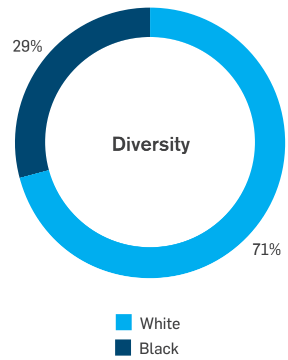
BA (Hons), MA (Industrial Psychology)

Executive: business support centre

Leon joined Capitec Bank as head of human resources (HR) in 2000. He was appointed as executive: business support centre in 2009. Previous positions include HR manager at Iridium Africa (1998 to 1999), manager of HR and support at Telkom SA (1993 to 1997) and area personnel manager at Iscor (1986 to 1992). Leon retired on 31 March 2020.







Attendance of board and committee meetings

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

	Board	Audit committee	DAC	RCMC	REMCO	SECO
Number of meetings	**7**	**3**	**2**	**4**	**4**	**2**
SL Botha	7	3[1]	2	4[1]	4	2[1]
AP du Plessis	7	3[1]	–	4	–	–
SA du Plessis[2]	3	2[1]	2	2	–	–
MS du Pré le Roux	7	3[1]	2	3[1]	4[1]	–
CH Fernandez[3]	3	1	2	1[1]	–	–
GM Fourie	7	3[1]	–	4[1]	4	–
V Mahlangu[4]	3	2[1]	2	2	–	–
K Makwane[5]	4	1	–	2[1]	–	1
TE Mashilwane[6]	6	3	2	3[1]	–	1
NS Mashiya	7	3[1]	–	4[1]	–	2
JD McKenzie	7	3	2	4	4	–
DP Meintjes	7	2[1]	2	2[1]	4	2
PJ Mouton	7	2[1]	2	4	–	–
CA Otto	7	3[1]	2	4	4	–
JP Verster	7	3	2	4	–	–

(1) *Attendance by invitation.*
(2) *Professor SA du Plessis was appointed to the board and as a member of the RCMC on 25 September 2020.*
(3) *Ms CH Fernandez was appointed to the board and as a member of the audit committee on 25 September 2020.*
(4) *Mr V Mahlangu was appointed to the board and as a member of the RCMC on 25 September 2020.*
(5) *Mr K Makwane resigned from the board on 25 September 2020.*
(6) *Ms TE Mashilwane was appointed to the board and as a member of the audit committee on 6 March 2020. Ms Mashilwane was appointed as the chairman of the SECO on 25 September 2020.*

Group executive committee

Composition

As per page 62 and the 2 annually elected development members

Quorum

At least 3 of the following:

CEO, CFO, executive: risk management, executive: Retail bank and executive: Business bank (quorum members) or replacement members as appointed by the group EXCO, subject to at least 2 being quorum members

Purpose

- Conducts operational decision-making
- Implements board-approved strategic decisions
- Conducts ongoing approvals of an administrative nature

Meeting frequency

Meets twice a week with an extended monthly meeting

2021/2022 focus areas

The building of the Business bank

Continued focus on:

- client experience
- client engagement
- credit excellence
- digital commerce

Audit committee

Composition	Purpose	2021/2022 focus areas
Independent non-executive directors ▪ JP Verster (chairman) ▪ SA du Plessis (from 1 March 2021) ▪ CH Fernandez (from 25 September 2020) ▪ K Makwane (until 5 March 2020) ▪ TE Mashilwane (from 6 March 2020) ▪ JD McKenzie (until 28 February 2021) **Management attendees** ▪ AP du Plessis ▪ GM Fourie ▪ NS Mashiya ▪ M Palmieri (compliance) ▪ D Flannery (internal audit) **By invitation** ▪ All directors ▪ External auditors **Quorum** At least 50%, but not fewer than 2 members	▪ Considers the combined assurance arrangements with a focus on internal audit, compliance and external audit ▪ Evaluates the adequacy and efficiency of the internal control systems and accounting practices, information systems and auditing processes applied within the group companies in the day-to-day management of the business ▪ Evaluates the going concern status of the group ▪ Considers the continuous independence of the external auditors ▪ Considers the integrity of the annual financial statements and the sustainability matters forming part of the integrated annual report ▪ Reports, dealing with the requisite disclosures in the annual financial statements ▪ Reviewed the annual financial statements for correctness and recommended these to the board for approval	▪ Assessing the continued effectiveness of the internal control environment, especially in the context of increased remote working arrangements ▪ Assessing the forward-looking assumptions used in financial reporting (in the context of heightened uncertainty regarding the future path of economic normalisation) ▪ Assessing the efficacy and efficiency of the internal audit function, post the restructure due to the Mercantile acquisition ▪ Governance of the compliance function (together with the RCMC), with a particular emphasis on the anti-money laundering framework ▪ Governance of the process of calculating and reporting regulatory capital levels, taking into account regulatory directives ▪ Monitoring the performance of the recently appointed second joint auditor, especially in the context of mandatory audit firm rotation effective 1 April 2023, which will necessitate the replacement of the first joint auditor ▪ Monitoring culture, adequate resourcing and succession in the finance function The audit committee is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

The audit committee's report for the year is on page 141.

Directors' affairs committee

Composition	Purpose	2021/2022 focus areas
▪ SL Botha (chairman) ▪ All non-executive and independent non-executive directors **Quorum** At least 50%	▪ Monitors the effectiveness of corporate governance ▪ Deals with matters relating to the nomination of new directors according to a board-approved policy ▪ Evaluation of the performance of the board and its committees	▪ Ongoing refinement of the corporate governance framework and processes ▪ Continued focus on board effectiveness and continuity The DAC is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

Human resources and remuneration committee

Composition	Purpose
Independent non-executive directors ▪ DP Meintjes (chairman) ▪ SL Botha ▪ V Mahlangu (from 28 May 2021) ▪ JD McKenzie (up to 28 May 2021) **Non-executive director** ▪ CA Otto **Management attendees** ▪ GM Fourie ▪ NST Motjuwadi **By invitation** ▪ MS du Pré le Roux **Quorum** At least 50%, but not fewer than 2 members	▪ Ensures that remuneration policies and practices are established in accordance with the provisions of the Banks Act and its regulations ▪ Ensures that practices are observed to attract and retain individuals to create sustainable value for all stakeholders The REMCO is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

Refer to the remuneration report on page 118 for more information on REMCO's activities.

Large exposures committee

Composition	Purpose
RCMC **Management** ▪ JE Carstens (divisional executive Retail: credit) ▪ GM Fourie ▪ NS Mashiya **Quorum** Majority of members **Frequency** Meets as required	▪ The committee approves credit exposures in excess of 10% of bank capital on an *ad hoc* basis, as may be required

Risk and capital management committee

Composition	Purpose	2021/2022 focus areas
Independent non-executive directors ▪ JD McKenzie (chairman) (until 28 February 2021) ▪ SA du Plessis (from 25 September 2020) (chairman from 1 March 2021) ▪ V Mahlangu (from 25 September 2020) ▪ JP Verster **Non-executive directors** ▪ PJ Mouton ▪ CA Otto **Executive director** ▪ AP du Plessis **Quorum** At least 50%, but not fewer than 2 members	▪ Assists the board in evaluating the adequacy and efficiency of the risk and capital management systems and processes and the significant risks facing the group ▪ Monitors that risk assessment is performed continuously ▪ The chairmen of the audit committee and the RCMC serve on the respective committees to facilitate increased effectiveness of the respective functions ▪ Monitors risk management in the group	Continued focus on: ▪ credit risk ▪ integration of Mercantile and establishment of the Business bank ▪ impact of COVID-19-related regulatory changes ▪ cybersecurity The RCMC is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

Refer to the risk management report on page 94 for more information on Capitec's risk management.

Social and ethics committee

Composition	Purpose	2021/2022 focus areas
Independent non-executive directors ▪ K Makwane (chairman until 25 September 2020) ▪ TE Mashilwane (chairman from 25 September 2020) ▪ DP Meintjes ▪ NS Mashiya **Management attendees** ▪ R Butler ▪ N Khoza ▪ YM Mouton ▪ R Wentzel **Quorum** At least 50%, but not fewer than 2 members	▪ Monitors activities relating to social and economic development, good corporate citizenship and the environment to promote the collective well-being of society, thereby facilitating the sustainable growth of the group ▪ Tracks the impact of the group's activities and service, with specific focus on client and employee relations	▪ Transformation ▪ Climate change risk framework The SECO is satisfied that it has fulfilled its responsibilities in accordance with its charter for the year.

Refer to the SECO's report on page 70 for SECO's contribution.

Social and ethics committee report

The SECO monitors the group's activities in:

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

The committee functions within the scope of an annually reviewed board-approved charter and meets twice a year.

The members of the SECO are:

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

Read more about the committee members' qualifications and experience in their profiles on pages 63 and 64.

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

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

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

Refer to page 72 where we explain how we support the intent of the UN SDGs.

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

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

Emma Mashilwane
Chairman of the SECO

13 April 2021

Group activities monitored during the year

Social and economic development	Our fundamentals and values – pages 35 to 37 Human rights – page 90 Zero tolerance for fraud and corruption – page 104 Employment equity – pages 78 to 80 Broad-based black economic empowerment (B-BBEE) – page 90
Good corporate citizenship	Social responsibility – pages 86 to 90 Our business model – pages 38 and 39 Our awards – page 45
Environment, health and public safety and the impact of the company's activities and of its products and services	Pages 72 to 73; 91 to 93
Consumer relations and commitment to consumer protection laws	Pages 30 and 105 The committee is satisfied that appropriate systems and internal controls are in place to facilitate compliance with relevant legislation and prevailing codes of best practice.
Labour and employment	Pages 74 to 85

Capitec demands a high standard of ethical conduct in its business practices and its dealings with stakeholders.

Delivering on the UN SDGs

We support the intent of the UN SDGs, with specific focus on South Africa.

Our contribution

We identified 5 SDGs where we believe we can have the most meaningful impact.

End poverty

10% of the world's population live in extreme poverty and struggle to fulfil their most basic needs related to health, education and access to water and sanitation.

Having a job does not guarantee a decent living, with many employed workers and their families also living in extreme poverty. This affects children disproportionately and calls for social protection for all vulnerable groups.

Our contribution to ending poverty focuses on social investment initiatives that address financial inclusion and education. We target students, employees and special interest groups. Our emphasis is on personalised and relevant content and tools to help them make better financial decisions.

Read more in the section about our society and communities from page 86.

Promote inclusive, quality education and lifelong learning for all

Obtaining a quality education is the foundation for creating sustainable development. In addition to improving quality of life, access to inclusive education can help equip people with the tools required to develop innovative solutions to the world's greatest problems.

In the past decade, progress has been made towards increasing access to education at all levels and basic literacy skills have improved, yet bolder efforts are needed to make even greater strides for achieving universal education goals.

The Capitec Foundation contributes to a brighter future for young South Africans by upskilling them with the necessary numeracy and financial life skills to manage their financial lives. This enables them to get access to tertiary studies and bring long-term change to their respective communities and the country as a whole. We are committed to playing an active role in addressing the financial literacy and numeracy challenges in South Africa.

Read more in the section about our society and communities from page 86.

5 GENDER EQUALITY

Contribute to empowering women and girls

South Africa is considered one of the most unequal societies in the world and has some of the highest levels of gender-based violence. Despite the fact that employment opportunities for poor women are historically limited, we have more female than male-headed households.

The Capitec Foundation supports organisations that are actively involved in having a long-term, positive impact on the care for and support of abused and neglected women and children with once-off donations.

Read more in the section about our society and communities from page 86.

We support gender equality by promoting diversity and inclusivity in the workplace.

Read more in the section about our employees from page 74.

8 DECENT WORK AND ECONOMIC GROWTH

Promote inclusive and sustainable economic growth, employment and decent work for all

Sustainable economic growth will require societies to create the conditions that allow people to have quality jobs that stimulate the economy while not harming the environment. Job opportunities and decent working conditions are also required for the whole working age population. There needs to be increased access to financial services. Increased commitment to trade, banking and agriculture infrastructure is required to help increase productivity and reduce unemployment levels.

We create employment and help clients live better financial lives. We offer a safe and healthy work environment and have a culture that promotes diversity, inclusivity and personal development. We remunerate fairly and invest in young talent.

Read more in the section about our employees from page 74.

10 REDUCED INEQUALITIES

Promote the social, economic and political inclusion of all

Income inequality has increased nearly everywhere in recent decades, but at different speeds. As a global problem it requires sound policies to empower lower income earners, and promote economic inclusion of all regardless of gender, race or ethnicity.

In South Africa, the challenges of poverty, inequality and unemployment have remained the overriding concern of South Africa's development policies and programmes.

We contribute to social and economic empowerment through our commitment to B-BBEE as a corporate responsibility and a uniquely South African challenge. We adhere to the requirements of the amended Financial Sector Code (FSC), which actively promotes a transformed and globally competitive financial sector.

Read more about our B-BBEE scorecard on page 90.

Developing our employees

93%

of employees are from designated groups[1]

78%

of our workforce is 35 years and younger

616

increase in employees

28 years

average age of new appointments

32.5%[2]

South Africa's unemployment rate

41.8%[2]

Youth unemployment

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

[2] *Quarterly Labour Force Survey: Quarter 4 2020, Statistics South Africa.*

Our business relies on employees who are able to deliver on our strategic objectives by upholding our values.

Employment challenges in our operating environment

People working for financial institutions all over the world are facing employment challenges: they need to develop digital skills, choose from a variety of employment agreements and be able to manage change and complexity on many levels. To attract employees, employers, in turn, have to offer integrated employee experiences that mirror what they are offering clients. Organisations also have to demonstrate the kind of leadership that brings transformation and builds trust.

Some of the South African challenges that affect our clients and employees are the COVID-19 pandemic, high levels of unemployment, transport costs and crime.

Our own challenges within the South African context include specific employee-related matters such as:

- continuously attracting scarce skills, remaining relevant when competing for and signing on sought-after talent
- external financial stresses on employees in the increasingly challenging economic environment
- providing and maturing leadership and management skills
- adaptability to changing circumstances.

As an employer, we improve South Africa's employment situation by:

- creating job opportunities
- focusing our recruitment on young people who need to gain work experience and build their skills
- offering job security to a younger demographic that is exposed to higher unemployment rates
- providing learning and development for employees
- offering career opportunities and reward strategies that are aligned to what employees value.

Our employment profile and approach

In our branches, we prioritise employing a younger profile from surrounding communities. We appoint people for their potential as we take responsibility for providing appropriate learning and development opportunities. This approach means that we offer jobs where they are most needed: for young people and in areas where the real unemployment rate is higher than the national average. We also drive a branch employee profile that is aligned to the local demographic of each branch. This supports our commitment to employment equity and diversity in our workforce profile.

> We appoint people for their potential as we take responsibility for providing appropriate learning and development opportunities.

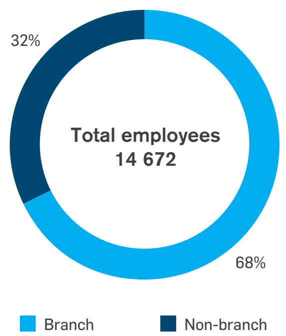
Our approach to the COVID-19 pandemic

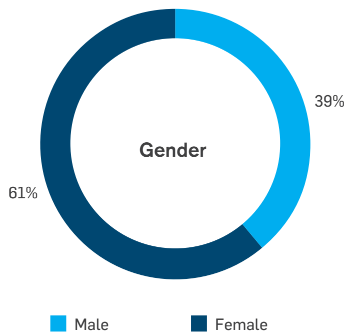
We kept a close eye on developing risks in our operating environment. When it became clear that the pandemic would potentially impact our clients, employees and business, we set up a task team to evaluate the situation daily and take appropriate action. This continual review of all information and adjustment to changing circumstances will remain our approach.

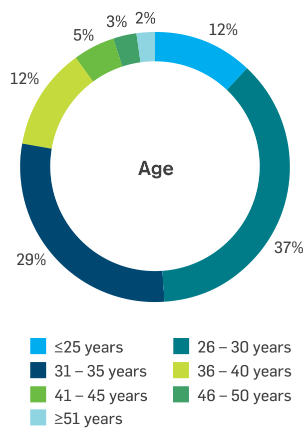
Our foremost priority during the pandemic is the preservation of life and livelihoods of our employees, clients and other stakeholders. Some of the steps we took were as follows:

- We reviewed policies, processes, procedures and practices to enable us to respond rapidly as new information came to light
- We introduced the necessary protocols and materials to protect our employees and clients. This included practical and technological solutions rapidly and pragmatically introduced to, for example, enable high-traffic touchless biometric access control that also enforced COVID-19 protocols
- We rallied our employees to confidentially declare any co-morbidities. This was evaluated in the context of their role. Where risks were identified, they were mitigated through, for example, redeployment or working from home
- Almost all our support teams were enabled and asked to work from home

EMPLOYMENT PROFILE AND APPROACH (%)







61%

of employees are female

91%

of participants in Banking Sector Education and Training Authority (BANKSETA) learnerships are from designated groups and 67% are female

100%

of our graduate development programme participants are from designated groups and 40% are female

81%

of internal bursaries for tertiary studies are awarded to designated groups and 63% are female

> Our foremost priority during the pandemic is the preservation of life and livelihoods of our employees, clients and other stakeholders.

- For individuals who could not work from home due to personal circumstances, we adapted the space made available at our regional offices to enable them to work there while remaining suitably socially distanced
- We converted our key training programmes to a digital and virtual methodology to ensure that employees remained capable of executing their responsibilities
- During the highest lockdown levels:
  - we carefully selected branches to close in a way that would create the least disruption for our clients
  - we converted these branches and prepared their teams to assist with the growing demand at our call centres
  - where necessary, client-facing employees were rotated to working 1 week facing clients and spending 1 week at home

- Where the business demand changed or an individual's work couldn't continue due to the pandemic, we followed a talent optimisation process to redeploy them to support other areas of the business that experienced an increase in work demand
  - We purposefully created lateral exposure opportunities while ensuring gainful employment was maintained
  - At its peak, we had 302 employees just from the in-branch Retail bank environment redeployed to various divisions including client care, collections, direct loans, marketing, risk, IT, interbank, complaints and central verification
- All non-critical vacant positions were frozen until further notice, although we ensured that critical positions were recruited through virtual methodologies and approaches
- Of all appointments made, a higher proportion were from internal candidates (53%), compared to the previous financial year (43%).

Various remuneration adjustments were made to account for the impact of the pandemic on both the business and employees, although all employees continued to receive their full salary without any Temporary Employee/Employer Relief Scheme (TERS) claim being necessary. For more information on remuneration, see the remuneration report on page 118.

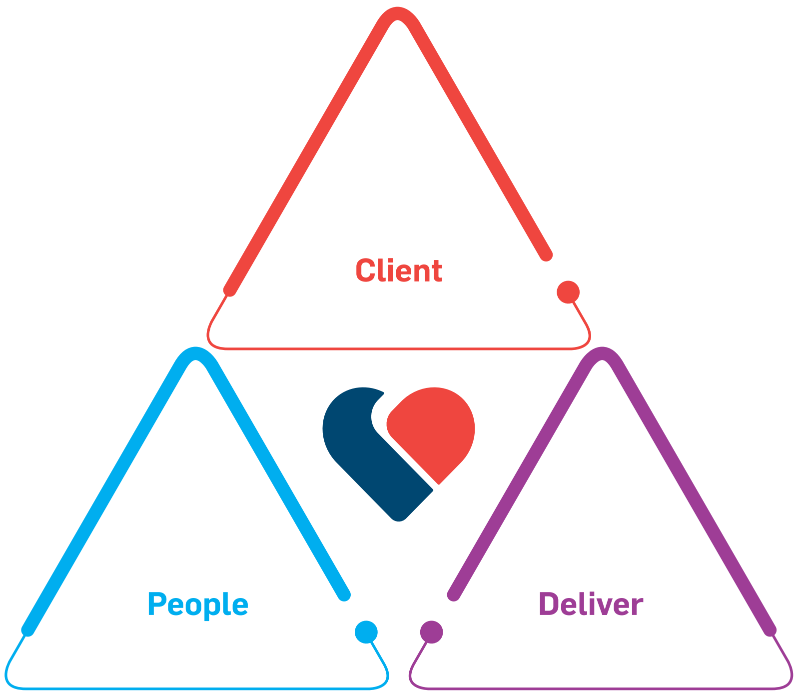
Our existing employee benefit suite proved its worth during this time, including our wellness, leave, healthcare, disability and group life benefits.

Our human resources operating model

The HR operating model includes:

- strategic consultancy to top management through our HR business partners
- employee and candidate services through our HR shared services
- HR functional expertise provided by centres of excellence.

This is enabled by technology. We rolled out an HR management system to shared services and Retail bank to track, manage and support employees from their first point of contact with us. This end-to-end solution includes performance management and integration with the learning management system and our payroll solution. The system will be rolled out to Business bank in the next year.



We monitored developing risks in our operating environment. When it became clear that the pandemic would potentially impact our clients, employees and business, we set up a task team to evaluate the situation daily and take appropriate action.

Capitec culture – unlocking potential in people and business

We believe in our people's willingness and potential to make a meaningful contribution to our sustainable growth and success. We aim to unlock our people's potential. We therefore engage with them with a sincere desire to understand what they need and want, to ensure motivation, engagement and commitment.

This year, we have continued a distinctive culture built on People, Deliver and Client. These 3 pillars run deep in our DNA – so deep that we refer to them as our culture anchors. They hold our culture in place. At the heart of our culture are passionate people who deliver consistently on our clients' needs.

What makes our culture unique is the fact that we don't view our culture anchors as being static or equal. We see them as dynamic and ever-changing, but totally dependent on one another. We believe our leaders are the custodians and the curators of our culture. We are passionate about continuously balancing and integrating these 3 anchors to find the sweet spot. Capitec leaders care and therefore inspire, empower and develop the teams they lead, enabling cohesive, high-performing teams.

We believe these behaviours will bring together all the aspects of 'smart' (what we do) and 'healthy' (how we do it) within the context of our culture. This will create an environment of organisational health. If carefully nurtured, this environment will give us a distinctive and sustained competitive advantage for many years to come. 24 virtual interactive sessions, reaching 14 790 viewers, were rolled out to various target audiences ranging from leadership to the entire organisation linking to the 3 anchors or our culture.

61%

of our management learning participants are from designated groups and 39% are female

100%

of our external bursars are from designated groups and 71% are female

Diversity and inclusivity

We exist and operate in a diverse and dynamic country with endless opportunities. The Capitec culture framework shapes an inclusive environment which is conducive for a diverse group of employees.

We launched a diversity and inclusivity initiative as part of the Capitec culture-shaping journey. We continuously re-evaluate what is serving our people and clients well, and what is not.

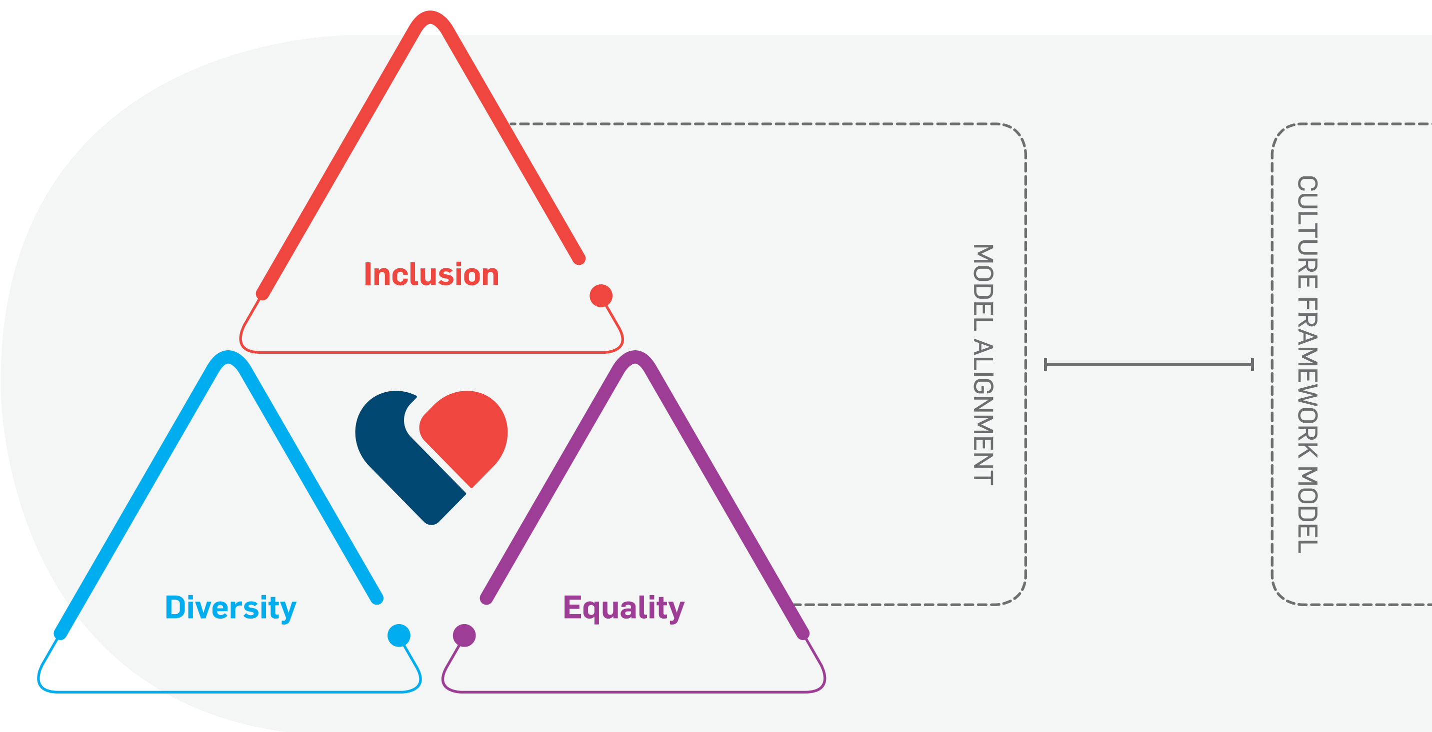
Diversity and inclusion only gain traction when our leaders lead by example. We invest in our people leaders through awareness and education sessions, which are the foundation blocks for transformation.

These investments will cascade to all individual contributors in due course, as true progress will require collective effort and insight.

We emphasise the benefits of diversity among our employees. We support this by maintaining a fair and equitable work environment.

We believe that the combination of diversity (acknowledging visible and invisible differences) and inclusion (the quality of the organisational environment) brings competitive advantage. It delivers high levels of employee collaboration, retention, engagement and morale.

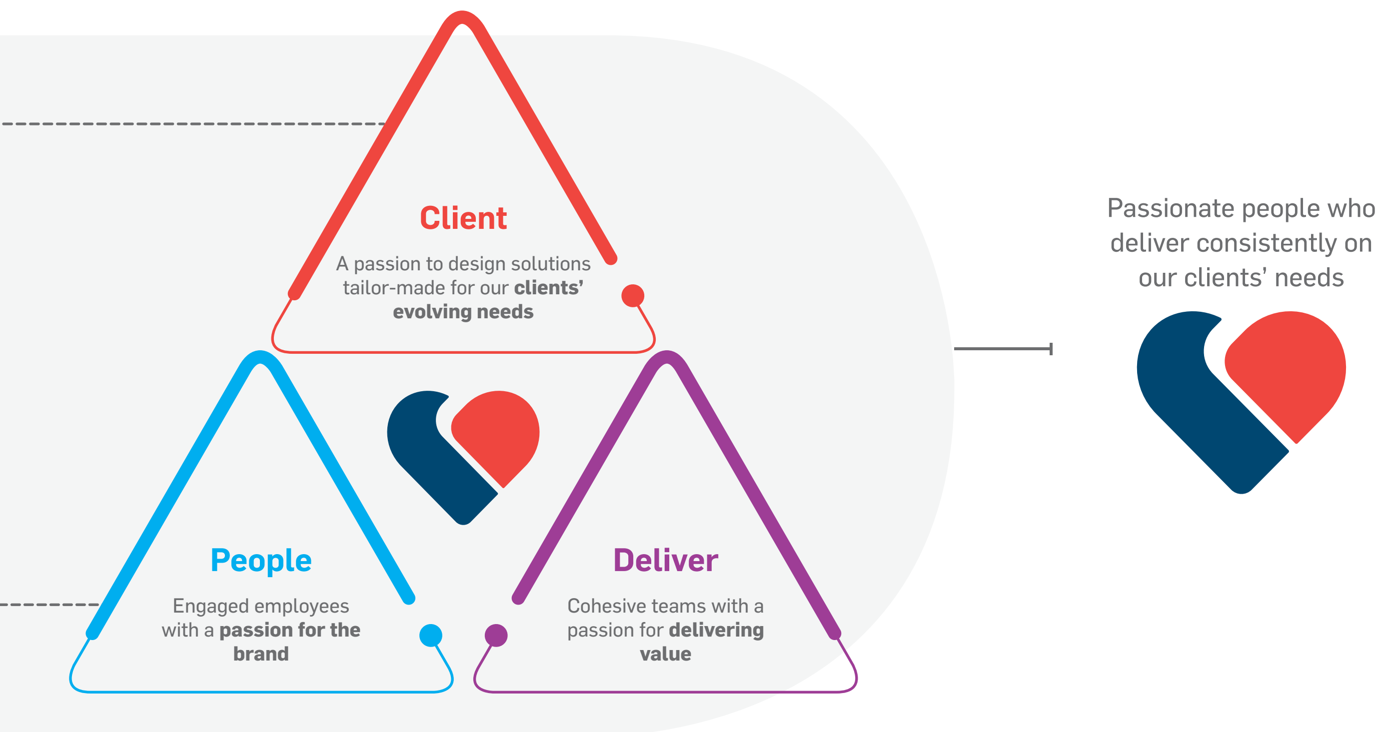
Equality, diversity and inclusion awareness model



Workforce profile

Occupational levels	Male				Female				Foreign nationals		Total
	African	Coloured	Indian/ Asian	White	African	Coloured	Indian/ Asian	White	Male	Female	
Top management	1	–	–	5	–	–	–	–	–	–	6
Senior management	5	3	2	47	2	2	3	11	–	–	75
Professionally qualified and experienced specialists and mid-management	90	77	31	343	56	43	21	123	10	2	796
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	523	324	83	332	897	368	70	239	5	4	2 845
Semi-skilled and discretionary decision-making	2 516	752	122	211	5 050	1 307	153	235	–	7	10 353
Total permanent employees	**3 135**	**1 156**	**238**	**938**	**6 005**	**1 720**	**247**	**608**	**15**	**13**	**14 075**
Percentage of total	22	8	2	7	43	12	2	4	–	–	100

* *Data as per the equity report submitted to the Department of Labour for the period December 2019 to November 2020, as per the department's statutory requirements.*



The workforce profile is a snapshot of our employees across occupational levels, gender and equity groups as prescribed by the Department of Labour in the Employment Equity Act, Act 55 of 1998.

Our diversity at mid and senior management level show year-on-year improvements, but remains challenging. Further improvement is a priority. These challenges are exacerbated by aspects particular to these positions such as their job location, scarcity of specialist skills and low staff turnover. We address these challenges through a variety of people initiatives highlighted in the sections below.

Having identified the drivers for diversity and inclusivity, we developed a plan to manage our diversity pipeline from pre-employment. Drivers include the external bursary programme, the graduate development programme, targeted equity learnerships and our internal bursary programme. Through appropriate selection, support and mentoring, we will be able to strengthen our future diversity.

We are committed to appointing diverse candidates, particularly at middle to senior management levels, by developing young graduate pipelines and focusing on succession planning:

- We review and confirm intake and equity targets for external and internal talent pipelines annually
- We build purposeful partnerships with educational institutions and focus sponsorship programmes nationally
- We proactively engage with designated students that study towards qualifications that are aligned with our scarce and critical skills
- Our graduate development programme identifies, develops and retains young equity leadership talent.

Our employee value proposition (EVP) – being my best

To help me be **my best**, Capitec **offers value** by encouraging my involvement in our organisation, creating cohesive teams, providing growth opportunities, employee benefits and savings.

As a valued employee:

Employee value proposition

We know there is a direct correlation between a great employee experience and a great client experience. The Capitec culture framework shapes our culture towards passionate people who deliver consistently on our clients' needs.

Our people philosophy is rooted in our passion for client-centricity, the belief that people are at the core of our business, our drive for results, our entrepreneurial spirit and an HR offering that is sophisticated in its simplicity. We want employees to gain value from their employment. Our EVP constitutes a mix of benefits and ways of working.

Our employees strive to offer their best by behaving like a CEO in every situation (putting the client first, acting with energy and owning the interaction). In return, we offer value to our employees to support them in being their best.

Our future focus is to embed the EVP further and to ensure that culture, technology and space creates optimal employee engagement and experiences.

We ensure similar employee experiences across all branches – in the same way that clients enjoy a single product and a consistent service experience. An example of this culture is how we put employees in control of their own earnings. They are guided on package structuring but have options that they can adapt to their unique circumstances.

We offer a wide range of employee benefit programmes, including:

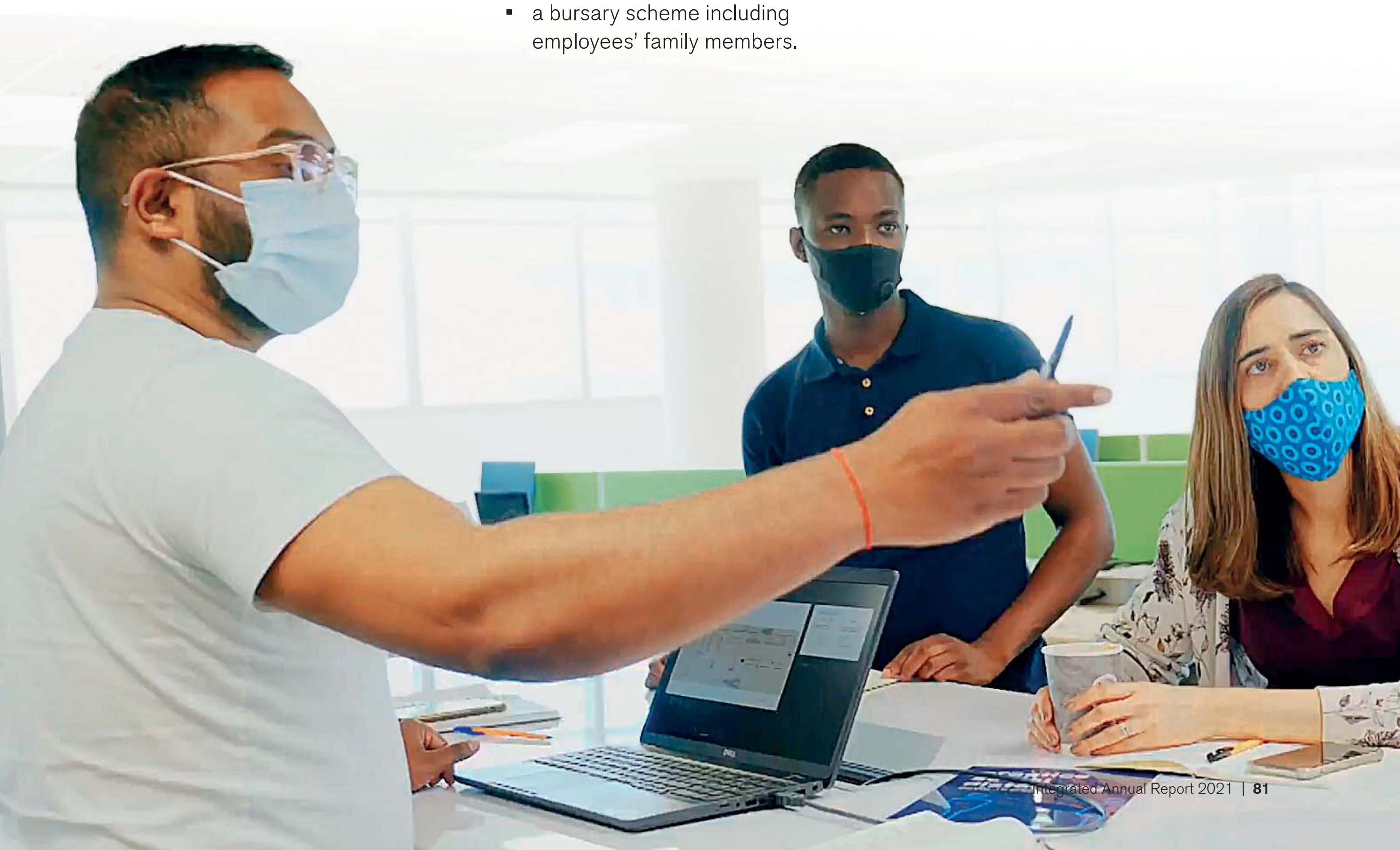
- an employee wellness programme (also extended to family members)
- risk benefits (life, capital and temporary disability cover)
- funeral cover
- medical aid and health insurance
- gap cover
- retirement planning
- free remote banking
- discounts on loan interest
- a bursary scheme including employees' family members.

Employee relationships with line management

Line managers are responsible for people practices throughout the employee journey. This is consistent with our open culture and flat structure. Employees engage and develop their talent when there is a healthy relationship between line managers and the employees who report to them. Good working relationships ensure that both parties take responsibility for their actions and performance.

Our employee relations approach includes the following:

- Proactively encouraging 2-way communication across all levels
- Employee-related policies, including (but not limited to) disciplinary, grievance and sexual harassment policies
- Communicating our policies to employees to provide clarity and guidance
- Continuous monitoring to ensure compliance with applicable legislation.



This approach ensures that employees experience transparency and fairness in their engagement with the business. We respect confidentiality but are open about processes and requirements. This contributed to the fact that there was no loss of working hours due to industrial action this year.

Capitec and SASBO – The Finance Union entered into a recognition agreement where all organisational rights were afforded to the union. These provide for deductions of union subscriptions, access to the workplace, leave for trade union activities, the right to access certain information and the election of union representatives in the workplace. We have also agreed on a collective bargaining process where the parties will negotiate collectively in respect of matters of mutual interest affecting the union's members within the bargaining unit in the negotiation and consulting forum.

Talent acquisition

To remain competitive, we need to attract employees who have the appropriate skills, experience, values and diversity required by our business model and strategy. Although the majority of vacancies were put on hold during the initial COVID-19 lockdown period, Capitec proceeded to appoint 954 new external employees in vacant or new job opportunities. In addition, Capitec had a proportionately higher percentage of internal appointments (53%) out of total appointments made for the year, compared to the previous year (43%). Altogether, 21% required information technology (IT) or data science skills. Certain IT and data science skills have become highly sought-after owing to Capitec's strategic and competitive positioning. We adapt our sourcing and acquisition approach to the required skills segments in the market to reach, engage and sell our opportunities to these sought-after candidates.

We use job-specific sourcing and selection strategies that best suit the nature of the talent we seek for each position, rather than following a single-channel approach. In large areas of the business, including the entry level, this translates to hiring for potential and training for competence. In more specialised areas, we hire experienced and competent employees.

We aim to make appointments that will support the bank of the future, in line with the right combination of skills required. Our recruitment process includes a holistic assessment of candidates to determine the fit in terms of the position, our service model and our values.

Talent retention

We want to identify and develop suitable and motivated employees who are able to be considered for future senior leadership positions. This forms part of our retention and succession planning.

We are committed to the development of employees from within. This ensures that we can retain talented employees and continue growing our business and delivering services. To manage talent retention, we use robust talent metrics, diagnostics and performance review discussions.

We limit human capital risks by analysing employee data, predicting and managing succession needs and identifying opportunities for talent development.

Retention challenges are:

- our uniquely young employee profile
- the high mobility of suitable employment equity candidates in the general market
- the competition for sought-after skills in the industry (such as technology and data science skills).

We continue addressing retention challenges by offering internal development and career path opportunities. At the same time, we are investing in graduate development and learnerships to expand the pool of available candidates.

We also employ our flat hierarchy structure to create exposure opportunities not available in other companies. This is often cited by employees as a meaningful retention factor.

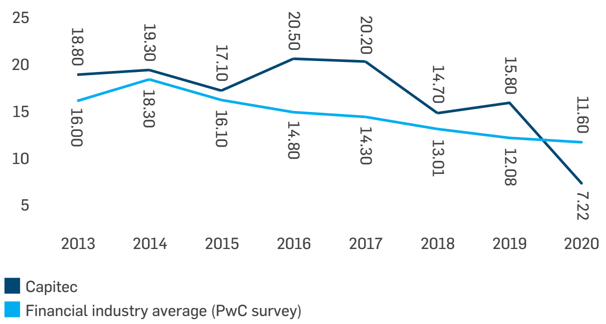
Succession planning is a challenging aspect of retention in a business environment in which there are low levels of retirement and turnover in senior positions. Succession candidates are identified and assessed in terms of potential and technical skills. We have created structured opportunities for exposure and integration. Specific senior positions have been earmarked for potential equity appointments.

All executives, including the CEO, have a 3-month notice period in place, supported by succession plans and associated supporting programmes.

We track employee turnover in comparison to the financial services industry average, as supplied by REMchannel® in their salary and wage movement survey results. Although we consider this figure as our upper limit, we aim to continuously improve our relative rate.

The graph below illustrates that the employee turnover levels are consistently low and dipped considerably this past year.

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



Turnover figures stated are calculated as total separations for the calendar year divided by the total number of employees at the end of the calendar year, to enable comparison with financial industry turnover figures over the same period.

Our employee tenure profile reflects a rapidly growing business. Although tenures have been increasing, the biggest contributor to the jump in 2021 was the inclusion of long-tenured Business bank employees.

Tenure (years)	2021 %	2020 %
<3	**38**	49
4 – 6	**31**	26
7 – 9	**17**	15
10 – 12	**8**	6
13 – 15	**3**	2
16 – 22	**3**	2

Talent development

Our talent development strategy is centred on transforming the business into a learning organisation where all employees are empowered to unlock their potential. This is a team effort involving HR, line management and employees.

The design and delivery of formal learning programmes involves senior management to ensure that programmes meet business objectives. Informal learning has become more prominent and is supported by our digital learning strategy.

This ensures that we meet our service objectives and fundamentals in terms of new products, services and legislative requirements. It allows us to adapt talent development in response to changing client needs and creates closer alignment between learning and business requirements.

> We measure learning effectiveness through learner satisfaction, knowledge, skills retention and the application of learning in the workplace.

Formal learning measured

Number of employees attending courses	2021	2020	2019
Induction/on-boarding	**794**	2 555	2 361
Functional/technical	**1 704**	1 695	1 767
Management and leadership	**586**	2 463	4 810
Compliance	**284**	828	1 068

Number of completed digital learning courses	2021	2020*	2019
Induction/on-boarding	**13 548**	5 013	9 795
Functional/technical	**23 203**	26 393	24 108
Management and leadership	**868**	1 782	1 789
Compliance	**14 369**	16 354	14 018

* *In our 2020 integrated annual report, learning activities were reflected. In this year's report, these were converted back to learning courses.*

During the reporting year, we had to adjust our learning approach significantly in response to the impact of COVID-19 on our business and society at large. Almost all face-to-face courses were cancelled and substituted by digital and virtual learning courses. Despite these challenges, we achieved the following:

- Sourced an executive development programme in partnership with a global corporate education institution to develop high-potential senior leaders to ensure future-fits talent pipelines are developed and succession requirements are met
- Continued to develop great leaders by investing in innovative, ongoing leadership development opportunities. This included developing leaders to enable team cohesion, to enhance our ability to achieve business goals, improve employee engagement levels and continue shaping the organisational culture
- Enhanced our digital learning strategy, including online resources, advanced learning technologies and the use of business tools like Microsoft Teams. This strategy was largely accelerated given our COVID-19 realities and enabled employees to learn remotely
- Implemented capability academies in selected business areas to ensure a consistent pipeline of key capabilities in the business
- Expanded our formal education offerings by cementing our existing learnership and bursary programmes, while introducing an occupationally directed BCom degree in our operations business area.

Future priorities

Priorities for the next year include:

- implementing an executive development programme to meet succession requirements as well as ongoing leadership development for senior leaders, managers and specialists
- continuing to enable leaders at all levels to lead cohesive teams and shape our organisational culture. This will include the redesign of the organisational on-boarding programme to embed our culture and igniting the hearts and minds to be passionate about delivering on our clients' needs
- augmenting our learning experience with mobile learning and other business technologies to continue the good momentum with our digital learning strategy
- striving to continue delivering world-class functional development of our employees. This will include the redesign of our Firm Foundations programme as well as expanding our capability academies in selected business areas
- implementing a multi-skilling programme to support the business' objective of optimising its talent capacity and to enable a more flexible workforce
- implementing a key capabilities programme to support the development of scarce and critical skills in the business.

Talent management

Our talent management strategy integrates practices to attract, engage, inspire, develop and retain critical people to build an organisation-wide competitive advantage. The talent management strategy aligns our activities to the longer-term strategic objectives. Activities include the proactive identification and optimisation of key pipelines, key critical jobs and resources and career paths that lead to these roles. We develop cross-functional specialist and management capability to ensure we can fill succession gaps. By building and continuously improving line management capability, we ensure that they drive and own talent and succession management as part of their management responsibility. These are included as a key performance assessment indicator in all managerial performance agreements.

External talent initiatives

The external bursary and sponsorship programmes support our long-term external talent pipelines. We aim to attract suitably qualified equity candidates for scarce and critical roles, including business development and technology, credit management and financial management. In the 2020 academic year, we supported 24 students, 14 of whom became our employees in 2021.

We supply funding options for the external young talent pipeline through strategic sponsorship opportunities. These support the continued identification of young talent for the business. For the 2020 academic year, 14 young people (100% designated) were sponsored through the MAD (Make a Difference) Leadership Foundation. We continued engaging with them during the year to determine potential future placement within the business.

Internal talent initiatives

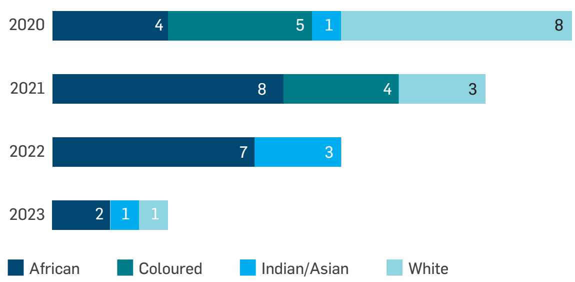
A graduate development programme supports the diversification of our management profile. 6 graduates successfully completed the programme and entered the business in 2020. There are currently 15 graduates that have joined us via the programme, including 11 graduates finalising their rotation in 2020. Another 4 joined us in early 2021. The graduates are 40% female and all are from designated groups.

We continued with the identification of future internal talent as part of our succession management. This talent pool includes leaders across all divisions as well as graduates who successfully completed their 18-month graduate programme. We consistently increased our number of female leaders as well as employment equity employees to ensure that we develop a diverse range of leaders. We also included a fair number of young leaders (employees under 35 years in age) that we can fast-track and develop for senior leadership positions.

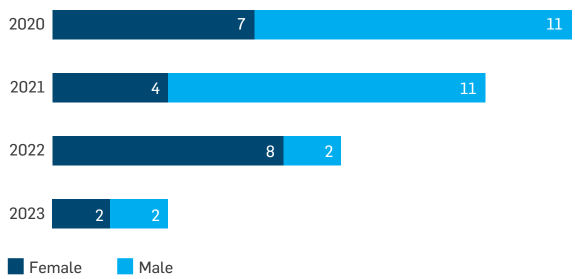
Systems and efficiency

The implementation of SAP: SuccessFactors, our employee performance portal, was successfully completed in 2020. Further improvements and embedding practices to achieve a 30% increase in throughput was initiated and will be completed in 2022. The implementation will be extended to the Business bank in 2022.

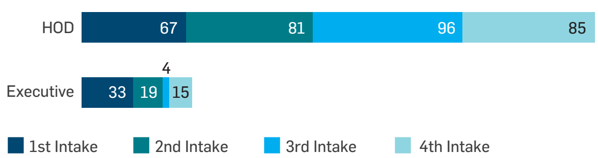
EXTERNAL TALENT PIPELINE DEPTH PER YEAR (RACE DIVERSITY)



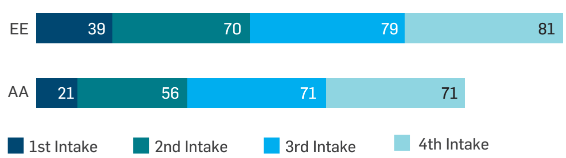
EXTERNAL TALENT PIPELINE DEPTH PER YEAR (GENDER DIVERSITY)



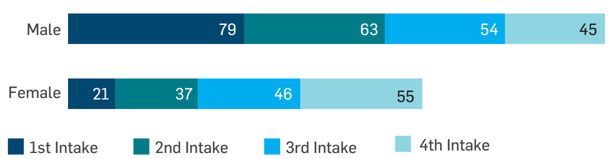
FUTURE-FIT LEADERS: NOMINATION DISTRIBUTION INTAKE 1 TO 4 (%)



FUTURE-FIT LEADERS: RACE DIVERSITY (%)



FUTURE-FIT LEADERS: GENDER DIVERSITY (%)



Contributing to our society and communities

We are committed to playing an active role in addressing the financial literacy and numeracy challenges in South Africa. This aligns to our purpose to enable people to improve their financial lives. We encourage community support through the Capitec employee volunteer programme.

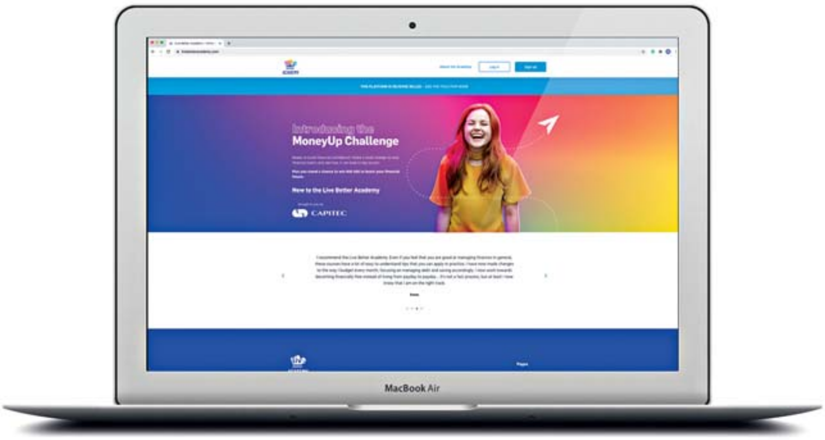
Consumer financial education

We deliver innovative financial education solutions to a diverse audience, including our clients, employees and target beneficiary groups.

Our objectives are:

1. to provide people with information, tools and strategies to become financially capable
2. enabling them to make decisions that will improve their financial lives.

During the past year, we had to be agile in the execution of our financial education programmes and initiatives, and shift to near exclusive digital delivery as a result of COVID-19. We were well positioned for this as 2 of our main programmes, Livin' it Up and the Live Better Academy, are digital solutions.



Live Better Academy

Our online financial education platform was launched to our employees in April 2020, followed by a limited client launch in June 2020 and a public launch in September 2020. The platform offers a series of 4 courses, structured in bite-sized learning modules. The courses cover essential concepts, strategies and tools to become financially healthy and include practical guides for budgeting, managing credit and debt and saving. To increase user accessibility, the platform has been reverse-billed since October 2020. More than 75 000 learners have registered since the platform's launch. We continuously re-engage users through data-driven communication strategies. A total of 16 884 users (22%) have completed at least 1 of the 4 courses. We commissioned the independent monitoring and evaluation of the Live Better Academy to evaluate its outcomes and impact. This project will be concluded at the end of May 2021.

We will continue to build momentum on the Live Better Academy in the next financial year and launched an integrated financial education media campaign, the MoneyUp Challenge, in March 2021. The focus of the campaign is to challenge South Africans to participate on the Live Better Academy platform and to demonstrate how they apply the educational content in practice. The campaign will continue until September 2021.

Livin' it Up

We added new features and content to our financial education mobile game, Livin' it Up. The game allows players to experience the journeys of characters who want to achieve financial goals in a virtual world. They have to balance decisions that will satisfy their daily needs and wants while saving towards their goals. It delivers a strong savings message: to win a game, players must reach a character's unique financial goal before the clock runs out.

We acquired 58 382 new users (39 697 in the previous year). This was achieved through targeted digital campaigns.

We concluded the development of a quiz feature in February 2021. The objective of the quiz feature is to increase player engagement with explicit educational content in the game. It will also enable us to better measure the efficacy of learning outcome objectives.

StarSaver

Volunteerism through StarSaver, the BASA financial literacy programme had to be suspended due to COVID-19. We used the opportunity to optimise our Budget Champs card game, which will supplement our StarSaver efforts in the future. The card game, which aims to teach grade 7 learners the principles of household budgeting and saving, is aligned to the economic and management sciences curriculum. We launched Budget Champs with Capitec employees who have children in the target age group. The independent monitoring and evaluation of the game's outcomes will be concluded in May 2021.

Other significant initiatives

GRAD and GRADnext magazines

We sponsored the printing and distribution of 160 000 copies of GRAD, a magazine aimed at 1st generation 1st-year students. The magazine contains helpful articles, covering topics such as money management, time management, nutrition, study methods and goal setting. GRAD is issued in partnership with Ruda Landman's Readers Unite initiative, StudyTrust and Van Schaik publishers and is endorsed by the South African National Resource Centre.

Through the partnership, we also developed a final year magazine to equip graduates with the necessary life and financial skills for entering the job market. We sponsored the printing and distribution of 50 000 copies of GRADnext.

Both magazines are now available in digital and audio formats. A targeted digital campaign was used to promote GRADnext. The campaign featured a series of short videos with leading financial experts to answer money questions from final year students and job starters.

Bank safety campaign in partnership with the BASA

We partnered with the BASA to sponsor a generic bank safety campaign on television and community radio stations across 6 provinces on 19 stations in December 2020. The campaign's objective was to educate consumers on the latest scams, with particular emphasis on how to bank safely during the festive season. Experts from forensics, the BASA and the banking sector conducted live interviews that were broadcast in simulcast across community radio stations. The live reads and expert interviews were broadcast in 6 South African languages.

Our focus during the financial year 2022 will be to optimise our digital education experiences and to make financial education more accessible by incorporating the digital channels that are widely used by South African consumers.

Social investment

We have a multi-pronged approach to social investment:

- Education through the Capitec Foundation
- The Capitec volunteer programme
- Donations
- Disaster relief.

The Capitec Foundation

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

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

Maths tutor programme

The programme is aimed at assisting high school learners with maths tutoring using university teaching students as tutors. The programme is currently run in the Western Cape, benefiting 600 learners from 13 schools. The Foundation recruits Bachelor in Education and Post Graduate Certificate in Education students, and develops and offers them paid opportunities to tutor high school learners. This also serves as a way of practising their teaching skills.

The impact of COVID-19 challenged us to adopt online learning as an alternative. Though initially we had to suspend classes, we managed to restart with online tutoring using WhatsApp as a platform.

Teacher development programme

The teacher development programme is aimed at empowering in-service maths teachers with skills to teach better and to make a sustainable difference in the schools where we are involved. We measure success by improved maths performance by learners taught to these teachers and an increased number of learners passing matric with maths.

Though COVID-19 impacted some of the workshops planned at the beginning of the financial year, we were able to restrategise and still run workshops reaching 98 teachers in KwaZulu-Natal, 49 in Gauteng and 50 in the Eastern Cape.

School management development programme

This programme run by the University of Cape Town and the Graduate School of Business aims to upskill individuals in leadership roles at schools to help schools perform better. We had planned to run the programme in the Western Cape, Gauteng and KwaZulu-Natal, but due to COVID-19, we had to postpone it to 2021.

Sponsorships

Ikamva Youth

The Capitec Foundation sponsored Ikamva Youth's maths and science camps, aimed at equipping high school learners to do well in their examinations. The organisation's mission is to enable disadvantaged youth to pull themselves and each other out of poverty and into tertiary education or employment. Over 5 000 high school learners benefited.

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

The centre partnered with the Capitec Foundation to implement a series of innovative mathematics and physical sciences development and support initiatives for secondary school teachers and learners in the Nelson Mandela Bay, Komani (formerly Queenstown) and Mthatha districts of the Eastern Cape. This resulted in the successful implementation of a customised offline information and communication technology assisted model for mathematics and physical sciences in secondary schools. This model had a noticeable positive impact on participating learners and pre-service and in-service teachers. During the 2020 calendar year, the programme reached grade 10 to 12 learners.

Capitec volunteers

We launched an employee volunteer programme to support and encourage employees to give back to their communities – as groups or individuals. Whereas employees were previously entitled to 1 CSI leave day per year, this increased to 3 days due to the uptake and success of the programme.

Over and above the leave given, Capitec supports these initiatives by matching funds raised by employees; R2 for every R1 raised:

- COVID-19 impacted our physical volunteering, but this didn't stop employees from looking for other ways to volunteer
- We adopted a number of strategies such as:
  - virtual volunteering, whereby employees could connect remotely with an organisation and volunteer virtually through the forgood platform. Virtual volunteering includes activities such as maths tutoring, mentorship and skills-based tasks
  - fundraising
  - donations
  - physical volunteering with social-distancing adherence
  - face mask campaign
  - blanket crocheting campaign (Hooked on Helping).

During the financial year, 4 204 employees volunteered in various ways, raising R1 044 854 towards over 10 000 beneficiaries nationwide. Capitec, in turn, matched this with R1 600 725.

Donations

Capitec donated R3 million in the past financial year to 50 organisations that shelter abused women and children.

Capitec made further donations towards a number of initiatives in our communities such as the Ikusasa Student Financial Aid Programme, a programme that was established to sustainably cater for higher education needs, particularly the 'missing middle' students. Capitec donated R2 million this year as part of its 3-year commitment.

We have also partnered with the Khaya Lam project to assist previously disadvantaged communities with title deeds. This year, we issued over 160 title deeds to the community members of Kwakwatsi Municipality in the Free State.

Disaster relief – how we responded to the COVID-19 pandemic

We were able to respond swiftly and contribute towards curbing the spread of the virus and assist with humanitarian relief efforts. As part of fighting the spread of the virus, we donated R15 million towards the Solidarity Fund and R5 million towards Gift of the Givers.

In response to the plight of the communities that were affected by the national lockdown, we implemented a humanitarian relief effort, which focused on the following:

- We partnered with a number of NGOs such as Community Chest and Father A Nation to distribute over 7 000 food parcels, benefiting 35 000 people
- 40 000 face masks were distributed through the Make-Your-Mask campaign, which challenged our employees to make or donate masks. Employee efforts were matched by Capitec and masks were donated to communities and schools
- Over R840 000 was raised by clients and matched by Capitec. Beneficiaries were Food Forward SA, Gift of the Givers Foundation and the Solidarity Fund.

All our CSI programmes follow our risk management process and are guided by approved policies and procedures. The SECO also receives reports on the activities of the Foundation and all CSI initiatives.

Looking forward, the Capitec Foundation will optimise the delivery of its programmes to increase reach and impact, with a focus on technology to achieve scale. The Foundation will continue with its multi-pronged approach, which focuses on the development of school leaders and mathematics teachers and the improvement of mathematics performance of learners.

Employee volunteerism is a core focus and we will encourage our employees to participate in volunteering activities and support them in these endeavours.

Our contribution to transformation

We promote human rights

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

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

Below is an extract from Capitec's human rights statement:

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

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

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

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

Embedding diversity and inclusion

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

Social and enterprise development

We invested R52 million towards socio-economic development and consumer education.

Empowerment financing

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

We have invested in excess of R37 in enterprise and supplier development through our Imvelo joint venture with Empowerment Capital.

Access to financial services

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

Summary of Capitec Bank's B-BBEE scorecard

Element	2020*	2019	2018
Ownership	13.03	14.28	16.54
Management control	8.29	8.14	8.09
Skills development	14.73	14.71	11.27
Preferential procurement	14.16	11.55	9.90
Socio-economic development and consumer education	6.00	5.21	3.00
Enterprise and supplier development	12.00	11.00	5.84
Empowerment financing	12.00	12.00	12.00
Access to financial services	11.84	11.59	11.40
Total points	92.05	88.48	78.04

* *FY2020 B-BBEE scores are based on the group score, which includes the Business bank.*

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

Addressing climate change

Capitec operates in a transitioning global economy where climate-related and environmental factors are becoming more salient. Environmental risks now account for 4 of the top 5 global risks according to the World Economic Forum in their 2021 Global Risks Report.

The risks that dominate concerns are climate action failure, extreme weather, human environmental damage, biodiversity loss and natural disasters.

Our environmental policy statement declares that as a result of the nature of our business, *'the bank's impact on the environment is considered limited, however, this does not detract from the Capitec group's desire to restrict its environmental footprint.'*

Our environmental policy statement commits us to minimising the impact of our activities on the environment by:

- optimising resource utilisation and minimising greenhouse gas (GHG) emissions and waste, where practicable
- incorporating environmental considerations into the group's overall risk management processes
- complying with environmental legislation that may be applicable to the group
- measuring its carbon footprint and setting targets for ongoing improvement
- actively promoting recycling both in business operations and among employees
- promoting environmental awareness among employees.

We also have a carbon footprint accounting policy. Reporting on our carbon footprint and the measures we have implemented to manage GHG emissions is considered key to environmental sustainability. Due to the nature of our banking operations, providing banking products to individuals and businesses, we are a low contributor to global warming and climate change.

The carbon footprint policy commits us to improving and reducing the bank's footprint on a continuous basis. By calculating our carbon footprint and formally reporting emissions on a regular basis, the bank strives to continuously improve and reduce on its carbon footprint.

Accordingly, the bank reports on direct and indirect emissions according to Scope 1, 2 and 3 as defined in the GHG Protocol:

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

Our operational risk management policy includes and defines social and environmental 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'.

Our supplier code of conduct also outlines our expectations from our suppliers regarding their impact on the environment:
'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 board takes ultimate responsibility for the management of environmental impacts. The SECO is mandated by the SECO charter to *'monitor the company's activities relating to social and economic development, good corporate citizenship and the environment so as to promote the collective well-being of society, thereby facilitating the sustainable growth of the Capitec group.'*

The SECO monitors the following activities and environmental matters:

		2021	2020
Electricity consumed ('000)	We rely on Eskom for all electricity requirements	34 503MWh	30 411MWh
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	5 881kg	14 991kg
Recycled tins		360kg	2 161kg
Recycled electronic equipment	Disposed of and recycled by accredited third parties	27 309kg	5 384kg

Carbon footprint monitoring

Carbon footprint (tCO_2e)

GHG Protocol scope	2021	2012 baseline
Scope 1: Direct emissions from:		
Fuel used in directly-owned or controlled equipment	6	1
Fuel used in directly-owned or controlled vehicles	79	82
Air-conditioning and refrigeration gas refills	888	63
Scope 2: Indirect emissions from purchased electricity		
Purchased electricity – Eskom	35 538	22 971
Total scope 1 and 2	**36 511**	**23 117**
Scope 3: Indirect emissions from:		
Business travel – rental vehicles	1	46
Business travel – commercial airlines	27	1 669
Business travel – employee-owned vehicles	1 051	2 021
Product distribution – cash-in-transit	623	944
Paper usage	253	402
Total scope 1, 2 and 3	**38 465**	**28 199**

Intensity footprint (tCO_2e)

	2021		2012 baseline	
GHG Protocol scope	Per full-time employee	Per m² floor space	Per full-time employee	Per m² floor space
Scope 1 emissions	0.07	–	0.02	–
Scope 2 emissions	2.43	0.14	3.19	0.15
Total	2.50	0.14	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 Department for Environment, Food and Rural Affairs (DEFRA)
- An operational control approach
- The 2012 financial year as base year – the 2012 base year emissions were restated to take into consideration the change in the DEFRA emissions factors, as amended during 2016.

Assumptions

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

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

Target

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

The carbon footprint monitoring is not subject to independent assurance.

Although there was a 31% increase in the overall footprint between the baseline and the current year emissions, there was a 30% (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 environmental and climate risk framework

During the 2021 financial year, Capitec contracted the services of consultants that specialise in environmental and climate risk to assist in the formulation of a formal environmental and climate risk framework. This process entailed:

- identifying and assessing the risks faced by the financial sector in South Africa as a whole
- considering relevant guidance on climate-related and environmental risks
- considering relevant reporting frameworks, for example the Task Force on Climate-related Financial Disclosures (TCFD)
- competitor and peer analysis p(local and international)
- interrogation of externally-available ratings
- an assessment of our operating model and exposure to climate-related and environmental risks
- identification of relevant stakeholders and their requirements.

Part of the process consisted of a series of extensive interviews with key internal stakeholders throughout the Retail bank, Business bank and shared services. The framework generated a view of all the present environmental and climate risks in the business as well as mitigation plans. Although the process didn't uncover material risks, it revealed a number of opportunities that Capitec can pursue to improve our environmental and climate risk management.

Looking ahead towards the 2022 financial year, the environmental and climate risk framework will be implemented based on the following principles:

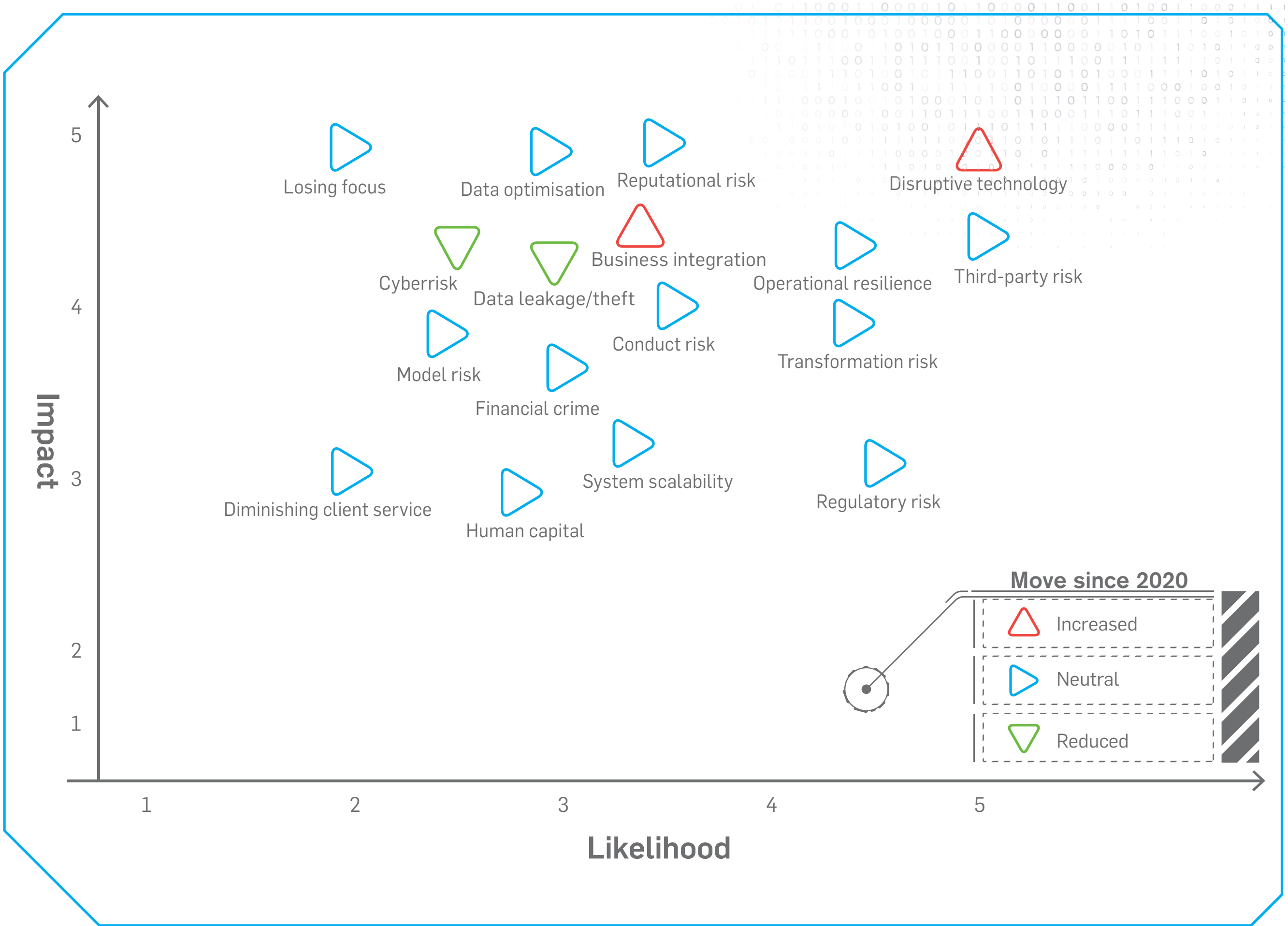
- Taking a longer-term perspective
- Our values and operating principles
- Focusing on material risks
- Improved public disclosure e.g. TCFD
- A practical process that will support learning and risk ownership
- Risk mitigation.

> We aim to improve our understanding in order to assess risk, opportunity and an appropriate response; influence stakeholders through engagement and procurement; and initiate risk management and strategic interventions.

Risk management report

In a dynamic world, we manage risks to ensure that we continue creating sustainable value for stakeholders. We do this in a responsible way and have a culture of risk management.

Risk view FY2021



Logic

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

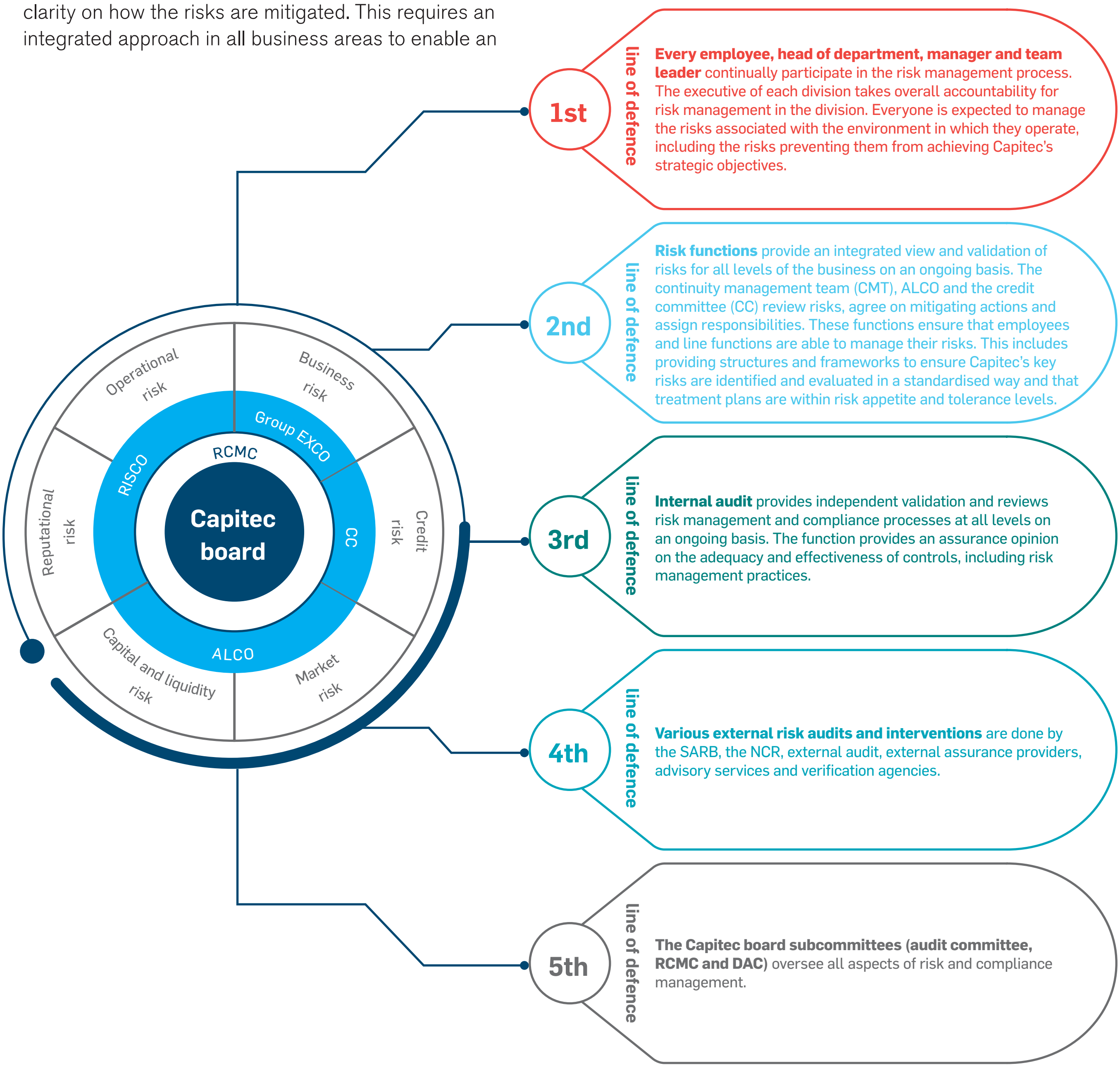
- *Reduced: if both elements (impact and likelihood) have declined.*
- *Neutral: if elements (impact and likelihood) remain unchanged or the change applies to only one element either a decline or increase, or the change applies to both elements up and down.*
- *Increased: if both elements have increased.*

Enterprise risk management framework

Our enterprise risk management framework provides the governance structure and approach for our risk management discipline and guides us to ingrain a sound risk culture. It defines our risk management universe, structure, policies and processes. No material changes were made to the framework this year and the focus remained on the maturity of implementation.

Through the framework we want to create higher levels of certainty and visibility about potential risks and provide clarity on how the risks are mitigated. This requires an integrated approach in all business areas to enable an effective risk management process from identification through to mitigation.

Employees are more aware of potential risks and are reporting these more frequently on the back of frequent risk awareness campaigns. Collaboration with internal audit helps to identify new and emerging risks. Our crisis management plans were put to the test during the COVID-19 pandemic and proved to be effective and agile. We will continue to mature our business continuity plans and further improve our resilience to adverse risk events.



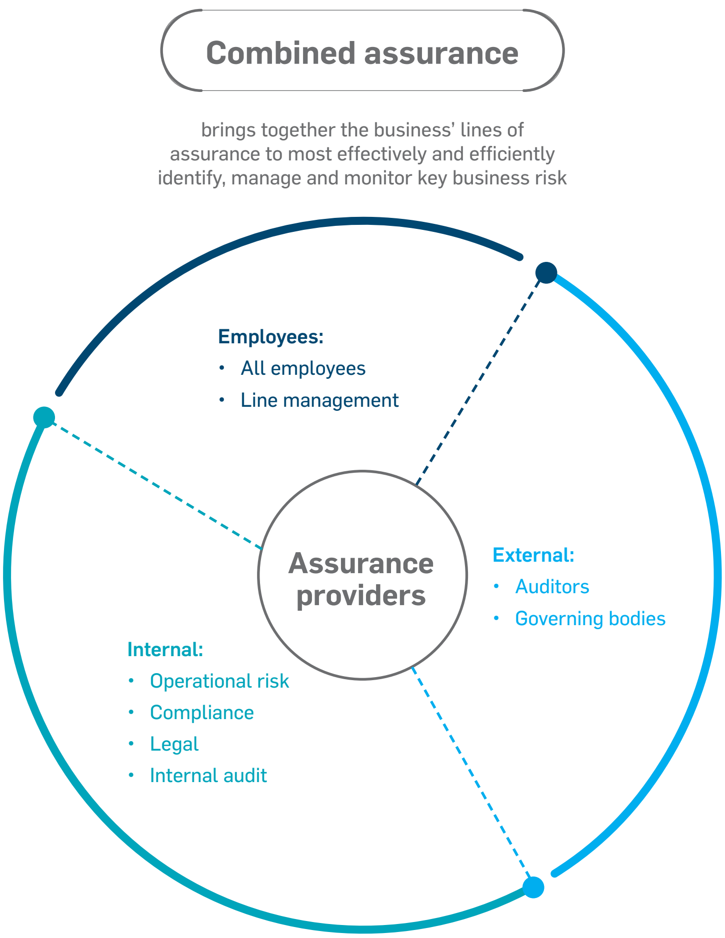
The governance of risk

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

Our risk universe consists of 6 risk categories that are managed by EXCO, the RCMC, RISCO, the CCs for the Retail bank and the Business bank, the ALCO and the Data Steerco.

These committees report to the RCMC, which is mandated by the board to oversee risk management.

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



Combined assurance supports risk management

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

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

We have an extensive, multi-layered structure to govern risk.

Our risk management process

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

Risk identification

Risks are identified by the 1st line of defence. They carry the primary responsibility for identifying and managing risk appropriately as primary risk owners. Identified risks are formally documented on 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 MOS and are reviewed regularly. Risk monitoring also includes scheduled mitigation reviews with the risk owners and the identification of any emerging risks.

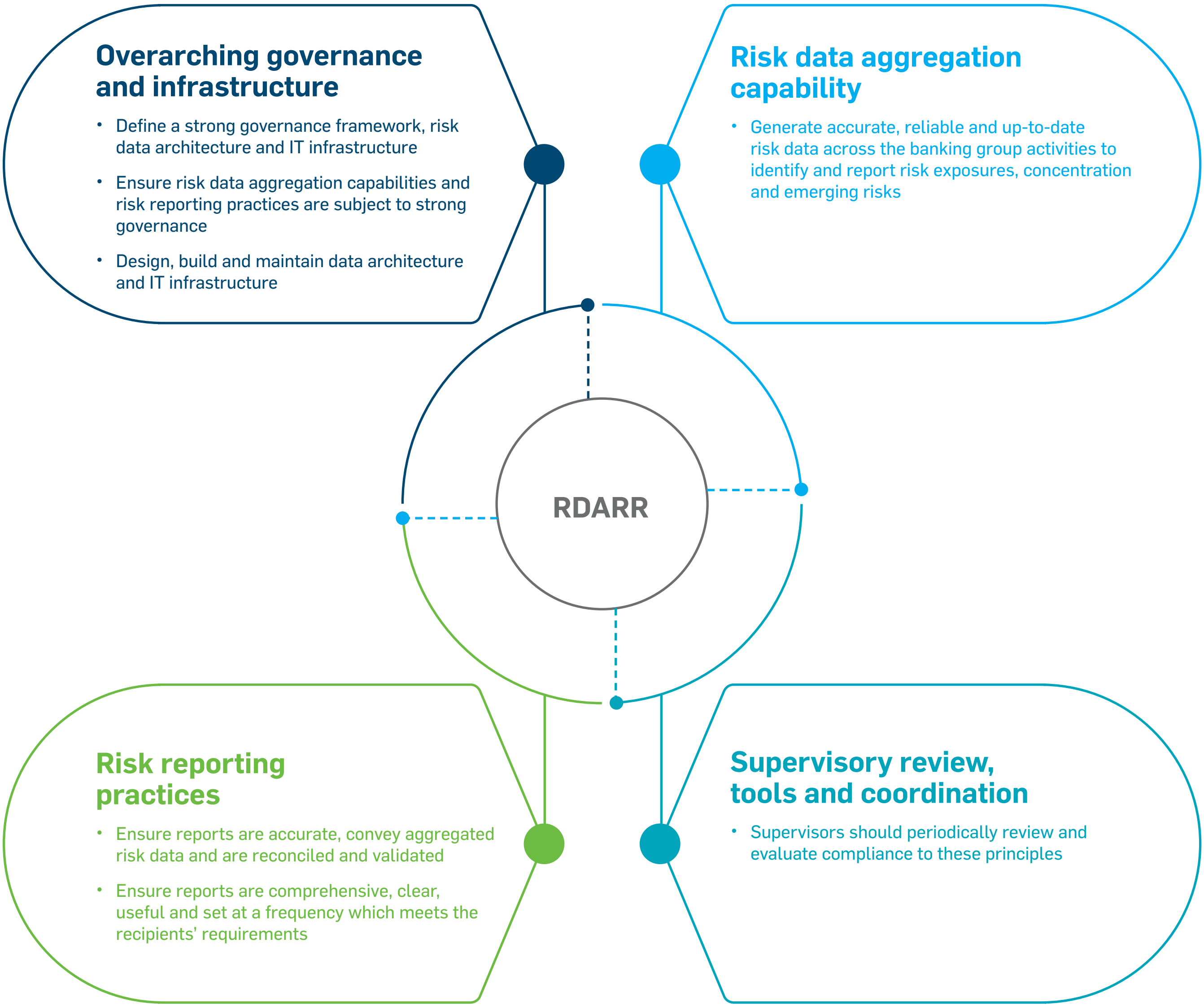
Risk reporting

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 Standard number 239.

Embedded RDARR principles in our data management and risk management practices

Adopting RDARR principles is not enough. We believe that these principles have to be embedded in our business. At present, our risk and data management practices are well aligned and our data strategy will ensure we continue to improve as we grow. With the acquisition of Mercantile, data governance and management practices are being aligned to ensure consistency across all divisions.

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



Our risk appetite and tolerance

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

As expected from a banking group, our highest exposure is in the credit risk environment, where we define the risk appetite level through our pricing model. We aim to achieve a targeted ROE on all credit products. The pricing model combines the revenue and operational costs for a specific product and derives the total credit losses that can be absorbed over the term of the product to achieve our targeted ROE.

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

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

Stress testing, contingency planning and business continuity

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

A CMT is responsible for all aspects of business continuity. The board-approved business continuity framework and methodology are based on ISO 22301. The framework is linked to the disaster recovery plan.

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

The COVID-19 pandemic put our business continuity processes to the test and enabled us to remain resilient to the challenges posed.

Indicates information that was audited.

The risks we manage

Credit risk

The group can suffer a loss if a client or other counterparty fails to meet its financial obligations. This is defined as credit risk. Our credit risk primarily arises from Retail bank credit lending.

Retail bank

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

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

Acceptance risk

The granting of credit is one of the core elements of our business. We offer personalised, same day available unsecured credit at very competitive interest rates and fees. We continuously enhance our credit product offering to suit the needs of our clients:

- Term loans
- Credit card
- Access facility (since May 2020).

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

Our credit granting approach evolves as we improve our understanding of clients' needs, behaviours and risk profiles and as we respond to changes in the economic and regulatory environment. A cautious approach to credit granting resulted in us tightening our credit policy in response to the low-growth economic environment that the country has been experiencing due to COVID-19.

Consequently, a higher level of applications was declined than in the previous year. The changes in policy also included a focus on enhancing the credit offering for clients who have the potential to improve their financial lives. The combination of these changes resulted in a better-quality book and higher average loan sizes.

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

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

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

Control risk

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

We use the regulated AC and NAEDO systems to collect instalments from clients.

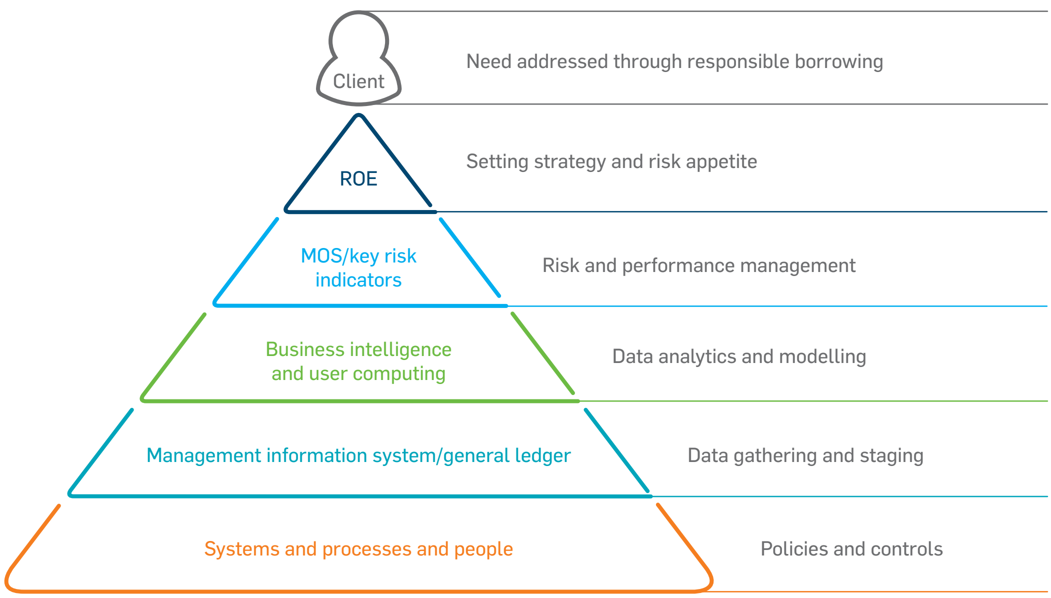
Early-stage arrears are managed by a centralised function that uses an arrears segmentation strategy based on a treatments model to offer the most appropriate arrears treatment to a client.

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

Credit loss recovery

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

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



Indicates information that was audited.

Reward risk

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

We aim to change behaviour by rewarding clients for positive behaviour shifts through a programme we call Live Better Benefits.

The introduction of the Live Better Benefits programme actively allows us to establish a client-tailored rewards programme based on their unique credit behaviour in terms of repayments, catch-up arrangements and improved client quality migration through give-backs, currently in the form of interest.

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

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

Credit assistance programme

Our credit assistance programme provides assistance to clients when they have lost income or where expenses increase beyond their control. The programme provides unique debt relief solutions and helps clients by improving prospective consumers' financial literacy. This initiative also provides learning in line with the NCA Amendment Bill that seeks to improve the overall financial situation of low-earning consumers.

Credit risk reporting

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

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

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

Credit risk training

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

Business bank

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

Credit assessments are based on the following variables:

- Company history and conduct
- Industry and experience
- Owner contribution and commitment
- Financial position and credit payment profiles
- Security available to mitigate risk
- Reputational considerations.

We adopt a conservative approach to credit granting, within a specifically defined and structured approval process. Credit granting is managed via a mandated approval process automated on the bank's workflow system. Mandates are accorded to frontline management within predetermined rules and parameters as approved by the RCMC. Approvals are continuously evaluated and monitored by the credit department.

Our credit risk strategy, which is contained in the risk and credit risk policy manuals, is approved by the BCC and ratified by the RCMC. Credit parameters and risk appetite levels are clearly defined and reflected in governing procedures and policies, which are reassessed from time to time to ensure relevance and competitiveness.

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

We prepare a monthly and quarterly portfolio analysis report and present it to the RCMC. It analyses the performance and composition of the portfolio including client, geographic, segment and product concentration.

The BCC conducts weekly reviews of all new and renewal proposals for lending in excess of R2 million (in aggregate). It covers topics including reporting on excess and arrear positions, security-related matters, possible changes in risk grades, the advances portfolio composition and performance. Adverse behavioural patterns, such as continual excesses above approved limits and arrears on loan facilities, are monitored closely by the credit department and are discussed at BCC meetings, and action is taken if appropriate.

Indicates information that was audited.

The following data is used to monitor the exposures:

- Payment record, including payment ratios and ageing analysis
- Extent of utilisation of granted limit
- Forbearances (both requested and granted)
- Changes in business, financial and economic conditions
- Credit rating information supplied by external rating agencies (limited use hereof)
- Information obtained by periodic review of client files, including audited annual financial statements review and market data such as changes in the financial sector the client operates in.

Accounts with continued behavioural concerns and/or financial underperformance are monitored by way of monthly watch list reporting. Monthly collection meetings are held and non-performing exposures are monitored. Senior management, including the executive: Business bank, take prompt action on large defaults. This action has seen historical success.

Counterparty credit risk

Retail bank

We have limited counterparty credit risk in terms of the Banks Act regulations as we do not operate a trading book. Our exposures are limited to hedges entered into to mitigate certain interest rate and currency risk in the Retail bank book, and resale investment transactions concluded as part of cash management activities.

Business bank

Counterparties to derivatives expose us to credit-related losses in the event of non-performance. The counterparties to these agreements are financial institutions. We continually monitor our positions and the credit ratings of our counterparties, and limit the value of agreements entered into with any 1 party to within preapproved transactional limits.

Investment credit risk

We have a low risk appetite regarding investing surplus cash and liquidity buffers. Surplus cash is invested in wholesale money markets, at the discretion of treasury, subject to the parameters defined by the RCMC.

Treasury maintains a healthy stock of highly liquid investments as part of our conservative liquidity strategy.

Other credit risk

Corporate insurers

We select corporate insurers to insure the loan book against death and retrenchment, and to cover property and casualty insurance needs based on sufficient underwriting capacity and an appropriate reinsurance strategy.

Suppliers

The supplier and counterparty risk committee assesses and approves prepayment and inventory exposure limits to suppliers as part of the procurement policy. This limits operational and financial risk.

Read more about counterparty, investment and other credit risks in the audited annual financial statements from page 150.

Indicates information that was audited.

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

Asset classes R'000	Exposures pre-CCF and CRM: On-balance sheet amount	Exposures pre-CCF and CRM: Off-balance sheet amount	Exposures post CCF and CRM: On-balance sheet amount	Exposures post CCF and CRM: Off-balance sheet amount	RWA and RWA density: RWA	RWA and RWA density: RWA density %
2021						
Sovereigns and their central banks	**35 061 268**	**–**	**35 061 268**	**–**	**–**	**–**
Banks[(1)]	**29 554 410**	**247**	**11 025 997**	**49**	**2 312 904**	**21**
Corporates[(1)]	**5 830 723**	**869 083**	**3 124 773**	**114 721**	**3 217 576**	**99**
Regulatory retail portfolios	**53 298 542**	**5 881 364**	**53 268 714**	**101 252**	**40 386 236**	**76**
Secured by residential property	**2 695 018**	**127 577**	**2 682 959**	**127 577**	**1 047 350**	**37**
Secured by commercial real estate	**2 512 611**	**185 363**	**2 512 611**	**123 721**	**2 636 332**	**100**
Past-due loans[(2)]	**3 300 024**	**124**	**3 307 133**	**3**	**2 154 301**	**65**
Total	**132 252 596**	**7 063 758**	**110 983 455**	**467 323**	**51 754 699**	**46**
2020						
Sovereigns and their central banks	16 356 719	–	16 356 719	–	–	–
Banks	22 700 805	–	10 834 764	–	3 048 663	13
Corporates	6 360 447	–	6 216 067	–	6 170 718	97
Regulatory retail portfolios	55 451 793	1 521 927	54 380 150	–	40 980 728	74
Past-due loans	10 015 376	–	2 678 121	–	1 660 763	17
Total	110 885 140	1 521 927	90 465 821	–	51 860 872	47

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

Rating grades and related risk weightings

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

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

Operational risk

If we are unable to run the business because of an external event or an internal process failure, we will suffer losses. This constitutes operational risk. We rely on people and systems to operate effectively and efficiently.

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

Operational risk consists of the following categories:

- Fraud risk
- IT risk
- Information risk
- Compliance and legal risk
- Insurance risk
- Conduct risk.

Retail bank

We make informed decisions about operational risk, guided by the enterprise risk management framework and supporting risk and oversight committees. We believe in collaborative and cohesive relationships within the group to encourage transparency and trust, and to ensure consistent risk management practices. We encourage healthy risk discussions in a safe environment at all levels of our business. This creates a risk culture, which is essential to identify, manage and mitigate risks that threaten our stakeholders.

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

Read more about our business context and the particular challenges during the financial year in the CFO's report. This is the backdrop against which we manage operational risk.

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

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

Fraud risk

Fraud risk includes the risk of financial crime and money laundering. We use technology to mitigate and prevent fraud. Our fraud policy outlines what constitutes fraud and corruption and details the procedures to follow where these activities are suspected or discovered. We cooperate with government and industry role players to ensure the successful apprehension and conviction of perpetrators of financial crime, including bribery and corruption.

IT risk

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

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

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

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

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

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

Information security management system (ISMS)

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

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

Cybersecurity

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

Information risk

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

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

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

Compliance and legal risk

We recognise the interdependency of the banking industry and the reliance of the economy and citizens on banks. This demands that all participants comply with legislation. The group has a dedicated function, as prescribed by the Banks Act, to manage compliance risk. The head of compliance reports to the audit committee and RCMC and submits reports to the DAC.

Our compliance policy, which forms part of the compliance framework, and our compliance manual and compliance programme, define the ways in which the board and CEO are assisted to ensure that we operate with integrity, comply with legal and regulatory requirements and work according to ethical standards.

Our compliance universe consists of applicable laws and is reviewed annually. We want to ensure that these remain relevant and current as we grow and launch new products. The compliance function helps to foster a culture that creates awareness and recognises the value of compliance risk identification, assessment, management, monitoring and reporting as part of the group's ongoing activities. Notable regulators that play a role in compliance requirements and direct our conduct are the:

- PA
- NCR
- JSE
- Financial Intelligence Centre
- FSCA
- Information Regulator.

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

Read more about the regulatory requirements that affect us in the regulatory section of the CFO's report from page 28.

Insurance risk

A comprehensive insurance programme covers operational risk losses such as fraud, theft, professional liability claims, damage to physical assets and the cost of business interruption. The opportunity cost of lost revenue is not covered.

Conduct risk

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

Market risk

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

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

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

Interest rate risk

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

Retail bank

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

Business bank

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

The impact of the liquidity strategy

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

The effect of shareholders' equity

We have a natural mismatch position when the group has more rate-sensitive assets than rate-sensitive liabilities. This mismatch is due primarily to a high proportion of ordinary shareholders' equity, a consequence of our conservative leveraging. Traditionally, equity is considered as non-rate-sensitive. We target a fixed ROE. Given that a significant asset class is unsecured lending by the Retail bank at fixed rates, and given the allocation of a large portion of equity to funding of these assets (in line with the philosophy of matching the funding of longer-term assets with long-term funds), part of the mismatch between assets and liabilities due to equity funding is considered as matched.

Managing interest rate risk

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

We operate well within our target range and, even if there is a 2% shock on interest rates in either direction, we would experience an impact of less than 5% on the bank's profit.

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

Sensitivity of equity

R'000	**2021**	**2020**
200 basis points shift		
Increase	**(1 276 293)**	(843 648)
Decrease	**1 375 474**	863 276

Indicates information that was audited.

Insurance risk

Retail bank

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

The group has provided capital to the third-party cell captive and allows the group to benefit from the ring-fenced insurance business. From the group's perspective, the cell captive arrangement effectively represents an investment in separate classes of shares in the cell captive insurer, which entitles the group to participate in the insurance profits generated in terms of insurance policies sold to the group's loan clients. The group's participation is restricted to the results of the insurance business which is placed with the licensed cell captive insurer. The group also earns interest on the capital and retained profits in the cell captive.

The licensed cell captive insurer's accounting policy is applied to the third-party cell captive. Since the inception of the arrangement, the cell captive insurer has utilised the Standard of Actuarial Practice (SAP) 104 and Advisory Practice Notes issued by the Actuarial Society of South Africa to determine the policyholder liabilities of the cell captive. Policyholder liabilities are measured either on a discounted or undiscounted basis, depending on the features of the agreements.

Discounted liabilities

The valuation is performed on a policy-by-policy basis by discounting the best estimate of future expected premiums, risk benefits, risk charges, reinsurance costs and expenses at the actuarial discount rate. The projection of future expected experience is based on the cell captive insurers' best estimate assumptions for investment returns, expenses, death rates and withdrawals.

Undiscounted liabilities

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

The cell captive arrangement exposes the group to insurance risk on the reinsured and retained insurance risk components in the cell captive. The group's insurance risk on the reinsured component relates to the risk that the reinsurer will fail to honour its obligations under the reinsurance agreement. The group's insurance risk on the retained component relates to the risk that there will be insufficient capital available to honour the claims made by the policyholders in the cell captive arrangement.

The group's exposure to insurance risk for both the reinsured and retained components in the cell captive is evidenced by the group's obligation to maintain the solvency of the cell captive structure.

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

The insurance risk associated with the investment in the cell captive arrangement is disclosed as a non-current asset in the statement of financial position as 'net insurance receivable'.

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

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

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

The group has provided capital to the third-party cell captive and allows the group to benefit from the ring-fenced insurance business.

Indicates information that was audited.

The group's ability to offer credit life policies to its loan clients exposes it to insurance risks such as death (mortality), permanent and temporary disability (morbidity) and unemployment or the inability to earn an income other than as a result of disability (which includes retrenchment).

As a result of the insurance risk exposure, the group is exposed to catastrophe risk stemming from the possibility of an extreme event linked to any of the above-mentioned risks.

For all of the above risks, the risk is that the decrement rates (e.g. mortality, morbidity, etc.) and associated cash flows are different from those assumed when pricing or reserving. Mortality, morbidity and retrenchment risk can further be broken down into parameter risk, random fluctuations and trend risk, which may result in the parameter value assumed differing from the actual experience.

The credit life policies also expose the group to lapse risk, which is the risk of loss of future profits and expenses risks. These risks are classified as business risks but are included in this section as they stem from the insurance products.

The RCMC is responsible for the following in the insurance operations:

- Providing oversight of the product types
- Financial resource management
- Approving new products.

Responsibility for the pricing of the insurance portfolio lies with the ALCO.

The licensed cell captive insurer has a robust corporate governance and regulatory framework in place to manage insurance risk. The cell captive insurer has the following subcommittees in place that govern and challenge inputs, models and the results of valuations:

- Audit and RISCO
- Risk management function
- Internal audit function
- Compliance function
- Actuarial control function.

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

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

General risk management

As the group's insurance portfolio is housed in a third-party cell captive, the group is jointly responsible for the insurance risk which is managed in two separate processes:

- The pricing of the insurance business
- Management of the in-force book.

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

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

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

- Monitoring and reporting claims experience by considering incidence rates and claims ratios
- The actuarial valuation process involves the long-term projection of in-force policies and setting up insurance liabilities. This gives insight into the longer-term evolution of the insurance portfolio. Adequate reserves are set for future and current claims and expenses
- Experience investigations are performed annually to understand the actual experience compared to the basis used in valuations and pricing. These investigations are signed off by the head of actuarial function. Where required, changes are made to pricing and product design
- There are also reinsurance agreements in place to mitigate various insurance liabilities and manage catastrophe risk
- Asset liability management is performed to ensure that asset-backing insurance liabilities are appropriate and liquid

Indicates information that was audited.

- Stress and scenario analyses are performed and provide insights into the insurance risk and future capital position.

An ORSA process is performed at least annually by the licensed cell captive insurer. The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report on short- and long-term risks the insurer faces or might face, and to determine the own funds necessary to ensure that the overall solvency needs are met at all times.

Detailed risk management per risk type

Mortality (death) risk

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

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

Morbidity (disability) risk

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

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

Retrenchment risk

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

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

Catastrophe risk

This is the risk that stems from extreme or irregular events contingent on mortality, morbidity or retrenchment whose effects are not expected.

The risk is managed by quota share reinsurance in respect of mortality. The reinsurance is reviewed annually based on the composition of the insurance portfolio and the group's risk appetite.

As a result of the global COVID-19 pandemic, no reinsurance cover was in place against morbidity and retrenchment catastrophe from 1 May 2020 to 31 July 2020 as reinsurance cover was not available at a reasonable rate.

Reinsurance cover options were monitored actively during the 3-month period and, on 1 August 2020, the group entered into a reinsurance agreement against mortality risk.

The uncertainty surrounding retrenchment risk resulted in the group not being able to obtain reinsurance cover for retrenchment risk at a reasonable rate and retrenchment risk has not been reinsured since 1 May 2020.

Lapse risk

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

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

Expense risk

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

Assessment and management

The assessment and management of insurance risk is influenced by the frequency and severity of claims, especially to the extent that claims paid are more frequent and/or greater than originally estimated.

The group manages the insurance risk by monitoring incidence rates, claims ratios and business mix. Clients are underwritten, which allows for limits and risk-based pricing to be applied.

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

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

Insurance risk mitigation

The insurance risk is mitigated by diversification across geographical areas, industries and employers. The variability of risks is also improved by reinsurance cover, which is reviewed annually.

The group purchases reinsurance through its cell captive facility as part of its risk mitigation programme. Reinsurance transfers risk away from the group. Amounts recoverable from reinsurers are estimated in a manner consistent with the reserving for claims.

The group carries no insurance risk on the Capitec funeral plan.

Equity and currency risk

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

Indicates information that was audited.

Equity risk

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

Operational currency risk

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

Trading currency risk

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

Hedging risk

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

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

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

Read more about market risk in the CFO's report from page 16.

Capital and liquidity risk

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

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

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

Read more about capital and liquidity management in the CFO's report from page 16 and in the audited annual financial statements from page 150.

Capital management

Our objectives when managing capital are to:

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

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

We are a systemically important financial institution as indicated by the PA on 19 August 2019. SIFIs may be required to hold additional capital as required by the PA.

Capital to manage risk and growth

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

Supply-side risk

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

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

Demand-side risk

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

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

Mercantile is now a division of Capitec Bank. Capitec Holdings and Capitec Bank apply the standardised approach to calculate capital adequacy.

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

Indicates information that was audited.

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

R'000	GROUP 2021	GROUP 2020	BANK 2021	BANK 2020
Regulatory capital adequacy				
Composition of qualifying regulatory capital				
Ordinary share capital[1]	**5 649 020**	5 649 020	**6 105 981**	6 105 981
Foreign currency translation reserve	**50 291**	29 818	**–**	–
Other reserves	**(64 893)**	(26 307)	**(59 931)**	(21 345)
Accumulated profit	**24 225 346**	19 855 211	**23 436 616**	18 835 001
Total ordinary shareholder equity	**29 859 764**	25 507 742	**29 482 666**	24 919 637
Regulatory adjustments				
– Intangible assets, deferred tax assets excluding temporary differences and goodwill in terms of IFRS[8]	**(1 458 975)**	(1 347 534)	**(1 458 661)**	(401 974)
– Specified advances and other regulatory adjustments	**187 890**	343 852	**191 253**	(724 671)
– Unappropriated profit	**(716 053)**	(46 818)	**(782 348)**	(5 673)
Common equity tier 1 capital (CET1)	**27 872 626**	24 457 242	**27 432 910**	23 787 319
Issued preference share capital[1]	**55 641**	73 098	**55 641**	73 098
Phase out – non-loss-absorbent[2][7]	**(29 744)**	(21 304)	**(29 744)**	(21 304)
Additional tier 1 capital (AT1)	**25 897**	51 794	**25 897**	51 794
Tier 1 capital (T1)	**27 898 523**	24 509 036	**27 458 807**	23 839 113
Unidentified impairments	**647 835**	756 767	**649 510**	648 261
Tier 2 capital (T2)	**647 835**	756 767	**649 510**	648 261
Total qualifying regulatory capital	**28 546 358**	25 265 803	**28 108 317**	24 487 374
CET1 (%)	**35.8**	29.5	**35.2**	30.8
AT1 (%)	**0.1**	0.1	**0.0**	–
T1 (%)	**35.9**	29.6	**35.2**	30.8
T2 (%)	**0.8**	0.9	**0.9**	0.9
Total capital adequacy (%)[3]	**36.7**	30.5	**36.1**	31.7
Composition of required regulatory capital				
On balance sheet	**5 654 894**	6 914 352	**5 677 563**	5 964 520
Off balance sheet	**39 383**	50 702	**39 383**	–
Credit risk	**5 694 277**	6 965 054	**5 716 946**	5 964 520
Operational risk	**1 026 976**	1 217 338	**1 028 998**	1 066 740
Market risk	**5 007**	1 668	**5 007**	–
Equity risk	**577 464**	77 108	**589 615**	73 912
Other assets	**1 254 413**	1 264 524	**1 234 418**	1 784 325
Total regulatory capital requirement[4]	**8 558 137**	9 525 692	**8 574 984**	8 889 497

Refer to footnotes on page 113.

R'000	GROUP 2021	GROUP 2020	BANK 2021	BANK 2020
Composition of RWA[(5)]				
On balance sheet	**51 408 127**	60 124 799	**51 614 212**	51 865 392
Off balance sheet	**358 031**	440 891	**358 031**	–
Credit risk	**51 766 158**	60 565 690	**51 972 243**	51 865 392
Operational risk	**9 336 148**	10 585 544	**9 354 528**	9 275 997
Market risk	**45 513**	14 500	**45 513**	–
Equity risk	**5 249 671**	670 500	**5 360 135**	642 713
Other assets[(6)]	**11 403 742**	10 995 861	**11 221 979**	15 515 872
Total RWA	**77 801 232**	82 832 095	**77 954 398**	77 299 974
Total assets based on IFRS	**156 506 986**	134 568 086	**156 411 907**	134 148 746
Total RWA – adjustments[(9)]	**(78 705 754)**	(51 735 991)	**(78 457 509)**	(56 848 772)
Total RWA – regulatory[(9)]	**77 801 232**	82 832 095	**77 954 398**	77 299 974

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

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

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

(4) This value is currently 11.0% of RWA, being the Basel global minimum requirement of 8.0%, the capital conservation buffer of 2.5% and the D-SIB capital add-on of 0.5%, disclosable in terms of Directive 4 issued by the PA on 27 August 2020. Directive 4 replaced Directive 6 of 2016 and requires banks to publicly disclose their D-SIB capital add-on as part of their composition of regulatory capital disclosure. In terms of the regulations relating to banks, the individual capital requirement (ICR) is excluded. The PA issued Directive 2 on 6 April 2020 and temporarily relaxed the Pillar 2A South African country-specific buffer of 1.0% to provide temporary capital relief to banks during this time of financial stress following the outbreak of the COVID-19 pandemic, in a manner that ensures South Africa's continued compliance with the relevant internationally agreed capital framework.

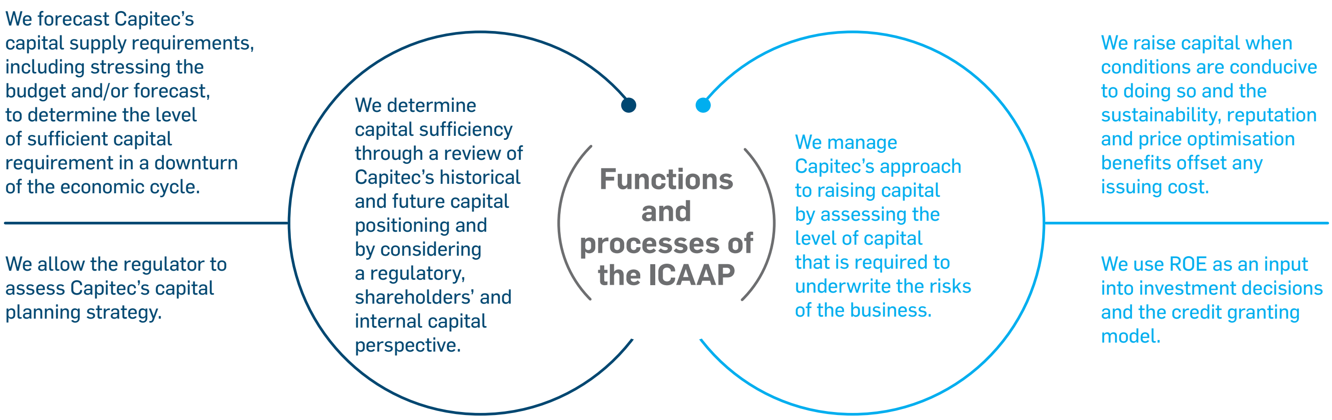
(5) RWA are calculated by using regulatory percentages applied to the balance sheet in order to establish the base for calculating the required regulatory capital.

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

(7) The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. As at 28 February 2021, 78.51% (2020: 71.77%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.

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

(9) The new regulations relating to the capital requirements for banks' equity investments in funds became effective on 1 January 2021. In terms of the new regulations, banks are allowed to adopt a look-through approach to calculate the RWA exposures for equity investments in funds. Capitec invests in MMUT investment funds, which are included in the scope of the new regulations. The underlying assets of MMUT investment funds are typically invested in a combination of government bonds, treasury bills and interest-bearing deposits with banks. Up until 31 December 2020, the investments in these MMUTs were classified as corporate investments and included under credit risk, which were risk-weighted at a 100% risk weight. From 1 January 2021, these investments were classified as equity investments in funds and are now included under investment risk. Capitec adopted the look-through approach as outlined per the new regulations to calculate the risk-weighted exposures of these investments, and the effective risk weighting of these funds amounted to 55% for the month of February 2021.



Internal capital adequacy assessment process

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

Basel 3

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

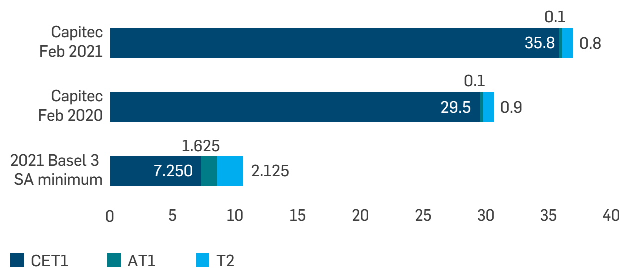
Loss-absorbency

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

Leverage ratio

The leverage ratio acts as a capital floor to the Basel risk-adjusted capital adequacy framework. We had a calculated regulatory leverage ratio of 17.6% (2020: 18.2%); Capitec Bank Limited has a leverage ratio of 17.4% as at 28 February 2021 (2020: 19.4%).

CAPITAL ADEQUACY BY TIER (%)



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

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

T2 capital: General allowance for unidentified impairments.

Globally, the Basel 3 minimum capital adequacy percentage is 8%. The 2020 Basel 3 South African minimum includes the South African country buffer of 0.00%. The PA issued Directive 2 on 6 April 2020 and temporarily relaxed the Pillar 2A South African country-specific buffer of 1.0% to provide temporary capital relief to banks during this time of financial stress following the outbreak of the COVID-19 pandemic, in a manner that ensures South Africa's continued compliance with the relevant internationally agreed capital framework. The level of this buffer is at the discretion of the SARB and is subject to periodic review.

The 2020 Basel 3 South African minimum includes the capital conservation buffer of 2.5%, which was phased in from the beginning of 2016. All banks must maintain this buffer to avoid regulatory restrictions on the payment of dividends and bonuses.

The PA issued Directive 4 on 27 August 2020. Directive 4 has replaced Directive 6 of 2016 and requires banks to publicly disclose their D-SIB capital add-on as part of their composition of regulatory capital disclosure. Both Capitec's and Capitec Bank's D-SIB capital add-on requirement amounts to 0.5%. Excluded from the South African minima is the Basel 3 Bank-specific buffer, which is the ICR. In terms of the Banks Act regulations, banks may not disclose their ICR requirement.

Bank-specific buffers

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

Countercyclical buffer

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

Restrictions on the transfer of regulatory capital

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

Capital recovery plan

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

Liquidity risk

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

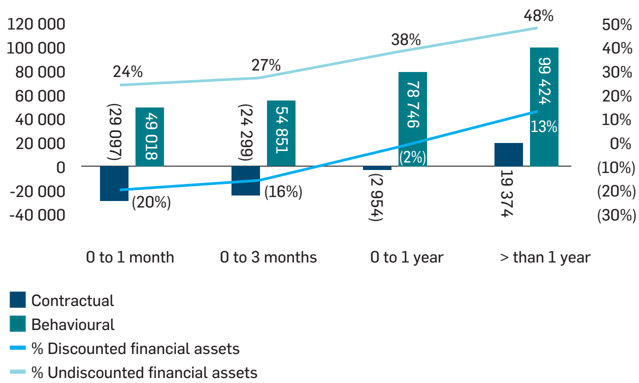
Our approach to liquidity risk remains conservative. There were no changes to the liquidity policy over the past financial year. The management of liquidity takes preference over the optimisation of profits.

To reduce liquidity risk, call deposits are only allowed to fund cash flows shorter than 6 months. The amount of cash not deployed in the loan book or in cash is R75.77 billion (2020: R51.07 billion). These funds are invested in low-risk, liquid, interest-bearing instruments. These assets provide a positive return.

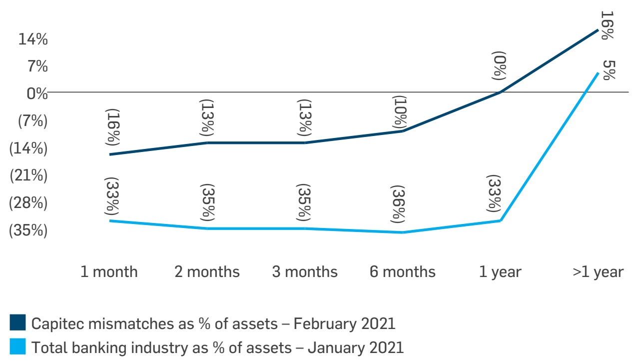
The liquid asset requirement of R4 215.0 million (2020: R3 235.1 million) is held in order to comply with regulatory liquidity requirements and consists of treasury bills, government bond-backed resale agreements and cash. The intention is to hold all treasury bills to full maturity.

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

CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES (R'm)



INDUSTRY COMPARISON –
CUMULATIVE CONTRACTUAL LIQUIDITY MISMATCHES



Contractual and behavioural liquidity mismatches

Contractual and behavioural mismatches benefit from our high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than at banks with lower capital ratios. The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits: 89.76% of these deposits (2020: 92.6%) are reflected as stable based on a standard deviation measure of volatility, which is considered reasonable for business-as-usual conditions.

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

Liquidity coverage ratio

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

	2021	2020	2019	2018
LCR (%)	**2 459**	1 696	1 450	1 878
High-quality liquid assets (R'm)	**57 602**	32 990	16 352	18 056
Net outflow (R'm)	**2 343**	1 945	1 128	962

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

Net stable funding ratio

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

	2021	2020	2019	2018
NSFR (%)	**221**	196	196	206
Required stable funding (R'm)	**61 746**	61 884	46 548	37 205
Available stable funding (R'm)	**136 500**	121 041	91 044	76 621

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

Retail call deposit limit ratio (RCDR)

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

Retail call deposit tolerance

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

Liquidity recovery plan

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

The monitor addresses 2 phases of liquidity difficulty, namely:

Early stage

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

Late stage

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

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

Reputational risk

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

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

To mitigate reputational risk, we have:

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

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

We use various processes and procedures to ensure ethical and responsible use of technology and information, thereby protecting our reputation. We focus on a well-governed conduct management approach. The risk management function is tasked with ensuring that stress testing is embedded in operational processes so that it is intuitive, relevant and part of the mainstream business activities.

Remuneration report

Our remuneration report comprises 3 parts:

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

Part 1: Background statement

Letter from the REMCO chairman

The 2021 financial year was a challenging year for all of our stakeholders: for you as our shareholders, for our executives who worked relentlessly as a result of the impact of the COVID-19 pandemic, for the board who had to continue to navigate the company despite the economic challenges faced and for all of our employees and the communities in which we operate. In light of this, we are proud of how our internal stakeholders have risen to these challenges and I am therefore especially pleased to present to you our remuneration report for the 2021 financial year (FY2021) on behalf of the REMCO.

Operating environment and financial performance

When the REMCO met in February 2020, the world was a very different place. Within 6 weeks after their meeting, the President of South Africa announced, what was at the time, one of the hardest lockdowns outside of Southeast Asia. Only a few weeks later, what was originally thought of as a short, sharp intervention to save lives transformed into one of the harshest economic recessions in living memory. Importantly, the operational challenges facing the organisation were eclipsed only by the harsh health and financial realities staring our clients and employees in the face.

What was immediately apparent was how exceedingly critical it would be to respond to the challenges in ways that both uncover opportunities and manage risk for all stakeholders. The subsequent expectations placed on leadership throughout the organisation, and in fact on all employees, increased drastically from what was considered to be fair just a few weeks before. Our employees and executive team, in particular, worked tirelessly to safeguard and balance shareholder interests together with the well-being of our clients and colleagues - protecting both lives and livelihoods. While group financial performance was negatively impacted in the first half of the year, strong leadership and nimble delivery turned this around significantly in the second half of the year, exceeding market expectations as highlighted in the review by the Chairman and Chief Executive Officer on page 8 and report from the Chief Financial Officer on page 16 while ensuring that jobs and salaries of our employees are safeguarded in this uncertain environment.

While our remuneration philosophy remains unchanged, it was applied in a vastly different operating environment, under exceptional regulatory instruction and while facing financial challenges never seen before by anyone currently operating in the market.

COVID-19 impact on remuneration

Total guaranteed pay (TGP)

In light of the impact of the COVID-19 pandemic, it was decided that executive directors will not receive an increase in their TGP from May 2020. For employees below executive level, the decision was taken to award average increases on a sliding scale, ranging from 3% for management employees to 6% for lower-level employees in order to minimise the negative financial impact on our more vulnerable employees where the financial impact of the pandemic was greater. We remain committed to maintaining job security and ensuring the well-being of all of our employees as far as possible to ensure business continuity.

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

The FY2020 report was published before the impact of COVID-19 was clear, which led to the REMCO having to pause and reconsider whether the

STI policy remained appropriate, and whether it drove the right behaviours in the COVID-19 environment. The REMCO, after extensive deliberations at its April meeting, decided to delay the determination of bonus rules for the 2021 financial year until such time as there was more clarity around the impact of COVID-19 on the business, a budgeting process had been concluded and the REMCO was able to assess whether the performance targets, as initially published in the 2020 financial year report, remained appropriate in the COVID-19 environment. This decision applied across Capitec and included the key management, senior management, and employee performance bonus schemes. The only scheme which remained in place was the central collections incentive, which continued to be appropriate and drove the correct behaviours during the pandemic.

In September 2020, the REMCO again deliberated on the various bonus schemes and reassessed Capitec's financial position and forecasts at the half-year mark. Being declared an essential service provider, the entire organisation rallied around our client-facing employees to equip and support them to continue serving our clients despite considerable challenges, not only in the branches, but also in the support environments. The organisation adjusted rapidly to a vastly changed operating environment, requiring both the redeployment of people and infrastructure at a rate never achieved before.

Acknowledging the exceptional work of the executive, senior management team and all Capitec employees during this difficult year, the REMCO decided the following with regard to the FY2021 bonus schemes:

- All bonus schemes across Capitec will be calculated based on the audited percentage of group annual headline earnings target achieved. The REMCO has determined headline earnings to be a more appropriate measure than HEPS for purposes of determining performance for FY2021
- The headline earnings target is determined on a growth of 15% for FY2021
- Given the unique challenges of the year, a realistic threshold target of 44% of the bonus target was set for any bonuses to be paid
- No bonuses will be paid if headline earnings is less than 44% of the bonus profit target and so requires performance for reward
- At executive and senior management level, all bonuses are further subject to individual performance conditions.

This is set out in more detail in the implementation report as follows.

With regard to LTI, the REMCO decided that, for the 2018 grant for which the performance period ended during FY2021, the REMCO will take only the performance of the years preceding COVID-19 into account as the REMCO believed it to be in the best interests of the company as it results in a fairer outcome and rewards our executives for their excellent performance during those years as well as their tireless and ingenious efforts for the year under review. The share price recovery, the ability to pay out dividends, the recovery of headline earnings and the continued protection of lives and livelihoods evidence this.

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

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

> While our remuneration philosophy remains unchanged, it was applied in a vastly different operating environment, under exceptional regulatory instruction and while facing financial challenges never seen before by anyone currently operating in the market.

Key focus areas for FY2021

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

- Reviewed all elements of remuneration in light of the impact of COVID-19
- Reviewed all variable incentive arrangements and compared them to market best practice as well as current and future viability
- Commenced with the design and implementation of a new incentive structure for senior employees, future successors and key talent aimed at fostering a culture of ownership and alignment with shareholder interests
- Oversaw Mercantile adopting the Capitec remuneration policy while ensuring that employees were treated with parity as well as fairness. Mercantile has since fully adopted the Capitec remuneration policy
- As tasked by the board through the REMCO charter, confirmed that remuneration policies, processes and practices are implemented and continuously maintained to, as a minimum, comply with the requirements specified in regulation 39(16)(a) of the Banks Act and King IV and take into account stakeholder feedback
- Monitored remuneration practices and adherence to the remuneration policy, having met formally 4 times over the year and informally on an *ad hoc* basis, as deemed necessary
- Reviewed organisation-wide remuneration policies in line with best practice and governance standards, including key management bonuses and incentive schemes
- Fulfilled delegated responsibilities in respect of the Capitec Bank Holdings Share Trust
- Evaluated increases in light of the impact of COVID-19 and approved all annual increases for Capitec employees and proposed non-executive directors' fees to the board for recommendation to the shareholders for consideration at the AGM
- As required by Basel and King IV, considered whether the remuneration structures continue to effectively align remuneration with performance according to shareholder interests and acceptable risk-taking
- The REMCO charter incorporates the regulations of the Banks Act. The committee therefore regularly considers whether the remuneration structures continue to be effective, align with shareholder expectations and remain within a required risk framework. It is satisfied that these requirements are met.

Policy changes implemented

Despite the challenges brought on by COVID-19, we believe that our remuneration policy continues to serve our stakeholders' interests as we reward actions that advance stakeholder interests and ensure that pay is appropriately aligned to performance. As such, the changes to our remuneration policy were limited to the following:

- Headline earnings was determined to be a more appropriate measure than HEPS for purposes of determining performance for the STI
- During the year under review, Capitec investigated ways in which select senior employees, future successors and key talent could be incentivised over the long term. This is to be done in a manner which drives both a culture of ownership and provides an element of lock-in while ensuring pay is aligned to the shareholder experience by having increased 'skin-in-the-game'. The salient features of the new structure have yet to be finalised, but the structure is likely to encapsulate the economic principles of a long-dated option. The details of the finalised structure will be included in the FY2022 report.

Feedback from stakeholders

Shareholder engagement is a crucial part of our stakeholder engagement. Therefore, the REMCO charter specifies that we should adequately disclose information to stakeholders to facilitate constructive engagement with all relevant stakeholders, including shareholders. The REMCO is pleased that, in 2020, the remuneration policy and implementation report received 89.84% and 90.07% of total votes in favour from shareholders at the 2020 AGM, respectively.

Notwithstanding the favourable votes received, we noted the input of those shareholders who did not vote in favour of the remuneration policy and/or the implementation report. Although we do not have any actionable outcomes to report following our engagement with shareholders, we are pleased that shareholders approached us with their concerns and that we were able to have constructive engagements. We will continue to engage with our shareholders in the year ahead.

External advice to the REMCO during the year

During the 2021 financial year, Capitec enlisted the services of independent remuneration advisors, PwC, to advise and assist with various remuneration matters, including the review of variable incentives. The REMCO is satisfied that PwC's services as rendered were independent and objective.

Forward-looking approach

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

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

During the 2022 financial year, in addition to the above, the REMCO and management will focus on the following:

Remuneration aspect	Forward-looking approach for the 2022 financial year
Internal pay equity	Capitec will, in line with the philosophy of remunerating fairly and responsibly, conduct a wage gap analysis as well as a review to establish any internal pay discrepancies.
Attracting employees skilled in data analytics	Data analytics capability continues to be a highly sought-after skill at Capitec and many other companies as a result of the 4th Industrial Revolution. With the on-boarding of Mercantile, there is an increased focus on data analytics. We will continue to review our strategy with regard to attracting (and then retaining) individuals with the right capabilities and values for roles at Capitec.
Incentivising senior employees, future successors and key talent	Capitec will finalise the design and implementation of a new variable incentive structure for senior employees, future successors and key talent. The details of this structure will be reported on in the FY2022 report.
Transformation	We will continue to ensure that our internal HR and pay policies support transformation across Capitec.

At the 2021 AGM, shareholders will have the opportunity to vote on remuneration. In line with the JSE Listings Requirements, there will be 2 separate votes on the remuneration policy (Part 2) and its implementation (Part 3).

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

Danie Meintjes
Chairman of the REMCO

13 April 2021

Part 2: Remuneration philosophy and policy

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

Remuneration governance

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

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

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

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

The REMCO consists of 4 non-executive directors, 3 of whom are independent. The members of the committee as at year-end are:

- DP Meintjes (chairman)
- JD McKenzie
- CA Otto
- SL Botha.

The REMCO formally met 4 times this year, using virtual channels. In addition, the topics were discussed on less formal occasions leading up to the formal meetings. The REMCO meetings were attended by the following attendees:

Composition of the REMCO as at 28 February 2021

Attendee	Role	Capacity
DP Meintjes	Chairman	Independent non-executive director
JD McKenzie	Member	Independent non-executive director
CA Otto	Member	Non-executive director
SL Botha	Member	Independent non-executive director (chairman of the board)
MS du Pré le Roux	Non-voting invitee	Non-executive director
GM Fourie	Non-voting invitee	CEO
NST Motjuwadi	Non-voting invitee	Executive: human resources

Remuneration philosophy

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

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

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

General remuneration principles

The following remuneration principles support our remuneration philosophy:

Fair and responsible remuneration

Key management remuneration should be fair and responsible in the context of overall employee remuneration. As a responsible employer, Capitec is sensitive to socio-economic challenges and the need for corporates to address unfair income disparities in society.

In our journey to do our part in fighting unemployment, we annually appoint matriculants who are put through an intensive development programme to provide them with the skills and experience necessary to help our clients in branches across South Africa and help us grow our business. Although these employees are initially appointed at a starting salary commensurate to their qualifications and lack of experience, their individual performance is reviewed every 3 months, at which time their salaries have the potential to increase at a rate greater than the inflation rate.

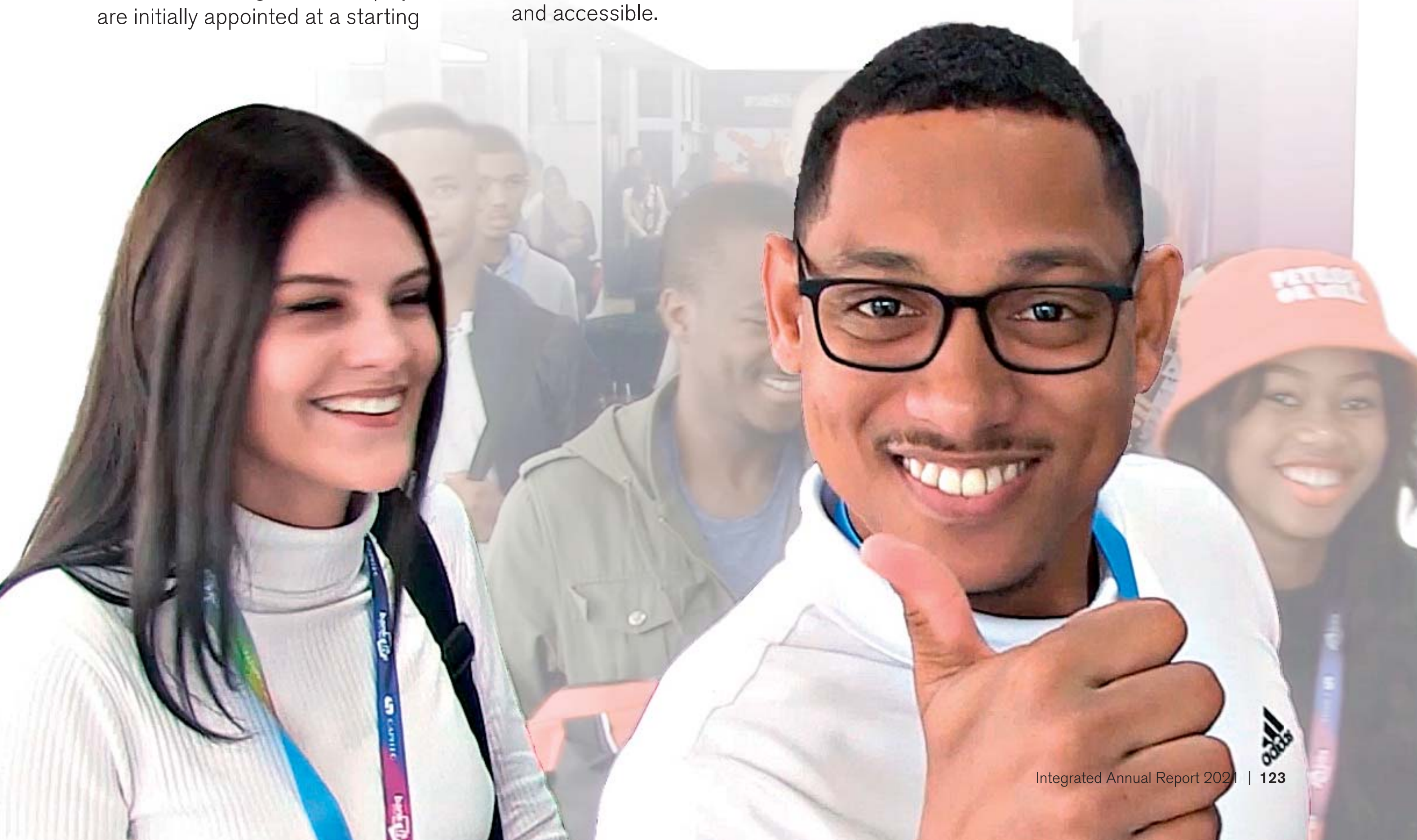
In addition, we constantly seek to ensure that the implementation of our remuneration policy results in fair and responsible remuneration and that employees have access to flexible employee benefits that are affordable and accessible.

> In our journey to do our part in fighting unemployment, we annually appoint matriculants who are put through an intense development programme to provide them with the skills and experience necessary to help our clients in branches across South Africa and help us grow our business.

Continuous efforts

Continuous efforts in this regard include:

- driving employee awareness and take-up of benefits and learning and development opportunities to realise more value for employees, with special attention to lower levels where there are challenges in terms of exposure and understanding how these opportunities improve employees' quality of life



- continued support of the credit health and general financial wellness of employees through education, awareness and credit rehabilitation in partnership with a specialist service provider
- as part of ensuring internal fair pay practices, continuing to ensure that equal pay is provided for work of equal value so that there are no income disparities based on gender, race or any other unacceptable grounds of discrimination. This includes regular job evaluations and benchmarking.

Considering performance and determining increases

As a general principle, increases (including those of executive directors and key management) are determined by taking into account the following factors:

- Performance of the individual, team and company
- Competence
- Forecast profitability
- Economic factors, including the Consumer Price Index (CPI).

Capitec continuously monitors the competitiveness of employees' total reward (TR) through external benchmarking. For non-board employees, the company uses the REMchannel® remuneration survey. For executive and non-executive directors, a comparator group of JSE-listed companies similar in size in terms of market capitalisation and/or industry is used to ensure that our employees are remunerated fairly and in line with the market. In addition, Capitec looks at the remuneration for the 4 traditional South African banks, as the company's closest competitors. The following companies are included in the comparator:

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

The REMCO annually reviews and approves the salary increases of each individual member of the EXCO. The REMCO is further presented with the proposed salary increase pool for all employees across Capitec, which is then reviewed and debated by the REMCO. The REMCO approves the annual salary increase pool and provides the authority to the CEO and divisional executives to distribute the increases as appropriate.

Elements of remuneration and pay mix

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

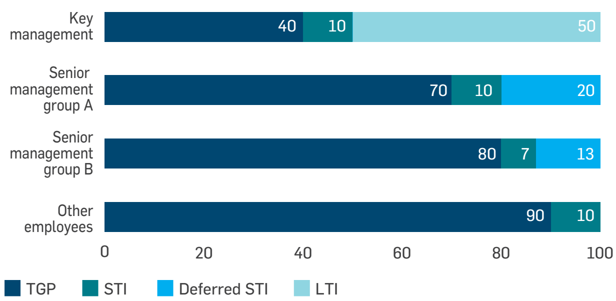
Our remuneration offering is set out in the table below:

<table>
<tr><th>Group</th><th>Key management (including the CEO, CFO and executive: risk management)</th><th>Senior management group A</th><th>Senior management group B (including critical roles)</th><th>Other employees</th></tr>
<tr><td>Focus</td><td>Leading strategy formulation</td><td>Strategic delivery (key management/future talent succession pool)</td><td>Critical tactical delivery (succession pool for group A)</td><td>Operational</td></tr>
<tr><td>Strategic view</td><td>Longest term</td><td>Medium to long term</td><td>Medium term</td><td>Short term</td></tr>
<tr><td>Period of income deferral</td><td>6 years</td><td>1 to 3 years</td><td>1 to 3 years</td><td>–</td></tr>
<tr><td>TGP</td><td>Guaranteed pay plus benefits</td><td>Guaranteed pay plus benefits</td><td>Guaranteed pay plus benefits</td><td>Guaranteed pay plus benefits</td></tr>
<tr><td>STI</td><td>Key management bonus</td><td rowspan="2">Senior management performance bonus scheme with deferral and restricted share plan (RSP)</td><td rowspan="2">Senior management performance bonus scheme with deferral and RSP</td><td>Incentive scheme and/or annual performance bonus</td></tr>
<tr><td>LTI</td><td>Share options and share appreciation rights (SARs</td><td>–</td></tr>
</table>

Capitec continuously monitors the competitiveness of employees' TR through external benchmarking. For non-board employees, the company uses the REMchannel® remuneration survey.

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

PAY MIX WITH ON-TARGET PERFORMANCE (%)



To ensure that key management's pay mix aligns with their long-term focus, a large proportion of the package consists of LTI paid or vested in tranches over a number of years with performance criteria attached. In contrast, STI forms a small proportion of total remuneration. Key management LTIs are subject to personal performance criteria at grant and company performance criteria at vesting.

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

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

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

Key management pay mix

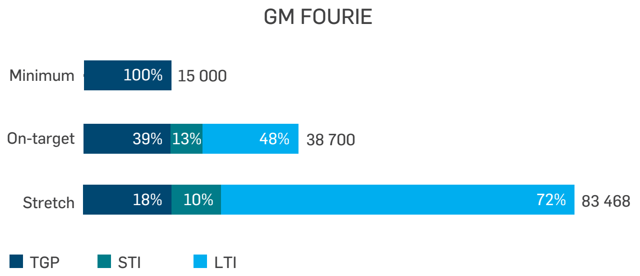
The key management pay mix proportional split between TGP, STI and LTI will not change significantly from 2021 to the 2022 financial year. The principles determining the key management pay mix are:

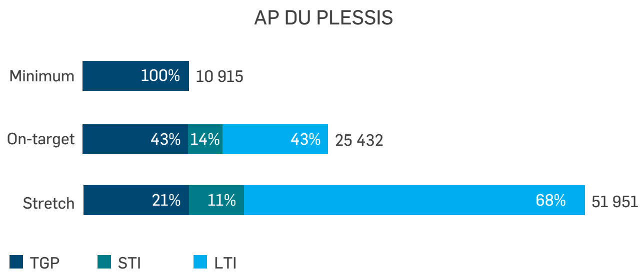
- TGP should be market competitive and sufficient in quantum to ensure that key management does not rely on variable remuneration-based short-term goals and decision-making
- STI earning potential is conservative compared to the market, which supports Capitec's key remuneration principle of long-term alignment with shareholders
- LTIs facilitate this long-term alignment with shareholders.

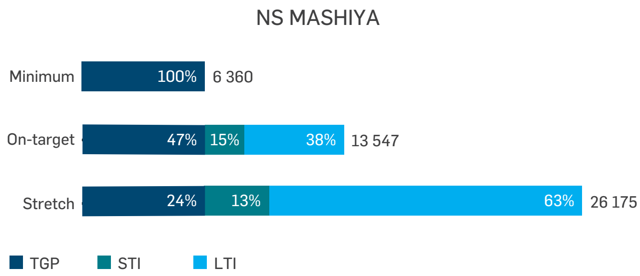
The graphs on the following page set out the pay mix of Capitec's executive directors for minimum, on-target and above-target performance. They demonstrate the strong pay-for-performance culture that is a core principle of our remuneration philosophy.

The graphs assume the following:

Element	Calculation minimum	On target	Above target
TGP	TGP as at 1 March 2021, see page 131. Benefits assumed in line with those paid in the 2021 financial year and contributions to the share purchase scheme assumed to be zero.		
STI	Nil	33% of annual TGP	54% of annual TGP
LTI	Nil	The maximum number of instruments granted in FY2021 that might vest multiplied by the fair value on grant.	The maximum number of instruments granted in FY2021 that might vest multiplied by the share price on grant.







Total guaranteed pay

TGP for key management is informed by:

- the Capitec approach to the key management pay mix described above and
- how TGP forms part of TR at market median (or the upper quartile in instances where this is warranted).

Executive directors are remunerated for services as employees of Capitec Bank. No fees are paid for their services as directors of any other companies in the group.

Short-term incentive

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

Key aspects of the STI (key management bonus)

The annual STI is designed to recognise the achievement of company financial performance measures and a combination of strategic measures linked to Capitec's overall business strategy. The STI is self-funded and settled in cash.

Capitec takes the following holistic approach to determining the STI value:

- The STI value is based primarily on the achievement of company financial performance measured as year-on-year headline earnings growth. Incremental increases above-target performance correlate directly with the percentage of STI payable
- Capitec also takes the achievement of personal KPIs into account as part of its holistic approach in reviewing performance. Personal KPIs are contracted with the REMCO by each member of key management and are continuously monitored throughout the year. While not specifically linked to the 6 capitals (set out by the IIRC and King IV), the personal KPIs cover a broad spectrum of capitals and, most importantly, are aligned with Capitec's strategic priorities. These measures are set out in a balanced scorecard under the following categories:
  - Efficiency
  - Business delivery
  - Diversify income stream
  - People
  - Quality clients
  - Innovative digital and data
  - Service experience
- Targets are set by the REMCO annually to ensure that they are truly stretching and only reward exceptional performance. At the end of the financial year, the REMCO assesses the level of financial and personal performance and determines the STI payment to be made to each member of key management
- Where a key manager's responsibilities are predominantly within a particular functional area of the company structure, the payment quantum is weighted towards the performance of that area
- Although the STI is uncapped, the additional amount earned for performance above target is minimal. This ensures that the STI earned remains modest when looking at the pay mix as a whole
- Failing on-target personal or company performance will warrant no payment.

Key management's earning potential for STI:

Percentage year-on-year growth in headline earnings	Payment as percentage of annual TGP
Below target	No payment
On-target	33%
Stretch (indicative only)	54%

Senior management performance bonus scheme

Senior management and roles identified as critical to the success of the organisation (specifically excluding key management and directors) are participants of the senior management performance bonus scheme. The goal of the scheme is to motivate a medium-term strategic focus for these employees.

Characteristics of the scheme include:

- Cash-settled
- Performance-based criteria include minimum personal performance and minimum company performance (growth in headline earnings) to qualify for an award
- Benefits vest and pay out over 3 years in 3 equal tranches
- Forfeiture of all balances in the scheme on termination of employment other than formal retirement, death, permanent disability or retrenchment
- 75% of balances in the scheme are paid out on early retirement from 60 to 64 years and the full balance is paid at the normal retirement age of 65.

In order to provide for greater alignment with shareholders and to allow participants to benefit from the success of the company, participants can elect that all or a portion of the award be delivered in Capitec shares under the RSP (refer to the following section). Where employees opt for shares, they will also receive a match of 10% of their award in additional restricted shares. The shares will vest in equal tranches in years 2 and 3.

Restricted share plan

The RSP is used as a retention tool, offering employees in the senior groups A and B an opportunity to share in the ownership of the group and so further align these employees' interests with those of the business and our shareholders. Key management does not participate in this RSP. The shares will be subject to a restriction on disposal for 2 years. In the 3rd year, participants shall be entitled to sell up to one-third, in the 4th year up to two-thirds, and in the 5th year all of the shares. Participants receive all shareholder rights from the award date, including dividend and voting rights.

Long-term incentive

As part of its annual review of remuneration, the REMCO reviews best practice in respect of LTIs. This includes reviewing the type of instrument, appropriate performance measures and operation of malus and clawback. Capitec commenced with investigating ways in which select senior employees, future successors, and key talent could be incentivised over the long term. This is to be done in a manner which drives both a culture of ownership and provides an element of lock-in while ensuring pay is aligned to the shareholder experience by having increased 'skin-in-the-game'. The salient features of the new structure have yet to be finalised, but the structure is likely to encapsulate the economic principles of a long-dated option. The details of the finalised structure will be included in the FY2022 report.

Key management LTI

LTIs for key management are awarded annually as a percentage of TGP. Share options and SARs are granted equally (i.e. each 50%).

Share options

With an option, employees are entitled, but not obliged, to purchase Capitec ordinary shares at an agreed date in the future for a predetermined price. The option price is set equal to the market value of the share, being the 30-day volume-weighted average share price on the JSE immediately preceding the day on which the options are granted. The number of shares the employee can purchase is determined by company performance measures. The options vest in years 3, 4, 5 and 6 after grant, in 25% tranches. Participants have a 6-month period after the date on which the options vest to exercise their right to purchase the shares.

Share appreciation rights

SARs operate similarly to the options detailed above in terms of option price, performance measures and vesting and exercise periods. SARs are settled in cash as opposed to equity. The amount settled is equal to the growth in share price above the option price. The SARs scheme is a simple, effective instrument and does not dilute issued share capital. SARs are granted at the same time and on the same terms (other than settlement) as the options.

Performance measures and vesting period

Beyond the minimum personal performance measures for participation (KPIs contracted with the REMCO), vesting is subject to the following company performance measures for all awards of SARs and options:

Measure	Minimum requirement for vesting	Weighting
HEPS	Growth exceeding CPI plus GDP plus 4%	50%
ROE	Outperform the average ROE of the 4 traditional banks in South Africa (Absa, FirstRand, Standard Bank and Nedbank)	50%

Capitec chose an earnings metric and a return metric (equally weighted) as company performance measures for vesting to ensure that the combination motivates key management to drive both measures as opposed to 1 measure at the cost of the other. The targets set are absolute targets and there is no threshold. This is because Capitec believes that performance below minimum requirements does not warrant vesting.

Targets are measured over a cumulative 3-year performance period. After the initial 3-year financial performance period, vesting is subject to continued employment for years 4, 5 and 6. The extent to which the performance measures are met will determine the percentage vesting. If the HEPS measure is met, but not the ROE measure, 50% will vest and *vice versa*. If both measures are met, 100% will vest, and if neither are met, nothing will vest.

Termination of employment and effect on unvested LTI

In the case of just-cause dismissal or resignation, all unvested LTIs are forfeited. In the case of death or ill health, the REMCO has discretion to allow automatic vesting of all unvested LTIs. The following table sets out the vesting of LTI on retirement, subject to the REMCO's discretion:

Retirement age	Options, SARs and RSP awards
Before 60 years	Forfeit all non-vested options, SARs and RSP awards
From 60 years to 64 years	75% of options, SARs and RSP awards will vest at the original future vesting dates
At 65 years	100% vesting of all options, SARs and RSP awards at the original future vesting dates

Share dilution usage for LTI

Since the establishment of Capitec, 17.81 million options have been exercised. To date, 5.83 million ordinary shares have been issued in settlement of these exercised options. The balance of ordinary shares required to settle options that have been exercised were acquired in the market.

In terms of the Capitec Bank Holdings Share Trust (the Trust) deed, a maximum of 11.53 million ordinary shares may be issued for purposes of the Trust (scheme allocation), after which shareholder approval must be obtained to determine a new scheme allocation.

The past dilutive effect of issues of ordinary shares, for purposes of the Trust since the inception of Capitec, remains at 5.04% of the issued ordinary share capital of Capitec as at 28 February 2021. The potential future dilutive effect is limited to 4.93% of the issued ordinary share capital of Capitec as at 28 February 2021.

Alignment of remuneration with risk

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

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

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

Malus and clawback

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

Following recommendations from the REMCO, the board may act to adjust (malus) or recover (clawback) any STI or LTI paid/settled on the occurrence of a trigger event. Trigger events include (but are not limited to):

- material misstatement of financial statements
- dishonesty, fraud or gross misconduct.

Executive director and key management agreements

Executive directors and other members of key management do not have fixed-term or bespoke key management agreements, but are employed in terms of the group's standard employment agreement. The notice period for termination of service is 1 calendar month. This was amended during the 2015 financial year so that the notice period for new key management appointments is 3 months. Normal retirement age ranges from 60 to 65 years, unless the board requests to extend this term.

No additional payments are made to key management upon termination of employment (apart from those required in terms of labour legislation) and they do not receive sign-on bonuses.

Upon termination of employment, all STIs are forfeited. Unvested LTIs will be treated in accordance with the LTI policy (refer to page 128, termination of employment and effect on unvested LTI).

All key management have achieved the MSR within the given period. The MSR will remain in place.

Risk and compliance employees' remuneration

Remuneration levels and structures for risk and compliance employees are determined as part of the annual budget process and are subject to oversight by the REMCO. This happens independently of the relevant risk departments.

The audit committee ensures that these employees are correctly and fairly remunerated. During the year under review, Capitec introduced a further measure in the form of a bonus cap to ensure that the remuneration of employees in internal audit roles is in line with best practice. Bonuses for internal audit employees are capped at 500% of an employee's monthly salary (41.67% of their annual salary).

Minimum shareholding requirements (MSRs)

MSRs expose key management to the same risks and rewards faced by Capitec's shareholders. Capitec's key management voluntarily hold an outright share ownership (through direct shareholding and not unvested LTI) that is not less than the value of the following proportion of their respective TGP as at 28 February 2021.

Position	Minimum holding in proportion to TGP
CEO	300%
CFO	300%
Key management	100%

The minimum holding should be retained until termination of employment. The percentage shareholding should be achieved within 5 years from 1 March 2016 or within 5 years of a key management appointment. With all key management having achieved the MSR within this period, with executive directors' value disclosed in Part 3 of this report, the MSR will remain in place.

Shareholding is measured annually using the average value of the Capitec share price over a period of 52 weeks, expressed as a percentage of key management's TGP.

Non-executive director fees

Non-executive director remuneration is based on a fixed-fee structure not related to meeting attendance. The chairman of the board is paid a retainer and receives no further payment for committee membership. Board members receive a retainer for board membership and for each board committee on which they serve. No fee is paid for members of the DAC.

Non-executive directors do not qualify for any STI.

No new LTI allocations are made to non-executive directors, however, previous tenure as a member of key management may result in legitimate vesting of a previously awarded LTI. Non-executive directors are reimbursed for their direct and/or indirect expenses reasonably and properly incurred in the performance of their duties. Non-executive directors who, in terms of tax requirements, supply a tax invoice with VAT, receive their approved non-executive director fees accordingly.

Proposed FY2022 non-executive director fees

Towards the end of the 2020 financial year, Capitec conducted an external benchmarking exercise as part of reviewing the non-executive director fees. The same comparator group was used as for the executive directors, as set out on page 124.

The benchmarking exercise concluded that the 2020 fees paid to Capitec's non-executive directors tend towards the lower quartile of the comparator group. In considering the 2021 non-executive director fees, the following factors were noted:

- The outcomes of the benchmarking exercise
- The difficulty of attracting suitable non-executive directors who are fit and proper
- The increase in corporate malfeasance and corporate failures that has heightened the governance and oversight role of non-executive directors
- Ongoing changes to the regulatory landscape and regulatory frameworks that have increased the governance burden on non-executive directors
- Personal and professional risk associated with holding such office.

Although the original intention was to make adjustments to the non-executive director fees where necessary for FY2021, in order to bring the fees in line with the median of the market, it was decided to delay these adjustments for reconsideration in FY2022 due to the unprecedented developments related to COVID-19 and uncertainty of the trading environment at the time.

In light hereof, and taking into account the savings brought by the dissolution of the Mercantile board and the quick recovery of the group's performance in the second half of the year under review, we decided to go ahead with the necessary adjustments in FY2022. This brings all of the positions in line with the median of the market, while only adding inflationary increases to the other positions. While it is noted that the increases represent a meaningful adjustment in some instances, the board believes it is necessary to ensure the continued attraction of suitable talent.

The following proposed FY2022 non-executive director fees will be tabled for approval by shareholders (in terms of the Companies Act) at the AGM to be held on 28 May 2021. Refer to special resolution number 1 in the notice of the AGM.

Directors' fees	2021 R	2022 R	Change %
Chairman of the board	2 500 000	3 250 000	30
Lead independent director	300 000	300 000	–
Directors	450 000	475 000	6
Chairman of the audit committee	450 000	585 000	30
Audit committee member	200 000	260 000	30
Chairman of the DAC	–	–	–
DAC member	–	–	–
Chairman of the RCMC	450 000	475 000	6
RCMC member	200 000	250 000	25
Chairman of the REMCO	350 000	370 000	6
REMCO member	150 000	174 000	16
Chairman of the SECO	200 000	253 000	27
SECO member	80 000	105 000	31
Subcommittee of the board	70 000	73 500	5

Stakeholder engagement

As set out in Part 1, the remuneration policy (Part 2) and the implementation report (Part 3) will be subject to separate votes at the AGM. If 25% or more of the shareholders vote against either or both, the REMCO will ensure that:

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

> While it is noted that the non-executive director fee increases represent a meaningful adjustment in some cases, the board believes it is necessary to ensure the continued attraction of suitable talent.

Part 3: Implementation report

This part of the report provides insight into the implementation of our remuneration policy during the year ended 28 February 2021.

It details the remuneration paid to both executive directors and non-executive directors, in particular:

- The TGP increases approved in line with the Capitec TR policy approach
- STI performance versus the targets set
- The LTI awards granted in the reporting year to eligible employees ensuring continued retention and alignment with shareholders and pay-for-performance philosophy
- The LTI awards vesting in the reporting year
- The fair value of unvested LTI awards remaining, which demonstrated alignment between executive directors and shareholders
- An overview of the incremental TR growth over the past 5 years compared to some key financial metrics (being the value added to shareholders in terms of metrics such as headline earnings, ROE and share price growth)
- A single remuneration figure for the value of actual TGP paid, STI paid and any LTIs vesting in the 12 months following year-end
- The executive directors' shareholding compared to MSRs
- The non-executive director fees paid to individuals for their services as board and committee members as approved by shareholders.

Total guaranteed pay

In light of the impact of the COVID-19 pandemic, it was decided that executive directors will not receive an increase in their guaranteed pay from May 2021. For employees below executive level, the decision was taken to award average increases on a sliding scale, ranging from 3% for management employees to 6% for lower-level employees in order to minimise the negative financial impact on our more vulnerable employees where the financial impact of the pandemic was greater.

Executive directors	2021 R	2020 R	Change %
GM Fourie	**13 000 000**	13 000 000	–
AP du Plessis	**10 106 455**	10 106 455	–
NS Mashiya	**6 000 000**	4 652 100	29

* *NS Mashiya's increase is a step towards aligning his remuneration with the market, taking into account his increasing responsibilities driven by the growth in the regulatory and risk management demands on the group, along with the acquisition of Mercantile business bank.*

Short-term incentive

In terms of our remuneration policy, a small proportion of key management remuneration is delivered through the STI.

As noted in the background statement in Part 1 of this report, all bonus schemes across Capitec were calculated based on the audited percentage target achieved of group annual headline earnings and not HEPS.

In September 2020, the REMCO reassessed Capitec's financial position and forecasts at the half-year mark along with the unprecedented change in the operating environment. After careful deliberation, the REMCO decided that the original HEPS targets would not adequately motivate the kind of performance required to address the challenges brought on by the pandemic. The REMCO took into consideration the unique circumstances of the pandemic, the challenges, the exceptional performance and leadership of our management and determined headline earnings to be a more appropriate measure for purposes of determining performance for FY2021.

The performance measure table below compares the executive directors' STI paid with on-target earning potential, the company performance measure and targets on which the payment was based.

	Performance targets			Actual performance
Performance measure	**%**	**%**	**%**	**%**
Percentage of headline earnings target achieved	43.0	100.0	115.0	63.5
Percentage of TGP payable	–	48.3	53.3	33.3

Based on the Guidance Note 4 of 2020 issued by the PA, the STI accrued to executive directors was not paid in the 2020 financial year despite the fact that targets were met both in terms of Capitec's performance and their personal KPIs. Further to the release of Guidance Note 3 of 2021, the REMCO has determined that the STI will now be paid to executives.

Long-term incentive

The following section sets out details of the instruments granted during the year, instruments vesting during the year (included in the single-figure table) and instruments that remain unvested at the end of the financial year. For instruments exercised during the year, we set out the cash value received on exercise.

LTI awards granted in the reporting year

In line with our remuneration policy as set out in Part 2 (page 127), grants of options and SARs were made to executive directors during the year. Options and SARs are subject to the performance measures set out on page 132. Details of the number of shares and the options price are set out in the unvested awards table on pages 134 and 135.

LTI awards vesting in the reporting year

For the financial year ended 28 February 2021, Capitec only has options and SARs with performance measures vesting. Performance measures were introduced for all LTI granted from 2016 onwards. All awards vest in equal tranches in years 3, 4, 5 and 6. Capitec has reviewed the methodology set out in the King IV guidance notes issued by the South African Reward Association (SARA) and the Institute of Directors South Africa (IoDSA).

For options and SARs that have performance measures, the guidance notes suggest that the value of options and SARs is included in the single-figure table at the year-end aligned with when the performance period ends. As Capitec uses tranche vesting, there is a significant timing misalignment between the end of the performance period (3 years) and the achievement of the employment condition and resultant vesting (years 3, 4, 5 and 6). For this reason, the REMCO has taken the decision to report the value in the single-figure table in respect of the options and SARs that are due to vest within 12 months of financial year-end as it accurately reflects the economic value to participants at the time of vesting.

As indicated in the background statement in Part 1, the REMCO decided that, for the 2018 grant of SARs and options for which the performance period ended in the year under review, the vesting of the awards will be determined based on the pre-COVID-19 performance. The REMCO has determined this to be in the best interests of the company as it results in a fairer outcome and rewards our executives for their excellent performance during the initial two performance years as well as their tireless and ingenious efforts for the year under review, which is evident in the share price recovery, the ability to pay out dividends, the recovery of headline earnings, and the continued protection of lives and livelihoods.

Achievement of performance measures

The table below sets out the achievement of performance measures for the 2018 options and 2018 SARs. The performance measures are the same for both instruments.

Performance measure	Weighting %	Performance target	Actual performance %	Actual vesting* %
HEPS	50	Growth exceeding CPI + GDP + 4%	18.6	50
ROE	50	Outperform the average ROE of the big 4 traditional banks in South Africa	28	50
Total				**100**

* *The 2021 financial year was not considered when determining whether the performance measures were met.*

The table below sets out the resultant number of shares available for vesting based on the achievement of performance measures.

Executive	Type of instrument	Shares awarded	Performance condition achievement %	Strike price R	Number of shares vesting
GM Fourie	Options	22 957	100	881.76	22 957
	SARs	22 957	100	881.76	22 957
	Total				**45 914**
AP du Plessis	Options	15 121	100	881.76	15 121
	SARs	15 121	100	881.76	15 121
	Total				**30 242**
NS Mashiya	Options	4 749	100	881.76	4 749
	SARs	4 749	100	881.76	4 749
	Total				**9 498**

The table below sets out details of the value of awards included in the single-figure table on page 136. We used a year-end share price of R1 338.75

Executive	Type of instrument	2017 awards R'000	2018 awards R'000	2019 awards R'000	Value of shares included in single-figure table R'000
GM Fourie	Options	8 499	4 426	2 975	15 900
	SARs	8 499	4 426	2 975	15 900
	Total				**31 800**
AP du Plessis	Options	5 196	2 727	1 959	9 882
	SARs	5 196	2 727	1 959	9 882
	Total				**19 764**
NS Mashiya	Options	1 806	940	616	3 362
	SARs	1 806	940	616	3 362
	Total				**6 724**

LTI unvested awards

The following table sets out the unvested instruments remaining for each executive director. It includes a calculation of the indicative value of unvested instruments at the end of the 2020 financial year and a calculation of the cash value of instruments exercised in the 2021 financial year. The methodology used in determining these values is in line with the guidance notes issued by SARA and the IoDSA.

Before studying the table, it is important to consider the following:

- The first grant with performance measures applicable was made in April 2016 (FY2017) and the first tranche vested in April 2019

  As such, the table sets out the awards which vested in respect of this first tranche as well as the number of awards which lapsed following the testing of the performance measures
- The indicative value of unvested instruments is an estimated value and is not an actual reflection of the value of the award that will vest in future
- The cash value of instruments exercised in the year represents the gain made on the exercise of instruments during the year
- The indicative value of unvested instruments and the cash value of instruments exercised in the year should not be added together.

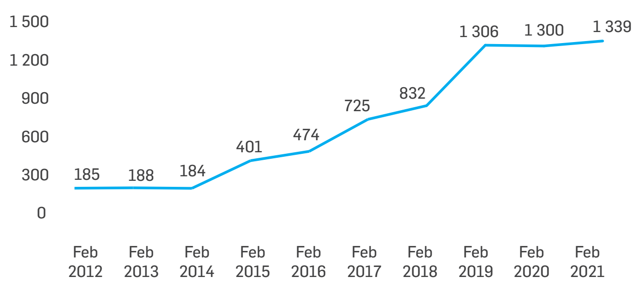
Date of award	Number of instruments awarded	Strike price R	Number of instruments vested and exercised	Closing number of unvested instruments	Indicative value of unvested and/or unexercised instruments R'000	Number exercised in the year	Share price at which instruments were exercised R	Cash value of instruments exercised in the year R'000
	A	B	C	D = A-C	E	F	G	H = F X (G-B)
GF Fourie								
Options								
2014	17 500	201.4	17 500	–	–	–	–	–
2014	27 500	209.83	27 500	–	–	–	–	–
2015	18 330	196.43	18 330	–	–	–	–	–
2016	91 487	371.88	91 487	–	–	22 871	836.19	10 619
2017	36 677	473.05	18 339	18 338	17 183	9 169	1 040.67	5 205
2018	25 507	705.93	6 377	19 130	14 069	6 377	925.50	1 400
2019	22 957	881.76	–	22 957	14 227	–	–	–
2020	20 428	1 175.01	–	20 428	10 649	–	–	–
2021	**26 703**	**973.05**	**–**	**26 703**	**18 840**	**–**	**–**	**–**
SARs								
2014	17 500	201.4	17 500	–	–	–	–	–
2014	27 500	209.83	27 500	–	–	–	–	–
2015	6 225	0.01	6 225	–	–	–	–	–
2016	31 106	0.01	31 106	–	–	7 776	1 057.75	8 225
2017	36 677	473.05	18 339	18 338	16 623	9 169	1 057.75	5 361
2018	25 507	705.93	6 377	19 130	14 069	6 377	1 057.75	2 244
2019	22 957	881.76	–	22 957	14 227	–	–	–
2020	20 428	1 175.01	–	20 428	10 649	–	–	–
2021	**26 703**	**973.05**	**–**	**26 703**	**18 840**	**–**	**–**	**–**
AP du Plessis								
Options								
2014	17 500	201.4	17 500	–	–	–	–	–
2015	23 746	196.43	23 746	–	–	–	–	–
2016	69 454	371.88	69 454	–	–	17 363	903.83	9 236
2017	22 420	473.05	11 210	11 210	10 503	5 605	903.83	2 415
2018	15 714	705.93	3 929	11 785	8 668	3 929	903.83	778
2019	15 121	881.76	–	15 121	9 371	–	–	–
2020	12 705	1 175.01	–	12 705	6 623	–	–	–
2021	**16 608**	**973.05**	**–**	**16 608**	**11 718**	**–**	**–**	**–**
SARs								
2014	17 500	201.4	17 500	–	–	–	–	–
2015	8 065	0.01	8 065	–	–	–	–	–
2016	23 614	0.01	23 614	–	–	5 903	1 057.75	6 244
2017	22 420	473.05	11 210	11 210	10 503	5 605	1 057.75	3 277
2018	15 714	705.93	3 929	11 785	8 668	3 929	1 057.75	1 382
2019	15 121	881.76	–	15 121	9 371	–	–	–
2020	12 705	1 175.01	–	12 705	6 623	–	–	–
2021	**16 608**	**973.05**	**–**	**16 608**	**11 718**	**–**	**–**	**–**

Date of award	Number of instruments awarded	Strike price R	Number of instruments vested and exercised	Closing number of unvested instruments	Indicative value of unvested and/or unexercised instruments R'000	Number exercised in the year	Share price at which instruments were exercised R	Cash value of instruments exercised in the year R'000
	A	B	C	D = A-C	E	F	G	H = F X (G-B)
NS Mashiya								
Options								
2016	35 500	539.88	35 500	–	–	8 875	1 325.08	6 969
2017	7 791	473.05	3 896	3 895	3 650	1 948	885.49	803
2018	5 414	705.93	1 354	4 060	2 986	1 354	1 096.74	529
2019	4 749	881.76	–	4 749	2 943	–	–	–
2020	3 509	1 175.01	–	3 509	1 829	–	–	–
2021	**4 587**	**973.05**	**–**	**4 587**	**3 236**	**–**	**–**	**–**
2021	**6 287**	**908.58**	**–**	**6 287**	**4 849**	**–**	**–**	**–**
SARs								
2016	12 000	0.01	12 000	–	–	3 000	1 309.40	3 928
2017	7 791	473.05	3 896	3 895	3 650	1 948	1 057.75	1 139
2018	5 414	705.93	1 354	4 060	2 986	1 354	1 057.75	476
2019	4 749	881.76	–	4 749	2 943	–	–	–
2020	3 509	1 175.01	–	3 509	1 829	–	–	–
2021	**4 587**	**973.05**	**–**	**4 587**	**3 236**	**–**	**–**	**–**
2021	**6 287**	**908.58**	**–**	**6 287**	**4 849**	**–**	**–**	**–**

Key management value creation

The table below compares the headline earnings of Capitec over the past 6 years with the total executive remuneration paid in each respective year. The REMCO is satisfied that the level of executive pay as a proportion of headline earnings is reasonable, especially when one considers the value created for investors over the period in comparison to the incremental total executive remuneration increase over the same period. Note that the value included below in respect of total executive remuneration differs from that in the single-figure table as it uses the fair value at grant for LTIs rather than the indicative value of awards that have vested.

CAPITEC HOLDINGS LIMITED SHARE PRICE



	Headline earnings R'm	Total executive remuneration R'm	Remuneration as percentage of headline earnings %	ROE %
2021	**4 586**	**104**	**2**	**17**
2020	6 277	105	2	28
2019	5 292	109	2	28
2018	4 461	88	2	27
2017	3 793	90	2	27
2016	3 222	101	3	27
Value created over 5-year period versus remuneration cost differential	**1 363**	**3**		

* *Includes all key management TGP, STI and LTI at fair value granted during the year and measured on the reporting date.*

Executive director single-figure

The following table illustrates a single remuneration figure for the value of guaranteed pay, benefits, STI and LTI. The corresponding value for the preceding year is included.

Executive directors R'000	Guaranteed pay	Benefits	TGP	STI	LTI	Total remuneration for the year
2021						
GM Fourie	**13 000**	**90**	**13 090**	**4 333**	**31 800**	**49 223**
AP du Plessis	**10 106**	**85**	**10 191**	**3 369**	**19 764**	**33 324**
NS Mashiya	**5 214**	**59**	**5 273**	**2 000**	**6 722**	**13 995**
Total	**28 320**	**234**	**28 554**	**9 702**	**58 286**	**96 542**
2020						
GM Fourie	12 804	58	12 862	5 113	54 077	72 052
AP du Plessis	9 967	78	10 045	3 975	37 727	51 747
NS Mashiya	4 605	47	4 652	1 830	15 476	21 958
Total	27 376	183	27 559	10 918	107 280	145 757

Executive director shareholding

In the 2017 financial year, the REMCO introduced MSRs for executive directors and other key management (see the related section under Part 2: Remuneration philosophy and policy on page 129).

The REMCO is satisfied that the CEO, CFO and executive: risk management continue to meet their MSRs and exhibit a strong buy-in to the principle of alignment with shareholder interests.

The percentage shareholding as at financial year-end is:

Position	% of TGP
CEO	8 470
CFO	9 647
Executive: risk management	313

Shareholding is measured annually using the average value of the Capitec share price over a period of 52 weeks, expressed as a percentage of key management's TGP.

Non-executive director actuals (as approved at the previous AGM)

Non-executive directors received no other remuneration or benefits beside directors' fees. Non-executive directors are reimbursed for their direct and/or indirect expenses reasonably and properly incurred in the performance of their duties. Non-executive directors who, in terms of tax requirements, supply a tax invoice with VAT, receive their approved non-executive director fees accordingly.

For the financial year, non-executive director fees were as follows (excluding any reimbursement and VAT):

Non-executive directors R'000	2021	2020	Change %
SL Botha (chairman)	**2 500**	1 875	33
LA Dlamini[(1)]	**–**	293	n/a
SA du Plessis[(2)]	**282**	–	n/a
MS du Pré le Roux	**520**	520	–
CH Fernandez[(2)]	**282**	–	n/a
V Mahlangu[(2)]	**282**	–	n/a
K Makwane[(3)]	**371**	850	(56)
TE Mashilwane[(4)(5)]	**729**	n/a	n/a
JD McKenzie	**1 550**	1 550	–
DP Meintjes	**880**	738	19
NS Mjoli-Mncube[(6)]	**–**	113	n/a
PJ Mouton	**720**	720	–
CA Otto	**870**	870	–
R Stassen[(7)]	**–**	625	n/a
JP Verster	**1 100**	1 100	–
Total	**10 086**	9 254	9

(1) *Resigned on 30 June 2019.*
(2) *Appointed on 25 September 2020.*
(3) *Resigned on 25 September 2020.*
(4) *Appointed on 6 March 2020.*
(5) *Appointed as chairman of the SECO on 25 September 2020.*
(6) *Retired on 31 May 2019.*
(7) *Retired on 31 May 2019.*

Remuneration analysis

	Unit	Executive management[1]	Senior management	Other employees	Total	Annual financial statements reference
Employees	number	8	139	14 525	14 672	
Remuneration awards						
Fixed	R'000	**58 675**	**245 278**	**3 660 326**	**3 964 279**	
Cash remuneration	R'000	58 675	245 278	3 660 326	3 964 279	Note 27
Variable	R'000	**45 802**	**119 674**	**177 975**	**343 451**	
Cash employee performance bonus	R'000	19 012	7 144	177 975	204 131	
Cash senior management bonus	R'000	–	46 982	–	46 982	
Share options	R'000	13 395	18 180	–	31 575	Note 27
SARs	R'000	13 395	47 368	–	60 763	Note 27
Variable remuneration						
Employees receiving awards	number	8	139	14 525	14 672	
Non-deferred	R'000	19 012	22 488	177 975	219 475	
Deferred	R'000	24 752	99 225	–	123 977	
Outstanding deferred remuneration	R'000	**292 401**	**172 023**	**–**	**464 424**	
Cash senior management bonus	R'000	–	84 744	–	84 744	Note 21
Share options	R'000	135 774	57 743	–	193 517	Note 43
SARs	R'000	156 627	29 536	–	186 163	Note 44
Deferred remuneration paid out	R'000	**141 226**	**125 895**	**–**	**267 121**	
Cash senior management bonus	R'000	–	85 317	–	85 317	
Share options	R'000	82 834	32 335	–	115 169	
SARs	R'000	58 392	8 243	–	66 635	
Employees' exposure to adjustments	R'000	**292 402**	**172 022**	**–**	**464 424**	
Implicit adjustments	R'000	292 402	87 278	–	379 680	
Post explicit adjustments	R'000	–	84 744	–	84 744	
Total remuneration exposed to adjustments	R'000	**292 402**	**172 022**	**–**	**464 424**	
Implicit adjustments	R'000	292 402	87 278	–	379 680	
Post explicit adjustments	R'000	–	84 744	–	84 744	
Reductions due to post explicit adjustments	R'000	–	–	–	–	

[1] *Executive management is defined as the 8 members of EXCO excluding the 2 annually elected development members.*


12:30
Loans & Accounts
Last 6 months
Average
R32 700.00
This month
R26 300.00
R30k
R0
Mar
Apr
May
Jun
Jul
Aug
Car repayments
R6 300.00
Home loan repayments
R17 000.00
Store card payments
R3 000.00
Home
Cards
Explore
75%
int main(int argc, char **argv) {
vector<char> acc;
char ch;
ifstream infile(argv[1]);

annual financial statements

The preparation of the Capitec Bank Limited consolidated and separate annual financial statements was supervised by the CFO, André du Plessis CA(SA).

Statement of responsibility by the board of directors

Capitec Bank Limited and its subsidiaries (the group)

The directors are responsible for the preparation, integrity and fair presentation of the consolidated and separate annual financial statements of Capitec Bank Limited. The annual financial statements, comprising the statements of financial position as at 28 February 2021, the income statements, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and the notes to the annual financial statements which include a summary of significant accounting policies and other explanatory notes, have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of South Africa, Act 71 of 2008, as amended (Companies Act) and include amounts based on judgements and estimates made by management. In addition, the directors are responsible for preparing the directors' report.

The directors consider that the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the annual financial statements and that all statements of IFRS that are considered applicable have been applied. The directors are satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the group and company at year-end. The directors also prepared the directors' report and the other information included in the integrated annual report and are responsible for both its accuracy and consistency with the annual financial statements.

The directors' responsibility includes maintaining adequate accounting records. The accounting records should disclose, with reasonable accuracy, the financial position of the companies to enable the directors to ensure that the annual financial statements comply with relevant legislation.

Capitec Bank Limited operates in a well-established control environment, which is documented and regularly reviewed. The control environment incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that the risks facing the business are controlled.

The consolidated and separate annual financial statements were prepared on a going concern basis. Based on their assessment, the directors have no reason to believe that the group or any company in the group will not continue as a going concern in the foreseeable future. The viability of the group is supported by the annual financial statements.

The group adhered to the Code of Corporate Practices and Conduct.

The group's external auditors, PricewaterhouseCoopers Inc. (PwC) and Deloitte & Touche (Deloitte), audited the annual financial statements and their report is presented on pages 144 to 149.

The annual financial statements set out on pages 150 to 297 were approved by the board of directors and signed on its behalf on 13 April 2021 by:

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer (CEO)

13 April 2021

Certificate by the company secretary

I hereby confirm, in my capacity as company secretary of Capitec Bank Limited, that for the year ended 28 February 2021, the company has filed all required returns and notices in terms of the Companies Act, and that all such returns and notices are to the best of my knowledge and belief true, correct and up-to-date.

Yolande Mouton
Company secretary

13 April 2021

Audit committee's report

Capitec Bank Limited and its subsidiaries (the group)

The Capitec Bank Limited audit committee (the committee) is an independent statutory committee appointed by the board of directors in terms of section 64 of the Banks Act, Act 94 of 1990 (Banks Act), and section 94 of the Companies Act to the extent applicable.

The committee comprises 4 independent non-executive directors. The committee met 3 times during the year with 92% attendance by members at the meetings.

The committee's responsibilities include statutory duties in terms of the Companies Act, as well as responsibilities assigned to it by the group's board of directors. The committee's terms of reference are set out in a board-approved charter and are detailed in the corporate governance review.

The committee conducted its affairs in compliance with, and discharged its responsibilities in terms of its charter for the year ended 28 February 2021.

The committee performed the following statutory duties during the period under review:

- Satisfied itself that the external auditors are independent of the group or any company in the group, as set out in section 94(8) of the Companies Act and suitable for reappointment by considering, *inter alia*, the information stated in paragraph 22.15(h) of the JSE Listings Requirements
- Satisfied itself that the appointment of the auditors complied with the Companies Act and any other legislation relating to the appointment of auditors
- In consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted fees for the 2021 financial year
- Approved the nature and extent of non-audit services that the external auditors may provide
- Nominated for election at the annual general meeting (AGM), PricewaterhouseCoopers Inc. and Deloitte & Touche as the external audit firms
- Satisfied itself, based on the information and explanations supplied by management and obtained through discussions with the independent external auditors and internal auditors, that the system of internal financial controls of all the companies included in the consolidated annual financial statements, is effective and forms a basis for the preparation of reliable financial statements
- Reviewed the accounting policies and the group financial statements for the year ended 28 February 2021 and, based on the information provided to the committee, considers that the group complies, in all material respects, with the requirements of the Companies Act, Code of Corporate Practices and Conduct and IFRS
- Undertook the prescribed functions in terms of section 94(7) of the Companies Act on behalf of the subsidiary companies of the group
- Approved the key audit matters report
- Satisfied itself as to the performance and quality of external audit after due consideration and with reference to the audit quality indicators.

The committee performed the following duties assigned by the board during the period under review:

- Considered the information as disclosed in the integrated annual report and satisfied itself that the information is reliable and consistent with the financial results. The committee, at its meeting held on 9 April 2021, recommended the integrated annual report for approval by the board of directors
- Satisfied itself that the group's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties
- Approved the internal audit charter and the annual audit plan
- Considered the internal audit reports tabled on a quarterly basis and noted the annual conclusion on the adequacy and effectiveness of the system of internal controls, risk management and governance
- Satisfied itself that appropriate financial reporting procedures exist and are working, as contemplated in paragraph 3.84(g)(ii) of the JSE Listings Requirements, which includes consideration of all the entities in the consolidated annual financial statements
- Met with the external auditors and with the heads of the internal audit function and compliance function without management being present
- Satisfied itself in terms of JSE Listings Requirement 3.84(g)(i) that the financial director has appropriate expertise and experience.

Jean Pierre Verster
Chairman of the audit committee

13 April 2021

Directors' report

Year ended 28 February 2021

The directors present their report to shareholders for the year ended 28 February 2021.

Nature of the business

Capitec Bank Limited group (Capitec Bank or the group) is a leading South African bank which focuses on essential banking services and provides innovative savings, transacting and lending products to individuals and SMEs.

Review of operations

The operating results and the state of affairs of the company and the group are fully disclosed in the annual financial statements and commentary is provided in the review by the Chairman and Chief Executive Officer, and the report from the Chief Financial Officer (CFO), which are included in the integrated annual report.

On 7 November 2019, Capitec Bank Limited obtained control over the Mercantile group by acquiring 100% of the shares and voting interest in Mercantile Bank Holdings Limited. Mercantile Bank Limited is involved in the full spectrum of domestic and international banking and financial services to niche markets within business banking. The acquisition provides the group with a share in the business banking market.

On 1 December 2020, the assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited in a business reorganisation. Refer to note 4.

The shares in the insurance cell captives, previously held by Capitec Bank Limited, were sold to Capitec Ins Proprietary Limited, a wholly-owned subsidiary of Capitec Bank Holdings Limited, effective 31 March 2021. The sale is subject to a number of suspensive conditions that will only be satisfied at the end of April 2021. Refer to note 45.

Share capital

No ordinary shares were issued during the year ended 28 February 2021. The number of shares in issue amounted to 1 300 000 (2020: 1 300 000).

No ordinary shares were repurchased during the year and 193 402 (2020: 94 288) preference shares were repurchased.

Dividends to shareholders

The company declared the following dividends for the year under review and the previous year:

	2021	2020
Ordinary dividend (R'000)		
Interim	–	872 984
Final	1 600	–
Preference dividend (cents per share)		
Interim	326.30	428.07
Final	289.26	413.00

Based on the guidance note issued by the Prudential Authority (PA) on 6 April 2020, the board decided not to declare a final dividend for the 2020 financial year or an interim dividend for the 2021 financial year. According to the notice, the PA expected there to be no distribution of dividends on ordinary shares by any bank during 2020.

The PA issued a guidance note on 18 February 2021 expressing the expectation that banks be prudent when declaring dividends. After considering the adequacy of forecast capital and profitability levels, the board decided to declare a final dividend for 2021.

The directors have performed the solvency and liquidity tests required by the Companies Act.

Subsidiaries and joint ventures

Information relating to the company's financial interest in its subsidiaries and joint ventures is presented in the notes to the annual financial statements.

Directors and company secretary

Information relating to the directors and company secretary is included from pages 62 to 65 of the integrated annual report.

The directors' interest in share capital and agreements and directors' remuneration are disclosed in the notes to the annual financial statements.

Board resignations and appointments

Kabelo Makwane resigned from the board on 25 September 2020.

Stanislaus (Stan) du Plessis, Cora Hedwick Fernandez and Vusumuzi (Vusi) Mahlangu were appointed to the board on 25 September 2020.

Corporate governance disclosures in accordance with the JSE Debt Listings Requirements

As contemplated in paragraph 7.3(c)(iii) of the JSE Debt Listings Requirements, independence of directors is determined holistically, in accordance with the indicators provided in section 94(4)(a) and (b) of the Companies Act, Directive 4 of 2018 issued by the Prudential Authority on 5 October 2018 and the King Code.

The company confirms that the audit committee has executed the responsibilities as set out in paragraph 7.3(e) of the JSE Debt Listings Requirements.

In accordance with paragraph 7.3(f) of the JSE Debt Listings Requirements, the company follows an existing policy on the evaluation of the performance of its board of directors and that of its committees, its chair and its individual directors pursuant to the provisions of the King Code.

The company's debt officer, as contemplated in paragraphs 6.39(a) and 7.3(g) of the JSE Debt Listings Requirements, is Mr Anton Friend (Treasurer). The board of Capitec duly considered and satisfied itself with the competence, qualifications and experience of Mr Friend before he was appointed as debt officer of the company.

The company's board appointment and conflict of interest policies (Policies) are accessible at **https://www.capitecbank.co.za/investor-relations/**.

The Policies deal, *inter alia*, with i) the conflicts of interest of the directors and the executive management of Capitec and how such conflicting interests can be identified and managed or avoided; and ii) the process for the nomination and appointment of directors of the company.

Since publication of the Policies, there have been no amendments to the Policies.

Capitec confirms that, as at 12 April 2021, there are no recorded conflicts of interest and/or personal financial interests of the directors and/or the executive management of Capitec, as contemplated in the Policies and paragraphs 7.5 and 7.6 of the JSE Debt Listing Requirements (as read with section 75 of the Companies Act) other than the fact that the directors of Capitec Bank and Capitec Bank Holdings Limited are identical and the chief executive officer and financial director that are directors of the said companies are also the directors of the wholly-owned subsidiaries in the group. Accordingly, as at the 12 April 2021, there is no 'register of any conflicts of interest and/or personal financial interests', as contemplated in paragraph 7.6 of the JSE Debt Listing Requirements.

Independent auditors' report

To the shareholders of Capitec Bank Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Capitec Bank Limited (the Company) and its subsidiaries (together the Group) as at 28 February 2021, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Capitec Bank Limited's consolidated and separate financial statements set out on pages 150 to 297 comprise:

- the consolidated and separate statements of financial position as at 28 February 2021;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the document titled "Integrated Annual Report 2021 Capitec Bank Limited", rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Expected credit losses (ECL) on loans and advances
Refer to note 3 (Critical accounting estimates and judgements in applying accounting policies), note 9 (Net loans and advances), note 2.5.1.2 (Accounting policies – Impairment) and note 33.1 (Credit risk) for the related disclosures.

We determined the ECL assessment for loans and advances to be a matter of most significance to the current year audit due to:
▪ the degree of subjective judgement and estimation applied by management in determining the ECL;
▪ the uncertainty related to unprecedented economic stress; and
▪ the magnitude of the ECL in relation to gross loans and advances.</td><td></td></tr>
<tr><td>Retail bank
For the Retail bank segment, at 28 February 2021, gross unsecured loans and advances amounted to R64.0 billion, against which an ECL of R17.2 billion was raised.

In calculating the ECL, which is calculated in terms of International Financial Reporting Standards (IFRS) 9 – Financial Instruments (IFRS 9), the key areas of significant management judgement and estimation included:
▪ Determining whether evidence exists that there has been a significant increase in credit risk (SICR) since initial recognition of the financial instrument, by considering shifts in calculated behavioural and granting scores, beyond determined thresholds.
▪ Determining of the write-off point. The Group considers the point at which there is no reasonable expectation of further recovery to be made, when the expected present value of projected future recoveries is less than 5% of the gross balance before write-off. This point is estimated based on account status, behavioural score and consecutive missed payments.</td><td>Retail bank
Making use of our actuarial and economics expertise, our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on loans and advances, as follows:

Evaluation of SICR
▪ We recalculated the impact of SICR, applying the assumptions and data included in management's model, including the performance of rehabilitated accounts.
▪ We tested the performance of SICR thresholds applied and the resultant transfer rate into stage 2 for SICR. This included benchmarking the volume of up-to-date accounts transferred to stage 2 based on history as well as increases in risk determined by management's forward-looking economic model.
▪ We performed a sensitivity analysis of SICR to assess the impact of change in SICR thresholds on the ECL recognised.
▪ We evaluated management's validation of the performance of behavioural scores, granting scores and the correlation of these to default rates.
▪ We obtained an understanding of management's process for identifying employer groups under stress and observed employer groups to have been considered in management's calculation of the granting scores.</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
▪ Determining and weighting of assumptions used in the forward-looking economic model. Three forward-looking scenarios are probability weighted by management to determine the ECL (positive, negative and a baseline scenario). The Group utilises a four year macro-economic outlook of the Bureau of Economic Research (BER) to project future changes in the Consumer Price Index, the petrol price, the unemployment rate, the real wage rate and the real credit extension to households. These scenarios are then linked to Probability of Defaults (PDs) to derive a forward-looking ECL. ▪ Determining the impact of COVID-19 on ECL by application of the most punitive forecast macro-economic variables over the next year in each of the three scenarios provided in the BER's bi-annual November 2020 outlook, unadjusted for improvements in unemployment rates released by Statistics South Africa in February 2021. This approach considers forecast increased economic strain due to unemployment and reduced affordability of government employees due to an expected three year wage freeze. The subsequent impact of increased unemployment on the ability of accounts to qualify for debt counselling was also adjusted for. ▪ Determining event driven management ECL overlays. Management increases the results produced by the modelled output for events that influence the modelled output, which are not yet captured by the model. ▪ Calibrating of the ECL statistical model components (Probability of Default (PD), Exposure at Default (EAD), Loss Given Default (LGD)) used to estimate the timing and amount of the forecasted cash flows based on historical default data, roll rates and recoveries. The Group stratifies aspects such as client risk groups, time on book, product term, payment frequency, default statuses, employment, industry and rescheduling status and the behaviour score of the client. Management judgement is required to consider how historical data is used to project ECL.	***Determining of the write-off point*** ▪ We considered historical post write-off recoveries to evaluate management's assessment which indicates that the current write-off point is still the point at which there was no reasonable expectation of further recovery. ▪ Through recalculation, we tested the application of the IFRS 9 write-off policy. We also evaluated whether post write-off recoveries have been excluded from the Loss Given Default (LGD) calculation and therefore do not impact on ECL. ***Inclusion of forward-looking information and macro-economic variables in the ECL*** ▪ We considered the assumptions used in the forward-looking economic model, specifically around the forward-looking scenarios used, the macro-economic variables considered as well as the macro-economic outlook. We discussed these with management and with the BER and compared these to our own and benchmarked economic forecasts and independent market data. ▪ We tested the performance and sensitivity of the forward-looking model in order to evaluate whether the chosen macro-economic factors and model structure provides a reasonable representation of the impact of macro-economic changes on the ECL. ▪ We assessed the reasonableness of the economic stresses used by management in estimating the impact of COVID-19 on forward-looking information and ECL by considering how forecast increased default rates will impact on SICR. This was assessed by means of a sensitivity analysis. The impact was separately assessed for government employees where the estimated impact of a proposed three year wage freeze on affordability was calculated using affordability calculated for loan applications over the past year as a proxy. ▪ We assessed and recalculated the ECL raised by management to account for the impact of increased unemployment on debt counselling. ***Event driven management overlays in the ECL*** ▪ We assessed the reasonableness of event driven overlays raised by management, based on our understanding of the industry, emerging risks and regulatory changes. Based on our reperformance of the ECL model, we considered effects already taken into account by the ECL model (including the statistical macro-economic model) to assess whether the impact of the overlay did not result in double counting. ▪ We evaluated whether these overlays were subject to an appropriate governance process. ***Calibrating of ECL statistical model components (PD, EAD, LGD)*** ▪ Through discussion with management we obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information to estimate future cash flows. ▪ In testing our understanding, we independently re-performed the ECL model.

Key audit matter

Business bank

For the Business bank segment, at 28 February 2021, gross unsecured loans and advances amounted to to R11.0 billion consolidated (R9.8 billion separate), against which an ECL of R0.7 billion consolidated (R0.6 billion separate) was raised.

In calculating the ECL, which is calculated in terms of IFRS 9, the key areas of significant management judgement and estimation included:

- Determining whether evidence exists that there has been a significant increase in credit risk (SICR) since initial recognition of the financial instrument, by considering shifts in internal risk grades.
- Assessing the impact of COVID-19 and forward-looking information on ECL. A COVID-19 top up model was created that affects the individual parameters or components of the impairment model based on three macro-economic scenarios. In terms of this model, additional overlays were raised at a customer level whereby exposures were judgmentally classified into one of four risk categories. These classifications were based on criteria which included, amongst others, the industry in which the customer operates, whether a moratorium was provided, whether relief renewals were provided and the detailed knowledge of the customer. ECL was increased based on the risk classification.
- For specific high-risk clients management increased the modelled ECL output for events that influence the modelled output, which are not yet captured by the model. This is primarily done for credit impaired (stage 3) exposures where collateral recovery expectations are different to that generated by the model.
- Calibrating of the ECL statistical model components (PD, EAD and LGD) used to estimate the timing and amount of the forecasted cash flows based on historical default data and recoveries. Management judgement is required to consider how historical data is used to project ECL.

How our audit addressed the key audit matter

Business bank

Making use of our actuarial expertise, our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on loans and advances, as follows:

Evaluation of SICR

- We recalculated the impact of SICR, applying the assumptions and data included in management's model, including the performance of rehabilitated accounts.
- We tested the performance of SICR thresholds applied and the resultant transfer rate into stage 2 for SICR. This included benchmarking of the volume of up-to-date accounts transferred to stage 2 based on history.
- Through discussion with management we obtained an understanding of management's process for identifying customers under stress and how these drive additional ECL overlays and/or stage migrations.

Inclusion of the impact of COVID-19 and forward-looking information in the ECL

- We considered the assumptions used in determining the COVID-19 and forward-looking impact on ECL and re-performed these using the ECL model and considering top-ups made outside of the model.
- We assessed the reasonableness of the economic stresses used by management in estimating the impact of COVID-19 and forward-looking information by considering historic market information available at the reporting date.
- We challenged the ECL impact and stage distribution by:
  - Performing staging stresses on management's risk category classifications.
  - Performing staging stresses based on the customer industry.
  - Calculating an independent forward-looking ECL by introducing empirically derived shocks to the ECL. Roll rates were tracked over time to assess the shocks introduced to the model, and a Vasicek correlation parameter was applied to adjust PDs in line with the shocks in order to calculate an impact on ECL.
- We assessed the reasonableness of the increase in ECL for the expected deterioration in collateral recovery. Based on our reperformance of this, we considered effects already taken into account by the ECL model to assess whether the impact of the deterioration did not result in double counting.
- We evaluated whether this was subject to an appropriate governance process.

Calibrating of ECL statistical model components (PD, EAD, LGD)

- Through discussion with management we obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information to estimate future cash flows.
- In testing our understanding, we independently re-performed the ECL model.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled *"Integrated Annual Report 2021 Capitec Bank Limited"*, which includes the Directors' report, the Audit committee's report and the Certificate by the company secretary as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence

obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. and Deloitte & Touche have been the joint auditors of Capitec Bank Limited for 1 year. Prior to the commencement of the joint audit relationship PricewaterhouseCoopers Inc. was the sole auditor of Capitec Bank Limited for 19 years.

PricewaterhouseCoopers Inc.	Deloitte & Touche
PricewaterhouseCoopers Inc.	**Deloitte & Touche**
Director: Michael Meyer	*Per Partner: Darren Shipp*
Registered Auditor	*Registered Auditor*
Johannesburg	Johannesburg
4 Lisbon Lane	5 Magwa Crescent
Waterfall City	Waterfall City
South Africa	South Africa

13 April 2021

Statements of financial position

As at 28 February 2021

R'000	Note	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Assets					
Cash, cash equivalents and money market funds	5	**49 304 476**	42 217 371	**49 304 448**	40 147 320
Financial assets at fair value through profit or loss (FVTPL)	6	**2 969 740**	1 504 262	**2 969 740**	1 504 262
Assets held for sale	45	**1 511 848**	–	**1 511 848**	–
Financial investments at amortised cost	7	**34 993 528**	17 207 094	**34 993 528**	16 329 710
Term deposit investments	8	**312 859**	–	**312 859**	–
Net loans and advances	9	**57 185 391**	62 041 559	**56 055 119**	52 011 683
Other receivables	10	**1 104 736**	2 046 585	**1 035 986**	1 600 001
Net insurance receivable	11	**–**	217 423	**–**	217 423
Derivative assets	44	**28 011**	37 440	**28 011**	5 713
Financial assets – equity instruments at fair value through other comprehensive income (FVOCI)	12	**69 340**	101 139	**69 340**	100 000
Current income tax asset		**–**	4 554	**–**	–
Group loans receivable	13	**80 864**	15 257	**1 100 001**	215 257
Interest in joint venture	14	**137 496**	108 540	**132 502**	107 202
Interest in subsidiaries	14	**–**	–	**244 774**	3 555 772
Property and equipment	15	**2 900 578**	2 960 163	**2 899 587**	2 728 952
Right-of-use assets	16	**2 072 129**	2 460 025	**2 070 719**	2 447 932
Intangible assets including goodwill	17	**1 481 302**	1 373 801	**1 480 988**	401 974
Deferred income tax asset	18	**2 140 651**	1 853 533	**2 202 457**	1 829 088
Total assets		**156 292 949**	134 148 746	**156 411 907**	123 202 289
Liabilities					
Derivative liabilities	44	**65 589**	61 034	**65 589**	31 029
Current income tax liability		**159 520**	14 345	**159 214**	14 345
Deposits	19	**118 532 382**	99 649 107	**118 673 362**	87 496 930
Wholesale funding	19	**2 376 046**	3 693 669	**2 376 046**	3 336 286
Other liabilities	20	**2 999 043**	2 632 118	**2 935 885**	2 256 410
Lease liabilities	21	**2 523 371**	2 794 847	**2 521 688**	2 781 889
Employee benefit liabilities	23	**139 426**	171 210	**137 586**	109 801
Group loans payable	24	**2 918**	70 251	**4 230**	2 182 864
Deferred income tax liability	18	**–**	72 986	**–**	–
Total liabilities		**126 798 295**	109 159 567	**126 873 600**	98 209 554
Equity					
Capital and reserves					
Ordinary share capital and premium	25	**6 105 981**	6 105 981	**6 105 981**	6 105 981
Cash flow hedge reserve	26	**(29 244)**	(21 345)	**(29 244)**	(21 345)
Other reserves	26	**(35 649)**	(4 962)	**(30 687)**	–
Retained earnings		**23 397 925**	18 836 407	**23 436 616**	18 835 001
Share capital and reserves attributable to ordinary shareholders		**29 439 013**	24 916 081	**29 482 666**	24 919 637
Non-redeemable, non-cumulative, non-participating preference share capital and premium	25	**55 641**	73 098	**55 641**	73 098
Total equity		**29 494 654**	24 989 179	**29 538 307**	24 992 735
Total equity and liabilities		**156 292 949**	134 148 746	**156 411 907**	123 202 289

Income statements

Year ended 28 February 2021

		GROUP		COMPANY	
R'000	**Note**	**2021**	**2020**	**2021**	**2020**
Lending, investment and insurance income	27	**17 512 200**	18 019 442	**16 774 770**	17 555 326
Interest income	27	**16 543 543**	17 039 818	**15 806 868**	16 579 870
Loan fee income	27	**968 657**	979 624	**967 902**	975 456
Lending and investment expenses		**(5 060 140)**	(5 770 034)	**(4 791 524)**	(5 534 620)
Interest expense	27	**(4 988 735)**	(5 679 848)	**(4 720 119)**	(5 444 434)
Loan fee expense	27	**(71 405)**	(90 186)	**(71 405)**	(90 186)
Net lending, insurance and investment income		**12 452 060**	12 249 408	**11 983 246**	12 020 706
Transaction fee income	27	**12 039 376**	10 262 549	**11 635 413**	10 094 767
Transaction fee expense		**(3 331 885)**	(2 846 923)	**(3 106 058)**	(2 735 988)
Net transaction income		**8 707 491**	7 415 626	**8 529 355**	7 358 779
Foreign currency income		**409 165**	38 691	**128 623**	–
Foreign currency expense		**(298 413)**	–	**(94 936)**	–
Net foreign currency income		**110 752**	38 691	**110 752**	–
Other income		**111 852**	31 505	**105 895**	18 800
Credit impairments	28	**(7 824 721)**	(4 473 670)	**(7 566 192)**	(4 360 286)
Net income		**13 557 434**	15 261 560	**13 085 991**	15 037 999
Operating expenses	29	**(9 491 936)**	(8 641 638)	**(9 003 613)**	(8 421 278)
Share of net profit of joint ventures	14	**3 656**	1 338	**–**	–
Operating profit before tax		**4 069 154**	6 621 260	**4 082 378**	6 616 721
Income tax expense	30	**(1 118 829)**	(1 794 643)	**(1 107 824)**	(1 791 510)
Profit for the year – continued operations		**2 950 325**	4 826 617	**2 974 554**	4 825 211
Profit for the year – discontinued operations*	45	**1 615 483**	1 393 971	**1 615 483**	1 393 971
Total profit for the year		**4 565 808**	6 220 588	**4 590 037**	6 219 182

* *The 2020 income statements were restated as required by IFRS 5 to reflect discontinued operations. Refer to note 45.*

Statements of other comprehensive income

Year ended 28 February 2021

R'000	Note	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Profit for the year – continued operations		**2 950 325**	4 826 617	**2 974 554**	4 825 211
Other comprehensive income that may subsequently be reclassified to profit or loss		**(7 899)**	(11 757)	**(7 899)**	(11 757)
Cash flow hedge reserve recognised during the year	26	**(57 488)**	(31 706)	**(57 488)**	(31 706)
Cash flow hedge reclassified to profit and loss for the year	26	**46 517**	15 377	**46 517**	15 377
Income tax relating to cash flow hedge	26	**3 072**	4 572	**3 072**	4 572
Other comprehensive income that will not subsequently be reclassified to profit or loss		**(30 687)**	(4 962)	**(30 687)**	–
Remeasurement of defined benefit obligation	22	**547**	567	**547**	–
Loss on remeasurement to fair value of financial assets		**(31 234)**	(6 911)	**(31 234)**	–
Income tax thereon		**–**	1 382	**–**	–
Comprehensive income for the year – continued operations		**2 911 739**	4 809 898	**2 935 968**	4 813 454
Comprehensive income for the year – discontinued operations		**1 615 483**	1 393 971	**1 615 483**	1 393 971
Total comprehensive income for the year		**4 527 222**	6 203 869	**4 551 451**	6 207 425

Statements of changes in equity

Year ended 28 February 2021

		GROUP					
R'000	Note	Ordinary share capital and premium	Preference share capital and premium	Cash flow hedge reserve	Other reserves	Retained earnings	Total
Balance as at 28 February 2019		6 105 981	81 603	(9 588)	–	14 790 738	20 968 734
Total comprehensive income for the year		–	–	(11 757)	(4 962)	6 220 588	6 203 869
Transactions with shareholders directly recorded in equity		–	(8 505)	–	–	(2 174 919)	(2 183 424)
Ordinary dividend	38	–	–	–	–	(2 168 006)	(2 168 006)
Preference dividend	38	–	–	–	–	(6 913)	(6 913)
Preference shares repurchased		–	(8 505)	–	–	–	(8 505)
Balance as at 29 February 2020		**6 105 981**	**73 098**	**(21 345)**	**(4 962)**	**18 836 407**	**24 989 179**
Total comprehensive income for the year		**–**	**–**	**(7 899)**	**(30 687)**	**4 565 808**	**4 527 222**
Transactions with shareholders directly recorded in equity		**–**	**(17 457)**	**–**	**–**	**(4 290)**	**(21 747)**
Ordinary dividend	38	**–**	**–**	**–**	**–**	**–**	**–**
Preference dividend	38	**–**	**–**	**–**	**–**	**(4 290)**	**(4 290)**
Preference shares repurchased		**–**	**(17 457)**	**–**	**–**	**–**	**(17 457)**
Balance as at 28 February 2021		**6 105 981**	**55 641**	**(29 244)**	**(35 649)**	**23 397 925**	**29 494 654**
Note		25	25	26	26		

Statements of changes in equity continued

Year ended 28 February 2021

		COMPANY					
R'000	Note	Ordinary share capital and premium	Preference share capital and premium	Cash flow hedge reserve	Other reserves	Retained earnings	Total
Balance as at 28 February 2019		6 105 981	81 603	(9 588)	–	14 790 738	20 968 734
Total comprehensive income for the year		–	–	(11 757)	–	6 219 182	6 207 425
Transactions with shareholders directly recorded in equity		–	(8 505)	–	–	(2 174 919)	(2 183 424)
Ordinary dividend	38	–	–	–		(2 168 006)	(2 168 006)
Preference dividend	38	–	–	–	–	(6 913)	(6 913)
Preference shares repurchased		–	(8 505)	–	–	–	(8 505)
Balance as at 29 February 2020		**6 105 981**	**73 098**	**(21 345)**	**–**	**18 835 001**	**24 992 735**
Total comprehensive income for the year		**–**	**–**	**(7 899)**	**(30 687)**	**4 590 037**	**4 551 451**
Transactions with shareholders directly recorded in equity		**–**	**(17 457)**	**–**	**–**	**11 578**	**(5 879)**
Ordinary dividend	38	**–**	**–**	**–**	**–**	**–**	**–**
Preference dividend	38	**–**	**–**	**–**	**–**	**(4 290)**	**(4 290)**
Acquisition through business reorganisation		**–**	**–**	**–**	**–**	**15 868**	**15 868**
Preference shares repurchased		**–**	**(17 457)**	**–**	**–**	**–**	**(17 457)**
Balance as at 28 February 2021		**6 105 981**	**55 641**	**(29 244)**	**(30 687)**	**23 436 616**	**29 538 307**
Note		25	25	26	26		

Statements of cash flow

Year ended 28 February 2021

		GROUP		COMPANY	
R'000	**Note**	**2021**	**2020**	**2021**	**2020**
Cash flow from operating activities					
Cash flow from operations	36.1	**31 103 974**	17 871 897	**30 085 166**	17 540 851
Income tax paid	37	**(1 326 164)**	(1 781 219)	**(1 305 362)**	(1 732 053)
		29 777 810	16 090 678	**28 779 804**	15 808 798
Cash flow from investing activities					
Acquisition of property and equipment	15	**(549 594)**	(1 135 405)	**(732 598)**	(1 134 494)
Disposal of property and equipment	15	**10 351**	13 700	**10 174**	13 700
Acquisition of intangible assets	17	**(293 859)**	(263 259)	**(277 719)**	(257 435)
Loans to group companies – repaid		**63 414**	107 355	**63 414**	107 355
Loans to group companies – granted		**(194 843)**	(13 904)	**(694 843)**	(213 904)
Investment in term deposit investments	8	**(3 275 617)**	–	**(3 275 617)**	–
Redemption of term deposit investments	8	**2 975 617**	9 056 000	**2 975 617**	9 056 000
Acquisition of financial investments at amortised cost	7	**(38 849 758)**	(16 494 410)	**(38 849 758)**	(16 494 410)
Redemption of financial investments at amortised cost	7	**21 026 817**	11 172 903	**21 026 817**	11 172 903
Acquisition of financial assets at FVTPL	6	**(1 461 000)**	(1 500 000)	**(1 461 000)**	(1 500 000)
Redemption of financial assets at FVTPL	6	**–**	4 862	**–**	4 862
Decrease in short-term money market investments	5	**13 863**	10 122	**13 863**	10 122
Interest acquired in joint ventures	14	**(25 300)**	(107 202)	**(25 300)**	(107 202)
Acquisition of subsidiary net of cash acquired	14	**(55 000)**	1 037 450	**2 122 024**	(3 555 772)
		(20 614 909)	1 888 212	**(19 104 926)**	(2 898 275)
Cash flow from financing activities					
Dividends paid	38	**(5 705)**	(2 175 319)	**(5 705)**	(2 175 319)
Loans from group companies – loans obtained		**–**	–	**1 227 551**	2 112 613
Preference shares repurchased	25	**(17 457)**	(8 505)	**(17 457)**	(8 505)
Issue of institutional bonds and other funding	19	**–**	500 000	**–**	500 000
Redemption of institutional bonds and other funding	19	**(1 807 383)**	(2 962 158)	**(1 450 000)**	(2 072 000)
Payment of lease liabilities	36.2	**(248 259)**	(245 903)	**(238 613)**	(243 032)
		(2 078 804)	(4 891 885)	**(484 224)**	(1 886 243)
Effect of exchange rate changes on cash and cash equivalents		**17 279**	7 486	**(19 095)**	–
Net increase in cash and cash equivalents		**7 101 376**	13 094 491	**9 171 559**	11 024 280
Cash and cash equivalents at the beginning of the year	5	**42 194 027**	29 099 536	**40 123 816**	29 099 536
Cash and cash equivalents at the end of the year	5	**49 295 403**	42 194 027	**49 295 375**	40 123 816

Notes to the annual financial statements

Year ended 28 February 2021

1. General information

1.1 Nature of the business

The company's main business is retail and business banking.

1.2 Review of operations

The operating results and the state of affairs of the company and the group are fully set out in the statements of financial position, income statements, statements of other comprehensive income, statements of changes in equity, statements of cash flows and the notes thereto.

The group's earnings attributable to ordinary and preference shareholders amounted to R4 565.8 million (2020: R6 220.6 million).

1.3 Overall application of the going concern principle

The directors reviewed the group budget and cash flow forecasts for the next 3 years and considered the group's ability to continue as a going concern in light of current and anticipated economic conditions. These budgets and cash flow forecasts took the impact of the COVID-19 pandemic into consideration, including projections of the impact on the group's capital, funding and liquidity requirements, all of which have remained within internal targets and above regulatory requirements.

Forecast earnings growth and risk-weighted assets are based on the group's macroeconomic outlook and are evaluated against available financial resources, considering the requirements of capital providers, regulators and rating agencies.

The expected outcomes and constraints are then stress tested and the group sets targets through different business cycles and scenarios. On the basis of this review, and in light of the current financial position and profitable trading history, the directors are satisfied that the group has adequate resources to continue in business for the foreseeable future. The going concern basis therefore continues to apply and has been adopted in the preparation of the annual financial statements.

1.4 Directors and company secretary

Information relating to the directors and company secretary is presented in the directors' report and statutory information.

1.5 Group details

The group's place of domicile and country of incorporation is the Republic of South Africa.

Registered office: 5 Neutron Road, Techno Park, Stellenbosch, 7600.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The group's consolidated and company's separate annual financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board, the IFRS Interpretations Committee, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act.

The consolidated and separate annual financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments held at FVTPL as well as instruments carried at FVOCI.

Refer to note 2.21 for new standards and interpretations not yet adopted.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements, are disclosed in note 3.

The accounting policies applied are consistent with the prior year annual financial statements, other than for the addition of a policy to account for business combinations under common control. Refer to 2.3.2.

In the notes to the annual financial statements, amounts denoted as current are expected to be recovered/settled no more than 12 months after the reporting period. Amounts denoted as non-current are expected to be recovered more than 12 months after the reporting period.

2.2 Basis of consolidation

The consolidated annual financial statements include those of the company, all its subsidiaries and joint ventures.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Investments in subsidiaries are accounted for at cost less allowance for impairment. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

Currently, the group does not have non-controlling interests as all subsidiaries are wholly owned.

A joint arrangement is an arrangement in terms of which the group and the other contracting parties have joint control as defined in IFRS 11. Joint ventures are those joint arrangements where the group has rights to the net assets of the arrangement.

2. Accounting policies continued

2.2 Basis of consolidation continued

Investments in joint ventures are initially recognised at cost and at group level are accounted for according to the equity method. Under the equity method, on initial recognition, the investments in joint ventures are recognised at cost, and the carrying amount is increased or decreased to recognise the group's share of the post-acquisition profits or losses in profit or loss, and the group's share of movements in other comprehensive income. Distributions received from the joint ventures will reduce the carrying amount of the investment.

In the event that the group's share of losses in an investment in joint venture equals or exceeds its interest in the joint venture, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the respective joint venture.

Unrealised gains on transactions between the group and its joint venture are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment.

The group determines at each reporting date whether there is objective evidence that any investment in the respective joint venture is impaired. If this is the case, the difference between the recoverable amount of the said joint venture and its carrying value is recognised in the income statement.

2.3 Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in an acquisition of a business (acquiree) comprises the fair values of the assets transferred, the liabilities assumed, the equity interests issued by the group and the fair value of any contingent consideration arrangements. If the contingent consideration is classified as equity, it is not subsequently remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of contingent consideration are recognised in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the date of acquisition, except for:

- deferred taxation assets or liabilities, which are recognised and measured in accordance with IAS 12 *Income Taxes* and liabilities or assets related to employee benefit arrangements, which are recognised and measured in accordance with IAS 19 *Employee Benefits*
- liabilities or equity instruments that relate to the replacement, by the group, of an acquiree's share-based payment awards, which are measured in accordance with IFRS 2 *Share-based Payments*
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are measured in accordance with that standard.

2.3.1 Goodwill

Goodwill in a business combination is recognised at the acquisition date when the consideration transferred and the recognised amount of non-controlling interests exceed the fair value of the net identifiable assets of the entity acquired. If the consideration transferred is lower than the fair value of the identifiable net assets of the acquiree (a bargain purchase), the difference is recognised in the income statement. The gain or loss arising on the disposal of an entity is calculated after consideration of attributable goodwill.

2.3.2 Business combinations under common control

Transactions in which the assets and liabilities are transferred from a subsidiary to its parent are referred to as hive-up. Such transactions are generally scoped out of IFRS 3 *Business Combinations*. Capitec developed its own accounting policy in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* The substance of the hive-up is a common control transaction because the group is in the same position before and after the transaction and, on that basis, predecessor accounting was applied.

The prospective presentation method was applied and, as such, the acquired entity's results and statement of financial position are incorporated prospectively from the date on which the business combination between entities under common control occurred.

The assets and liabilities of the acquired entity are stated at predecessor carrying values in the acquirer's financial statements. As Capitec has elected to carry at predecessor values, there was no need to do fair value measurements. Predecessor carrying values are the carrying values related to the acquired entity. They are selected as the carrying amounts of assets and liabilities of the acquired entity from the consolidated annual financial statements.

These amounts include any goodwill (as recognised in the consolidated annual financial statements at the date of transfer), and other fair value adjustments, recorded at the consolidated level in respect of the acquired entity.

No new goodwill arises in predecessor accounting.

Any increase/decrease in the net assets in the consolidated annual financial statements of the acquired entity (i.e. the difference between the carrying amount of net assets of the acquired entity in the consolidated annual financial statements at the date of transfer and fair value of net assets acquired at the date of original external acquisition) would be recorded in equity in retained earnings.

The investment in the acquired entity is derecognised.

2.4 Cash, cash equivalents and money market funds

Cash, cash equivalents and money market funds are disclosed in one line on the statement of financial position.

Cash, cash equivalents and money market funds comprise balances with less than 3 months' maturity from the date of acquisition, including: cash, balances with central banks, resale agreements, treasury bills, debentures and other eligible bills, amounts due from banks, foreign banks, non-bank money market investments, fixed and notice deposits with original maturities less than 3 months and short-term government securities that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are stated at amortised cost which approximates fair value due to the short-term nature of these instruments.

Financial instruments purchased under short-term agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return, with an original maturity date of less than 3 months, including government bonds, are included under cash and cash equivalents because they are subject to insignificant changes in values. The difference between the purchase and sales price is treated as interest and amortised over the life of the resale agreement using the effective interest rate method.

Mandatory reserve deposits with the South African Reserve Bank (SARB) must be maintained at the average required by the SARB over a 1-month period and are non-interest-bearing. These deposits may be used to manage significant intraday and interday cash outflows but are not considered as available for normal cash planning purposes. A total of 70% of the balance is available without requiring prior regulatory approval.

2. Accounting policies continued

2.5 Financial instruments

2.5.1 Financial assets

The group recognises financial assets on the statement of financial position once it becomes a party to the contractual terms of the particular financial instrument.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs on financial assets carried at FVTPL are expensed in the income statement.

Financial assets are derecognised when the rights to receive contractual cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

The group classifies its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The group classifies its financial assets into the following categories:
- Measured at amortised cost
- FVOCI
- FVTPL.

The group assesses its business model by portfolio of financial assets that are managed together and evaluates the following factors:
- How the performance of the portfolio is evaluated and reported to group management
- How the portfolio managers (if applicable) are compensated, including whether management is compensated based on the fair value of the assets or the contractual cash flow collected
- The risks that affect the performance of the business model and how those risks are managed
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectation of future sale activities.

The contractual cash flow characteristics are evaluated based on whether the contractual cash flows consist solely of payments of principal and interest (SPPI). This assessment includes assessing whether the financial asset has a contractual term that would change the timing or amount of contractual cash flows. The group considers whether the contractual cash flows are subject to any contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and features that would modify the consideration of the time value of money.

2.5.1.1 Nature and subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows.

Amortised cost

The following items are the significant debt instruments held by the group:

(i) Loans and advances to clients that are recognised when funds are advanced to the borrowers.

Loan consolidations are treated as a derecognition of the loans as the contractual cash flows from the financial asset expire.

In instances where the group reschedules a credit agreement, the cash flows are renegotiated with the client, but the internal rate of return remains the same and there are therefore no gains or losses.

When a client goes into debt review, cash flows are renegotiated and, in some instances, the internal rate of return is affected by the modification of the agreement. The modification gain or loss is disclosed in note 9.

(ii) Fixed and term notice deposits are non-derivative financial assets with fixed or determinable payments. They arise when the group invests cash with other banks. These instruments comprise fixed deposits with original maturities longer than 3 months, deposit investments and deposits that have effective contractual notice periods greater than 3 months.

(iii) Financial investments consist of government stock, treasury bills and negotiable certificates of deposits. These investments are measured at amortised cost subject to impairment.

For cash flow purposes, treasury bills are classified as investing activities by the Retail bank within Capitec Bank Limited as they are held-to-maturity and minimal amounts are held to meet the liquid asset requirements.

In the prior year, for cash flow purposes, treasury bills were classified as investing activities for Retail bank and for Business bank within Mercantile Bank Limited as operating activities. During the current year, treasury bills held by the Business bank were transferred to Capitec Bank Limited as part of a business reorganisation and a differentiation for cash flow purposes is no longer necessary.

(iv) Other receivables comprise settlement balances with the regulator, prepayments, deposits that meet the definition of financial assets and other receivables.

These classes of debt instruments are held for the collection of their contractual cash flow and their cash flows represent SPPI and therefore are measured at amortised cost. Interest income from these financial assets is included in interest income on the group's income statement using the effective interest rate method. Impairment losses are presented as part of the credit impairment charge on the group's income statement.

Fair value through other comprehensive income

The following item is the only significant equity instrument of the group:

(i) Equity investment in African Bank Holdings Limited

The group elected to irrevocably designate its equity investment at FVOCI. This election results in fair value gains and losses being recognised in other comprehensive income and not subsequently being reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the income statement when the group's right to receive such payments is established. Refer to note 12.

Fair value through profit or loss

The following items are the only significant financial instruments held at FVTPL:

(i) Derivative assets and derivative liabilities

Derivative financial instruments exclude equity instruments that are accounted for in terms of IFRS 2 *Share-based Payments*.

Derivatives are classified as held for trading and measured at FVTPL unless they are designated as part of a qualifying hedge. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. Transaction costs are expensed. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

All derivative contracts are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivatives are held only to cover economic exposures. The use of derivatives is restricted to the hedging of forecast cash flows for specific transactions.

Currently, derivatives are limited to interest rate swaps, forward exchange contracts and foreign currency swaps.

Fair values are obtained from quoted market prices, where available, alternatively using valuation techniques based on observable market prices where possible, failing which estimates are used.

Interest rate swaps are valued on a discounted cash flow (DCF) basis using yield curves appropriate for the relevant swap rate.

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.1 Nature and subsequent measurement continued

(ii) Financial assets – collective investment schemes (CIS)

CIS are classified and measured at FVTPL. Collective investment schemes are initially recognised at fair value excluding transaction costs that are directly attributable to the acquisition of the financial asset and are subsequently remeasured at fair value. The fair value adjustments are recorded in other income in the statement of profit or loss.

2.5.1.2 Impairment

The group applied the ECL model on all financial debt instruments that are classified at amortised cost as well as undrawn commitments.

2.5.1.2.1 Recognition

Stage 1

An ECL is recognised at the time of initial recognition of the financial debt instruments and represents the lifetime cash shortfall arising from possible default events up to 12 months into the future from the reporting date.

An ECL continues to be determined on this basis until there is a SICR or the financial debt instrument becomes credit impaired.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the loan and the cash flows that the group expects to receive over the contractual life of the loan.

(i) Retail bank

These are loans and advances which are up-to-date with no indication of SICR as well as loans that have been rescheduled from up-to-date or arrears and have been rehabilitated. Clients who applied for debt review more than 12 months ago and remained up-to-date are classified as stage 1 subject to the SICR assessment.

(ii) Business bank

These are loans and advances which are up-to-date or up to 1 month in arrears with no indication of SICR. This includes distressed restructured loans that have rehabilitated.

Stage 2

The group monitors financial debt instruments subject to the impairment requirements at each reporting date to determine whether evidence exists that there has been a SICR since initial recognition of the financial instrument. The 12-month ECL is extended to a lifetime ECL for these clients.

(i) Retail bank

The following loans and advances are included in stage 2:

- Up-to-date loans with SICR
- Loans where the forward-looking information indicates SICR
- Loans up to 1 month in arrears
- Loans that applied for debt review between 6 and 12 months ago which are currently performing
- COVID-19-related reschedules between 6 April 2020 and 19 July 2020 which have not yet rehabilitated by making 6 consecutive payments after rescheduling.

The group identifies SICR for clients who are up-to-date on their loans, but who have reached certain behaviour risk thresholds or specific events have occurred that raise a SICR flag in the model.

The Retail bank considers the following to be SICR for all loans and advances extended to the client:

- A client who has been reported as being unemployed
- A client with a term loan that is up-to-date, but has a credit card which is in arrears. The term loan is identified as SICR
- A client with a behaviour score that has decreased below the internal SICR threshold set by the bank
- A client with an updated granting score below the internal SICR threshold set by the bank.

(ii) Business bank

Includes the following financial assets:

- Loans that have experienced a SICR since initial recognition
- Loans where the forward-looking information indicates SICR
- Loans that are between 2 and 3 months in arrears
- Up-to-date loans that restructured from up-to-date (not yet rehabilitated)
- Up-to-date loans that restructured from arrears (not yet rehabilitated)
- COVID-19-related reschedules between 6 April 2020 and 19 July 2020.

The Business bank segment considers a loan to have experienced a SICR if the borrower is on the watch list and/or meets 1 or more of the following criteria:

- Significant adverse changes in the business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value which is expected to increase the risk of default
- Early signs of cash flow/liquidity problems such as a delay in servicing of trade creditors/loans.

A backstop is applied and the loan considered to have experienced SICR if the borrower is more than 1 month past due on their contractual payment.

Stage 3 (credit impaired assets)

The group defines loans and advances as being 'credit impaired' when 1 or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Interest on loans and advances categorised as stage 3 is recognised in the income statement net of ECL impairments. Loans that are seen as stage 3, being credit impaired, have a lifetime ECL applied.

(i) Retail bank

Loans and advances are considered to be credit impaired upon the occurrence of any of the following events:

- The client is placed under debt review
- The client is handed over for collection or has another legal status
- The client is in default. The group defines default as the point at which the client is past due on 2 contractual payments
- The client applied for debt review less than 6 months ago and the loans are currently performing
- The loan was rescheduled from up-to-date and is up-to-date (not yet rehabilitated)
- The loan is currently up to 1 month in arrears and was previously rescheduled but has not rehabilitated
- The loan was rescheduled from arrears and is up-to-date (not yet rehabilitated).

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.2 Impairment continued

2.5.1.2.1 Recognition continued

(ii) Business bank

A financial instrument is defined as in default, which is fully aligned with the definition of credit impaired, when it meets 1 or more of the following criteria:

Quantitative criteria
The borrower is more than 3 months past due on contractual payments.

Qualitative criteria
The borrower meets unlikeliness to pay criteria, which indicate the borrower is in significant financial difficulty. These are instances where, *inter alia*:

- the borrower is in long-term forbearance
- the borrower is deceased
- the borrower is insolvent
- the borrower is in breach of financial covenant(s)
- an active market for the financial assets has disappeared because of financial difficulty/inability to meet contractual obligations and the borrower is in arrears
- it is becoming probable that the borrower may enter bankruptcy.

2.5.1.2.2 Measurement

The ECL is calculated as an unbiased, probability weighted amount which is determined by evaluating the range of reasonably possible outcomes, the time value of money and considering all reasonable and supportable information including that which is forward-looking.

The most significant class of financial asset subject to an ECL is loans and advances.

The period over which the ECL is calculated is limited to the maximum contractual period.

The resultant ECL calculation amounts to the excess of the carrying amount above the present value of its expected cash flows, discounted using the effective interest rate on the financial instrument as calculated at initial recognition (initiation fee plus interest).

(i) Retail bank

Loans and advances comprise a large number of small, homogeneous assets.

An ECL provisioning model based on historical roll rates using the Markov chain method is used.

The Markov roll rate results are stratified into similar groups to ensure results are stable and appropriate to predict future cash flows for clients with similar characteristics. Aspects such as client risk groups, time on book, product term, payment frequency (monthly, fortnightly or weekly), default statuses, employment, industry and rescheduling status and the behaviour score of the client are stratified.

Furthermore, the model combines the roll rate matrices with a loan amortisation model on a loan-by-loan basis. The specific features of each loan such as balance, interest rate, fees, remaining term, instalments and arrears status, combined with the roll rates applicable to loans with the same characteristics, enable the group to estimate the expected cash flow and balance amortisation of the loan. The rolled-up results enable the Retail bank segment to analyse portfolio and segmented views.

To determine the ECLs on the credit card portfolio, the group models the probability of an account entering default, the average exposure when an account enters default and the LGD based on historical trends. Clients are grouped together according to similar risk characteristics and historical default performance is projected into the future on the current non-default portfolio. The expected future incremental loss is discounted to a present value and is used as the impairment on the portfolio.

For loan commitments, the loss allowance is recognised as a provision. For agreements that contain both a drawn and undrawn portion and the group cannot separately identify the ECLs on the commitment portion from those on the loan component, the ECLs on the undrawn component are recognised together with the drawn component. To the extent that the ECLs exceed the gross carrying amount of the loan, the excess is recognised as a provision.

Forward-looking economic assumptions are incorporated into the model where relevant and where they influence credit risk. These assumptions are incorporated using the group's most likely forecast for a range of macroeconomic assumptions. 3 forward-looking scenarios are incorporated into the range of reasonably possible outcomes (negative, positive and baseline scenarios).

(ii) Business bank

The extent of the ECL allowance for financial assets measured at amortised cost is calculated using complex models and significant assumptions about future economic conditions and credit behaviour.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These 3 components are multiplied and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The portfolios are based on product type. The product types include: mortgage loans, current accounts, credit cards, instalment sales and leases, structured loans and medium-term loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis
- For revolving products, the EAD is predicted by adding a 'credit conversion factor' to the current drawn balance, which allows for the expected drawdown of the remaining limit by the time of default.

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.2 Impairment continued

2.5.1.2.2 Measurement continued

(ii) Business bank continued

The 12-month and lifetime LGDs are determined based on the factors that impact the recoveries made post default:

- For secured products, this is primarily based on collateral type, projected collateral values and time to recovery
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs change, etc., are monitored and reviewed periodically. The COVID-19 pandemic did result in changes to some of the estimates and assumptions that were applied in the measurement of the ECL provision.

The current risk assessment framework for the Business bank includes stringent credit risk assessments that are performed during the lifetime of the exposures and it is believed that these will incorporate enough forward-looking assessment. Additional ECLs are recognised by way of a management overlay after significant expert consultation with executive management and seasoned credit professionals.

2.5.1.2.3 Impairment – loan write-offs

Write-off is a derecognition event.

Loans and advances are written off when it is has been determined that no reasonable expectation of recovery exists.

(i) Retail bank

The group considers the point at which there is no reasonable expectation of further recovery to be when the loan has a present value of future recovery less than 5% of the gross balance before write-off. This is currently estimated based on account status, behavioural score and consecutive missed payments.

This point is currently estimated as loans:

- Terminated from debt review:
  - 4 consecutive missed payments (after allowing 3 months for administration).
- Loans that have been handed over/other legal status:
  - Handover score less than the predetermined threshold
  - Handover score more than the predetermined threshold with 4 consecutive missed payments (after allowing 3 months for administration).

Where actual cash inflows exceed the amount written off, the excess is disclosed as bad debts recovered.

(ii) Business bank

Loans and debt securities are written off when the group has no reasonable expectation of recovering the financial asset (either in its entirety or in part). This is the case when the group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

A judgemental approach to write-off is followed, based on a case-by-case assessment by a credit committee (CC). Each credit portfolio has a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account.

The Business bank may apply enforcement activities to financial assets written off. Recoveries resulting from the group's enforcement activities will result in bad debts recovered.

2.5.1.2.4 Modifications and derecognition

Financial instruments are derecognised when:

- the contractual rights or obligations expire or are extinguished, discharged or cancelled, for example, an outright sale or settlement
- they are transferred and the derecognition criteria of IFRS 9 are met
- the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met.

If the contractual cash flows of a financial asset measured at amortised cost are modified (renegotiated or rescheduled), the group considers whether this is a substantial modification to the original terms, or if the modification is merely an attempt to recover the original contractual amounts outstanding as part of a distressed modification. If changes are made as part of such distressed modification, the group does not derecognise the original financial asset.

The group recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows discounted at the loan's original effective interest rate. The difference between the recalculated gross carrying amount and the gross carrying amount before the modification is recognised as a modification gain or loss.

If the changes are considered to be substantial modification, the group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates the effective interest rate for the asset. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition.

COVID-19-related reschedules were accounted for in the same way as any other reschedules. The interest refund relief on these loans was treated as a modification and the loss was recognised in profit or loss. This is similar to how modifications on clients entering into debt review are accounted for.

Insurance premium relief that was granted as a result of a price increase in credit life insurance was treated as a modification and the loss was recognised in profit or loss.

2.5.1.2.5 Terminology used to discuss the credit quality of loans and advances

Up-to-date loans and advances, rehabilitated rescheduled loans	Clients who are fully up-to-date with their original contractual obligations or clients with amended contractual obligations and who have rehabilitated post rescheduling, are classified as up-to-date. SICR is identified for loans and advances that are up-to-date, but have reached certain behaviour risk thresholds or specific events have occurred that raise a SICR flag in the model.
Retail bank loan consolidations	Loan consolidations occur where a client with an existing Retail bank unsecured loan applies for further credit. A consolidation loan would always be as a result of a full credit assessment process that all clients (both new and existing) go through when applying for new credit. The outcome of that full credit assessment process is either a consolidation loan, a new separate loan or no new loan granted. These loans are not seen as modifications.

2. Accounting policies continued

2.5 Financial instruments continued

2.5.1 Financial assets continued

2.5.1.2 Impairment continued

2.5.1.2.5 Terminology used to discuss the credit quality of loans and advances continued

Rescheduling (Retail bank segment)	Rescheduling refers to an amendment of the original terms of the loan agreement, as formally agreed between the group and the client. Rescheduling is used as a rehabilitation mechanism for clients in arrears who are contacted successfully by centralised collections. It is also used as a proactive mechanism to assist up-to-date clients who contact the bank when wanting to reschedule their loans due to changes in their circumstances. No initiation fee is charged on a rescheduled loan as no new credit is granted and the internal rate of return of the loan is unchanged. Rescheduled loans do not form part of loan sales.
Rehabilitated	Clients with rescheduled loans are deemed to be rehabilitated once they have made contractual payments for 6 consecutive months post rescheduling and are up-to-date with their amended contractual obligations. This is supported by statistical analysis.
Rescheduling (Business bank segment)	Rescheduling refers to an amendment of the original terms of the loan agreement. This can be done in the normal course of business (defined as a restructure) and is classified as stage 1 while the borrower is up-to-date. Rescheduling can also be used as a rehabilitation mechanism for clients who would otherwise not be able to meet their commitments (defined as distressed restructure). A reschedule is classified as stage 1 when the borrower has rehabilitated and is up-to-date. A reschedule where the borrower is in arrears is classified as stage 3.
Rescheduled from up-to-date not rehabilitated (Retail bank segment)	These are loans and advances relating to clients who were fully up-to-date with their original contractual obligations, have contacted the group to reschedule the original terms of their loan due to a change in their circumstances and have made payments under the rescheduled terms. These loans are up-to-date with their amended contractual obligations post rescheduling but have not yet made payments for 6 consecutive months under the amended agreement. Loans rescheduled from up-to-date are considered to be stage 1 once these loans have rehabilitated, unless their behaviour score is seen as a SICR, in which case the loan will be in stage 2. The loans are seen as stage 3 until they have rehabilitated.
Rescheduled from arrears not rehabilitated (Retail bank segment)	These are loans and advances relating to clients who were in arrears and were subsequently rescheduled and have made payments under the rescheduled terms. These clients are up-to-date with their amended contractual obligations but have not yet made payments for 6 consecutive months under the amended agreement. Loans rescheduled from arrears are considered to be stage 1 once these loans have rehabilitated, unless their behaviour scores are seen as a SICR, where the loan will be in stage 2. The loans are seen as stage 3 until they have rehabilitated.

Application for debt review	Clients who apply for debt review are identified as credit impaired, and the related loan classified as stage 3 for the first 6 months following application. Clients who applied for debt review more than 6 months ago who are up-to-date are identified as SICR and the related loan classified as stage 2 between 6 and 12 months following application. If clients applied for debt review more than 12 months ago and remained up-to-date, the related loan is classified as stage 1 subject to the SICR assessment.
COVID-19 rescheduled loans	Reschedules that were undertaken based on COVID-19-related factors. These comprise payment breaks and variable reschedules between 26 March 2020 and 19 July 2020.
Arrears	Arrears reflect the outstanding balances, where 1 or more instalments (or part of an instalment on any of the client's loans and advances) remain unpaid past the contractual payment date. The arrears balance therefore includes rescheduled loans when the amended instalment was not paid in full.
Forward-looking macroeconomic assumptions	IFRS 9 requires that forward-looking macroeconomic assumptions be applied to both 12-month and lifetime ECL calculations.

2.5.2 Financial liabilities

The group recognises a financial liability once it becomes a party to the contractual terms of the financial instrument. Financial liabilities, other than those held at FVTPL, are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred and subsequently stated at amortised cost using the effective interest rate method.

A financial liability, or part of a financial liability, is derecognised once the obligation specified in the agreement relating to the financial liability is discharged, cancelled or has expired.

2.5.2.1 Hedging activities

The group designates certain derivatives as:

(i) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge)

(ii) economic hedges if not qualifying in terms of the accounting criteria classified as FVTPL.

The use of derivatives is restricted to the hedging of forecast cash flows for specific transactions.

Currently, derivatives are limited to interest rate swaps and forward foreign exchange contracts.

2.5.2.1.1 Treatment of hedges qualifying as cash flow hedges

The group will continue to apply IAS 39 to hedge accounting with the disclosures required by IFRS 7.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and deferred within equity. The gain or loss relating to the ineffective portion is recognised in the income statement immediately.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the interest payments that are hedged are recognised as an expense). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within interest expense. Refer to note 44 for separate disclosure.

2. Accounting policies continued

2.5 Financial instruments continued

2.5.2 Financial liabilities continued

2.5.2.1 Hedging activities continued

2.5.2.1.1 Treatment of hedges qualifying as cash flow hedges continued

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within the movement in financial instruments held at FVTPL disclosed under operating expenses.

At the inception of the transaction, the group designates the relationship between hedging instruments and hedged items as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Movements on the hedging reserve in shareholders' equity are shown in note 26.

2.5.2.1.2 Treatment of economic hedges classified as FVTPL

Where applicable, changes in the fair value of these derivatives classified as FVTPL are taken to profit or loss immediately on remeasurement.

The fair values of various derivative instruments used for hedging purposes are disclosed in notes 44 and 33.7.

2.5.2.2 Treatment of the SME Loan Guarantee Scheme

An arrangement facilitated by the Banking Association of South Africa, between the SARB and participating banks in South Africa, was concluded during the current year. In terms of the arrangement, the SARB committed to provide dedicated funding at the repo rate to the banks who elected to participate in the SME Loan Guarantee Scheme (the scheme). The group is a participant in the scheme.

In terms of the scheme, the group will utilise the dedicated funding obtained from the SARB to lend to qualifying SME clients at the prime interest rate (ring-fenced portfolio). The loans are repayable over 5 years. Banks are not permitted to profit from these loans and any surpluses generated will accrue to NT. As part of the scheme, commercial banks are sharing in 6% of the risk of non-repayment if the advances in the portfolio were to default.

The loans granted under the scheme are recognised in loans and advances (note 9). The limited guarantee arrangement entered into with the SARB is viewed as a credit enhancement integral to the loans advanced, and the cost of the limited guarantee is adjusted to the effective interest rate of the loans advanced under the scheme.

2.6 Intercompany loans

All loans to group companies are repayable on demand, bear interest as agreed by the parties from time to time and have no fixed repayment terms.

2.7 Current tax

Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date.

2.8 Deferred tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax laws and rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment, ECLs, revaluation of certain financial assets and liabilities, prepaid expenses and tax losses carried forward. Deferred tax assets are raised only to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are only offset when the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either: (a) the same taxable entity; or (b) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.9 Property and equipment

Land and buildings comprise owner-occupied properties, land being developed and completed buildings. All property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they were incurred.

Depreciation on assets are calculated using the straight-line method to allocate the cost of the assets to its residual values over its estimated useful lives, which currently are as follows:

- Automated teller machines (ATMs) 10 years
- Banking application hardware 3 – 5 years
- Buildings 50 years
- Computer equipment 3 – 7 years
- Motor vehicles 5 years
- Office equipment 5 – 10 years
- Leasehold improvements 5 – 10 years

The assets' residual values and useful lives are reviewed annually and adjusted, if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

2. Accounting policies continued

2.10 Intangible assets

2.10.1 Computer software

Computer software licences are acquired and are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software is carried at cost less accumulated amortisation and impairment losses.

Costs associated with developing and maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the creation of identifiable and unique systems controlled by the group, and that will probably generate economic benefits beyond 1 year, are recognised as intangible assets. Other development expenditures are recognised as an expense when incurred.

Amortisation on computer software is calculated using the straight-line method to allocate its cost to its residual values over its estimated useful lives, which currently are as follows:

- Banking application software 6 years
- Desktop application software 2 – 4 years
- Server software 3 – 5 years

2.10.2 Internally generated intangible assets

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use
- Management intends to complete the software product and use or sell it
- There is an ability to use or sell the software product
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available
- The expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense when incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Amortisation on internally generated intangible assets is calculated using the straight-line method to allocate its cost to its residual values over its estimated useful lives, which is currently as follows:

- Internally generated intangible assets 3 – 10 years

The assets' useful lives are annually reviewed and adjusted where appropriate.

2.10.3 Core deposit intangible

The core deposit intangible is the intangible benefit of having acquired a readily available source of lower-cost funding rather than having to source funding from the open market. The lower-cost funds provide a substantial economic benefit and this benefit is therefore recognised as an intangible asset.

Core deposits are valued using the income approach (cost savings method), where savings in funding costs are considered as notional income and are capitalised over the useful life of deposits.

Amortisation of core deposit intangibles is calculated using the straight-line method to allocate its cost over its estimated useful lives, which is currently 7 years.

2.10.4 Client relationships

The client relationship represents future economic benefits in the form of future business with a client beyond the amount secured by any current contractual arrangements.

Client relationships are valued using the multi-period excess earnings method.

Amortisation of client relationships is calculated using the straight-line method to allocate its cost over its estimated useful lives, which is currently 7 years.

2.10.5 Goodwill

Goodwill represents the excess of the consideration transferred and the acquisition date fair value of any previously held equity interest over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of the acquisition.

Goodwill arising on the acquisition of subsidiaries is reported in the statement of financial position as part of 'intangible assets including goodwill.'

Goodwill is tested annually for impairment unless there is an impairment indicator, in which case the test is performed more than once a year.

2.11 Right-of-use assets

At inception of an agreement, the group assesses whether an agreement is, or contains, a lease. An agreement is, or contains, a lease if the agreement conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether an agreement conveys the right to control the use of an identified asset, the group assesses whether:

- the agreement involves the use of an identified asset – this may be specified explicitly or implicitly, and should be a physically distinct asset. If the supplier has a substantive right, then the asset is not identified
- the group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use
- the group has the right to direct the use of the asset. The group has the right to direct use of the asset when it has the decision-making rights that are most relevant to changing how and for what purposes the asset is used. In rare cases, where the decision about how and for what purpose the asset is used is predetermined, the group has the right to direct the use of the asset if either: (1) the group has the right to operate the asset; or (2) the group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception, or on reassessment of an agreement that contains a lease component, the group allocates the consideration in the agreement to each lease component on the basis of their relative stand-alone prices.

Where the group is the lessee

The group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost (which is equal to the lease liability adjusted for upfront deposits) and increased with initial direct costs incurred and the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

The group applies the cost model subsequent to the initial measurement of the right-of-use asset.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

2. Accounting policies continued

2.11 Right-of-use assets continued

Where the group is the lessor

Rental from the subletting of leased premises is recognised on a straight-line basis over the lease term.

Subletting is incidental to the group's occupation of certain properties.

Leases and instalment sale agreements are regarded as financing transactions with rentals and instalments receivable, less unearned finance charges, being included in advances. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

These agreements consist of rental finance and instalment sale agreements. The rental finance agreements are typically granted to our Business bank clients to lease security equipment, copiers and telecommunication equipment. The instalment sale agreements are granted to finance motor vehicles and equipment of our Business bank clients. ECL is measured either on a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit impaired. Measurement considers forward-looking information. ECL is the discounted result of PD, EAD and LGD without factoring in any collateral or residual values in the LGD.

Rights are accorded to suppliers and business partners to buy back the assets on termination of the lease agreement once the last rental has been paid. These are normally nominal values as invariably the life of the asset equates to the period of the lease or close thereto. Evergreen arrangements can be made where the client continues to utilise the asset after the term of the agreement is concluded and continues to pay rental. This could run for as long as 24 months but often after 1 year the agreement is cancelled and the ownership of the asset passes to the client for 3 months' rental. If the rental agreement does not proceed to term due to arrear rentals on the account, the asset is repossessed and disposed of at market-related prices. In many instances, the supplier may make an offer on the asset, refurbish it and put it back into the market or, if not, possibly buy it for spares. A condition embedded within the rental agreement is that the client is accountable for insuring the asset over the term of the rental agreement should the asset be lost, stolen or destroyed.

The group enters into operating leases for branches, off-site ATM locations, office space and storage facilities.

2.12 Lease liability

The lease liability is initially measured at the present value of the remaining lease payments on the commencement date, discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be determined, the lessee uses the lessee's incremental borrowing rate. The incremental borrowing rate will be used on a portfolio basis, as a specific rate for a single lease asset does not materially differ from the rate obtained on a portfolio basis. The rate is based on the 3-monthly swap curve and the basis for this curve is the 3-monthly Johannesburg Interbank Agreed Rate (JIBAR). The term structures of base rates and spreads are solved to a single rate for each lease maturity, to take into account the fixed-rate nature of the incremental borrowing rates in IFRS 16. Inputs considered include: the inclusion of a Capitec-specific margin, aligning the maturities of our bonds in issue to the cash flows of our current lease portfolio, adjusting the curve to reflect a secured lending rate and updating the convention of the curve to a monthly convention.

The lease liability is subsequently increased by interest cost on the lease liability and decreased by lease payments made.

Lease payments included in the measurement of the lease liability comprise the following: fixed payments; variable lease payments that depend on an index or a rate; amounts payable under a residual value guarantee; and the exercise price under a purchase option that the group is certain to exercise.

Rental agreements are typically for fixed periods of 5 years but may have extension options as described above. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases – extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of branches, the following factors are the most relevant:

- Whether there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the group.

Short-term and low-value leases

The group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term shorter than 12 months and leases of low-value assets.

Low-value assets comprise information technology (IT) equipment.

The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2.13 Impairment of non-financial assets

Equipment and other non-financial assets (for example, property and computer software) are assessed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less cost to sell, and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGUs)). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Share capital

2.14.1 Categories of share capital

Authorised share capital consists of:

- ordinary shares
- non-redeemable, non-cumulative and non-participating preference shares
- convertible or written off, loss-absorbent preference shares.

2.14.2 Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14.3 Dividends declared

Dividends on ordinary shares and preference shares that are classified as equity are recognised in equity in the period in which they have been approved by the group's directors. Dividends for the year that are declared after the statement of financial position date are dealt with in the directors' report.

2.14.4 Preference shares

As the preference shares are non-redeemable, non-cumulative and non-participating they are included in equity.

2. Accounting policies continued

2.15 Employee benefits

2.15.1 Pension obligations

The group contributes to provident and retirement funds classified as a defined contribution fund.

For defined contribution plans, the group pays fixed contributions to privately administered provident or retirement fund plans on a contractual basis. The group has no further payment obligations once the contributions have been paid.

The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.15.2 Share-based compensation

The group operates cash-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options on grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to retained income in the statement of changes in equity over the remaining vesting period.

The group also has cash-settled, share-based compensation plans. The fair value of the liability incurred for employee services received is recognised as an expense over the vesting period. Until the liability is settled, the group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in value recognised in profit or loss for the period.

2.15.3 Performance incentive scheme

The group operates a performance incentive scheme for senior and other employees, who are seen to be in leadership roles critical to the current and future success of the group's business.

The amount recognised as a liability is the present value of the obligation at the end of the reporting period.

The rate used to discount the obligation is determined by reference to market yields at the end of the reporting period on government bonds. The currency and term of the bonds is consistent with the currency and term of the obligation.

The employee service cost is recognised in the income statement as the obligation arises.

2.15.4 Post-retirement medical benefits

The group provides for post-retirement medical benefits to certain retired employees. These benefits are only applicable to employees who were members of the Mercantile Bank Limited medical aid scheme prior to May 2000, who elected to retain benefits in 2005, and are based on these employees remaining in service up to retirement age.

The costs of the defined benefit plan are assessed using the projected unit credit method. Under this method, the current service costs of providing post-retirement medical benefits are recognised in profit or loss.

The effect of settlements on the liability is recognised in profit or loss and any remeasurement of the defined benefit liability (which include actuarial gains and losses) is recognised in other comprehensive income.

The net post-retirement asset or liability recognised in the consolidated statement of financial position reflects the full value of the plan deficit or surplus.

2.16 Foreign currency translation

2.16.1 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The annual financial statements are presented in South African rand, which is the group's functional and presentation currency.

2.16.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Foreign currency balances are translated into rand at the exchange rate prevailing at the reporting date. Exchange gains and losses on such balances are taken to profit or loss.

2.17 Net insurance receivable

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

The group has provided capital to the third-party cell captive and allows the group to benefit from the ring-fenced insurance business. From the group's perspective, the cell captive arrangement effectively represents an investment in separate classes of shares in the cell captive insurer, which entitles the group to participate in the insurance profits generated in terms of insurance policies sold to the group's loan clients. The group's participation is restricted to the results of the insurance business which is placed with the licensed cell captive insurer. The group also earns interest on the capital and retained profits in the cell captive.

The licensed cell captive insurer's accounting policy is applied to the third-party cell captive. Since the inception of the arrangement, the cell captive insurer has utilised the Standard of Actuarial Practice (SAP) 104 and Advisory Practice Notes issued by the Actuarial Society of South Africa to determine the policyholder liabilities of the cell captive. Policyholder liabilities are measured either on a discounted or undiscounted basis, depending on the features of the agreements.

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

The cell captive arrangement exposes the group to insurance risk on the reinsured and retained insurance risk components in the cell captive. The group's insurance risk on the reinsured component relates to the risk that the reinsurer will fail to honour its obligations under the reinsurance agreement. The group's insurance risk on the retained component relates to the risk that there will be insufficient capital available to honour the claims made by the policyholders in the cell captive arrangement.

The group's exposure to insurance risk for both the reinsured and retained components in the cell captive is evidenced by the group's obligation to maintain the solvency of the cell captive structure.

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

The insurance risk associated with the investment in the cell captive arrangement is disclosed as a non-current asset in the statement of financial position as 'net insurance receivable'.

2. Accounting policies continued

2.18 Revenue recognition

2.18.1 Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method. Interest income and expense are recognised separately from other fair value movements.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The original effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the original effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the agreement that are an integral part of the effective interest rate.

Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss, which is the effective interest rate calculated at origination of the financial asset measured at amortised cost.

Loan origination fees that relate to the creation of a financial asset are amortised over the expected term of the loan on an effective interest rate basis and included in interest income.

2.18.2 Loan fee income and expenses

Service-related loan fee income is recognised when the services are provided.

Loan fee expenses comprise credit insurance premiums paid and are recognised when the services are received from the first-party credit life insurance cell captive.

2.18.3 Transaction income and expenses

Transaction income and expenses are recognised on an accrual basis in the period in which the services are rendered. The performance obligations are met at a point in time. Card commission income and expenses are from the group's ATM and card machine networks.

Other transaction fee income and expenses arise due to the group's branch network and with various electronic banking channels that the group has, namely the banking app, USSD and internet banking platform.

2.18.4 Dividend income

Dividend income is recognised in the income statement when the entity's right to receive payment is established. Dividends on listed preference shares accrue on a day-to-day basis based on the terms of the underlying instruments.

Dividend income is recognised separately from other fair value movements.

2.18.5 Net insurance income

Net insurance income represents the movement before distributions paid to the group in the net insurance receivable and comprises profits from the third-party cell captive after reinsurance and tax. Investment returns have been included in interest income.

2.18.6 Funeral plan income

Funeral plan income comprises dividends and commission from a cell captive profit-sharing arrangement after reinsurance.

Capitec entered into a cell captive agreement that is 100% reinsured by a third party. The group is the owner of a cell captive, through a preference share investment, that holds the credit insurance underwritten by the cell captive insurer. This preference share investment is classified as a receivable measured at FVTPL. Due to the reinsurance risk being transferred to the third party, Capitec does not have an obligation to recapitalise the cell should any losses be suffered on in-force policies.

Funeral plan income is received from the cell captive after tax. The tax expense is included in funeral plan income.

2.18.7 Foreign currency income

Foreign currency income arises from exchange gains and losses, or remeasurement to fair value at each reporting date, of foreign exchange contracts and foreign currency swaps.

2.18.8 Foreign currency expense

Foreign currency expense comprises commission paid to intermediaries on foreign currency exchange gains.

2.18.9 Interest on investments at FVTPL

Interest income on investments at FVTPL is reflected in other income in profit or loss. The income is determined based on the movement in the fair value of the investment for the accounting period.

2.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The group executive management committee (EXCO), headed by the CEO has been identified by the group as the CODM, who is responsible for assessing the performance and allocation of resources of the group.

2.20 Effective standards, interpretations and amendments to published standards applied for the first time during the current financial year

Title	Impact
Amendment to IFRS 3 *Business Combinations* – Definition of a business (effective 1 January 2020)	Low. The only acquisition that did take place during this financial year was the transfer of assets and liabilities from Mercantile Bank Limited to Capitec Bank Limited. The transaction is a business combination under common control and further detail is disclosed in note 4.
Definition of material – Amendments to IAS 1 and IAS 8 (effective 1 January 2020)	Low. The definition of materiality as per IAS 1 – *Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.*
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosure* – Interest rate benchmark reform (IBOR)	Low. These amendments provide certain reliefs in connection with IBOR. The reliefs relate to hedge accounting and IBOR reform should not generally cause hedge accounting to be disqualified. Any hedge ineffectiveness should, however, continue to be recorded in the income statement.

These amendments had no impact on the measurement of assets and liabilities at the previous year-end.

Comparatives are provided for new disclosures where required by the standards.

2. Accounting policies continued

2.21 Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 March 2021, or later periods, but which the group has not early adopted.

Title	Impact
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases* – IBOR (effective 1 January 2021)	The group has not yet assessed the impact of the amendments.
Amendment to IAS 1 *Presentation of Financial Statements on Classification of Liabilities as Current or Non-current* (effective 1 January 2022)	The group has not yet assessed the impact of the amendments.
Amendment to IFRS 3 *Business Combinations* (effective 1 January 2022)	The group has not yet assessed the impact of the amendments.
Amendments to IAS 16 *Property, Plant and Equipment* on proceeds before intended use (effective 1 January 2022)	The group has not yet assessed the impact of the amendments.
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* on onerous contracts – cost of fulfilling a contract (effective 1 January 2022)	The group has not yet assessed the impact of the amendments.
Annual improvements cycle 2018 – 2020 (effective 1 January 2022)	The group has not yet assessed the impact of the amendments.
IFRS 16 *Leases* COVID-19-related rent concessions amendment (effective 1 June 2020, early adoption is permitted)	The group has not yet assessed the impact of the amendments.
IFRS 17 *Insurance Contracts and Amendments* (effective 1 January 2023)	The group has not yet assessed the impact IFRS 17 will have on the insurance liabilities contained within the net insurance receivable presented on the face of the statement of financial position.
Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associates or joint venture	The IASB has made limited scope amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 *Business Combinations*). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

3. Critical accounting estimates and judgements in applying accounting policies

The preparation of annual financial statements for the group requires management to make estimates that affect the amounts reported in the annual financial statements and accompanying notes. Management applies their judgement based on historical evidence, current events and actions that may be undertaken in future. Actual results may ultimately differ from estimates. The determination of the ECLs on loans and impairment of goodwill represent the most material assumptions, estimates and judgements applied in preparing the consolidated annual financial statements.

The significant areas where estimates and judgements are applied by management did not change compared to the prior financial year, other than for the exclusion of the accounting for the acquisition of Mercantile Bank Holdings Limited that was relevant in the prior year.

The scale and unprecedented nature of the COVID-19 pandemic dramatically impacted the global macroeconomic environment. The economic disruption caused by South Africa's COVID-19 lockdown, together with the worsened economic outlook, had a material impact on ECL. Due to the exceptional nature of the COVID-19 pandemic, it is not possible to accurately predict the full timing and duration of its economic impact.

3.1 Judgements

3.1.1 Significant increase in credit risk

In terms of IFRS 9, all loans and advances are assessed at each reporting date to determine whether there has been a SICR event. In cases where a SICR event has occurred, an impairment equal to the lifetime ECL is recognised. If, at the reporting date, the credit risk has not increased significantly, the group recognises a 12-month ECL. The group identifies SICR on clients who are up-to-date on their loans but who have been subject to SICR events.

(i) Retail bank

The Retail bank segment of the group considers the following to be SICR events:

- Shifts in behaviour score beyond certain thresholds. A behaviour score is utilised in the ECL model to provide a measure of a client's propensity to default in the next 12 months. The score was built on a client level using Capitec's loan and savings account behaviour as well as credit exposure and payment behaviour at external credit providers. The score is updated monthly on all existing loan clients to ensure a consistent view of the client. The score also separately considers the performance of rescheduled accounts, which are assumed to have rehabilitated if they have made contractual payments for 6 months and are up-to-date with their amended contractual obligations
- A granting score that is below the threshold set by the group. The updated granting score in the ECL model aims to provide an assessment of SICR on a collective basis for groups of exposures that share similar credit characteristics, such as employer and industry groups, in order to account for forward-looking information that may not be identified at an individual loan level
- Clients reported as being unemployed
- Clients with term loans that are up-to-date while the client's credit card is in arrears.

Due to the COVID-19 pandemic, higher granting score thresholds were set for clients employed in industries under severe stress. As a result, deteriorating granting scores for existing loans exposed to these industries would likely result in SICR.

COVID-19 also impacted forward-looking information. Increasing the PD as determined by behaviour and granting scores as a result of incorporating more negative forward-looking information as detailed in note 3.2.1 (estimates), would result in these moving beyond predetermined thresholds resulting in SICR. This resulted in an ECL of R1 037 million (2020: R198 million) as detailed in note 8.

3. Critical accounting estimates and judgements in applying accounting policies continued

3.1 Judgements continued

3.1.1 Significant increase in credit risk continued

(i) Retail bank continued

In response to COVID-19, between 6 April 2020 and 19 July 2020, COVID-19 relief was offered to clients in the form of 3-month payment breaks or variable reschedules if their loans were up-to-date at the end of February 2020. Clients employed in the most severely affected industries, or who were no longer earning 70% of their salaries, were campaigned to proactively reschedule their loans. As a result, loans with a balance of R7 526 million prior to rescheduling were rescheduled and classified as a separate SICR category within Stage 2. By February 2021, the balance of these loans in stage 2 declined to R392 million, with R2 468 million having cured by making 6 consecutive monthly payments after rescheduling (R1 102 million reported in Stage 1 and R1 366 million in Stage 2 SICR) and R1 900 million having migrated to stage 3. The ECL was determined by the existing ECL model.

The balances loans rescheduled as part of the COVID-19 relief programme and the industries that they related to, were as follows:

Industry	Balance prior to reschedule R'm
Mining	1 316
Retail and wholesale	1 144
Services	1 025
Industrial goods and services	686
Travel and leisure	587
Government	7
Other	2 761
Total	**7 526**

Sensitivity analysis

If all COVID-19-related reschedules that are reported in stage 2 at year-end were reported in stage 3, and an ECL was raised at current stage 3 average ECL coverage, the ECL on these loans would increase by R135 million. Similarly, if these reschedules were reported in stage 1, the ECL would decrease by R99 million.

For other categories of SICR, other than forward-looking SICR which is included in note 3.2.1, the sensitivity analysis is as follows:

Impact of SICR on ECL	Positive	Base	Negative
2021			
Shifting of the SICR threshold by 5% (R'm)[1]	1 098	1 262	1 478
Percentage change on total SICR ECL (%)	(13.0)	0.0	17.1
2020			
Shifting of the SICR threshold by 5% (R'm)	1 006	1 061	1 232
Percentage change on total SICR ECL (%)	(5.2)	–	16.1

[1] *Reflects the stage 2 ECL reported in note 9 as 'up-to-date loans with SICR and applied for debt review >6 months', if the deterioration or improvement in the factor used as a behavioural or granting score threshold, is stressed by 5%.*

The sensitivity analysis of 'forward-looking SICR' reported in note 8 is included in note 3.2.1.

(ii) Business bank

For both classes of the business book, shifts in internal risk grades are considered to be SICR events. These arise if the borrower is on the watch list and/or meets one of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the client operates
- Actual or expected forbearance or restructuring
- Actual or expected significant change in the operating results of the client
- Significant change in the collateral value which is expected to increase the risk of loss given default
- Early signs of cash flow/liquidity problems such as delays in servicing trade creditors/loans
- If the client is more than 30 days past due on contractual payments. This is a backstop that is applied.

In response to COVID-19, clients were offered moratoriums or restructuring on loans that were up-to-date at the end of February 2020. By February 2021, the balance of these loans in stage 2 declined was R876 million and R107 million had migrated to stage 3. The ECL was determined by the existing ECL model.

Sensitivity analysis

If all COVID-19-related reschedules that are reported in stage 2 at year-end were reported in stage 3 and an ECL was raised at current stage 3 average ECL coverage, the ECL increases by R150 million. Similarly, if these reschedules were reported in stage 1, the ECL decreases by R58 million.

The ECL would increase by R30 million (2020: R7.1 million) if a lifetime ECL was applied to 5% of the current stage 1 portfolio.

3.1.2 Loan write-offs

Loans are written off when there is no reasonable expectation of further recovery. Refer to note 2.5.1.2.3.

3.1.3 Intangible assets: Goodwill impairment determination

Goodwill is tested annually for impairment unless there is an indicator of impairment, in which case the test is performed more than once a year. Mercantile was acquired in the previous financial year as a business bank and its operations and goodwill is monitored by Capitec management as a separate CGU from Capitec's retail operations.

The goodwill allocated to the Mercantile CGU as at 28 February 2021 is R849 million (2020: R794 million). Total goodwill increased by R55 million due to the acquisition of the remaining 50% in Mercantile Payment Solutions Proprietary Limited (MPS) on 3 March 2020 for a cash consideration of R55 million.

As at 28 February 2021, management reviewed the assumptions and estimates used in the impairment calculation and determined that the recoverable amount exceeds the carrying amount.

The fair value less costs to sell is calculated using a cash flow discount model taking into account cash flows for the 10-year forecast period. A forecast period of greater than 5 years has been used in order to take into account the level of development expected from leveraging the Capitec Bank brand and the business banking process as well as the board's estimation of the impact of COVID-19 for all periods to which the budgetary process was applied. A terminal value is determined using a Gordon's Growth Model calculation.

The calculation used cash flow projections based on financial budgets approved by management and other management assumptions as per the following table. These projections consider actual growth over the past year in transactional volumes and in clients for certain business lines. The risks associated with the impact of COVID-19 were taken into by applying stresses to the variables as per the table on the next page. The various growth rates applied to the variables is consistent with forecasts included in industry reports specific to the industry in which the CGU operates, historical performance, management's expectation of market developments and management's forecast of new client revenues, which management believe will result from leveraging the Capitec Bank brand and the business banking process. The terminal growth rate does not exceed the historical long-term average growth rate for the country.

3. Critical accounting estimates and judgements in applying accounting policies continued

3.1 Judgements continued

3.1.3 Intangible assets: Goodwill impairment determination

The dividend payout ratio used to determine the dividend cash flows to be discounted was based on historical dividend payout ratios increased over time for growth thereafter.

A stress of any one of the key assumptions as per the following table will not result in an impairment as the recoverable amount is sufficiently in excess of the carrying amount.

The table below sets out the key assumptions and the related stress:

Key assumptions[1]	Value	Stressed value
2021		
Compound growth rate – credit business (%)	**17.3**	**16.3**
Compound growth rate – other business (%)	**19.0**	**18.3**
Capital asset pricing model (CAPM) discount rate (%)	**14.0**	**14.2**
Terminal growth rate (%)	**5.0**	**4.7**
2020		
Net growth rate (%)	13.5 – 14.5	13.0 – 14.0
Dividend payout rate (%)[2]	20.0 – 65.0	20.0 – 65.0
CAPM discount rate (%)	13.9	14.1
Terminal growth rate (%)	5.5	5.0

[1] *In the fair value hierarchy, these unobservable inputs would be described as level 3.*
[2] *No dividend payout percentage is shown for 2021 as Mercantile has been divisionalised. Sufficient capital is retained by the Business bank division to ensure that it maintains an appropriate level of capital.*

The future cash flows were discounted using the expected rate of return, which reflects specific risks relating to the CGU, while maximising use of market observable data. The expected rate of return was calculated using the CAPM.

For purposes of the calculation of the CAPM discount rate, the following assumptions were used:

Key assumptions	Approach to determining value	Value
2021		
Risk-free rate (%)	10-year South African government bond rate	**9.1**
Equity risk premium (%)	Available studies from Ibbotson®, SBBI® valuation year book, Damodaran studies, equity risk premium implied by stock markets and others	**5.5**
Beta coefficient	Listed South African banks based on 5 years of monthly returns regressed against local index returns	**0.89**
Cost of equity (%)		**14.0**
2020		
Risk-free rate (%)	10-year South African government bond rate	9.2
Equity risk premium (%)	Available studies from Ibbotson®, SBBI® valuation year book, Damodaran studies, equity risk premium implied by stock markets and others	6.1
Beta coefficient	Listed South African banks based on 5 years of monthly returns regressed against local index returns	0.76
Cost of equity (%)		13.9

A post-tax discount rate was used to discount post-tax cash flows in the determination of fair value less costs to sell.

3.2 Estimates

3.2.1 Forward-looking information

It is a fundamental principle of IFRS 9 that the ECL impairment provision that the group holds against potential future losses should take into account changes in the economic environment in the future.

(i) Retail bank

The group utilised the BER macroeconomic outlook according to the biannual report published in October or November for the country over a planning horizon of 4 years to estimate the effects of changes to the economic environment.

The assets and liabilities committee (ALCO) reviews and approves the outlook. 3 economic scenarios (negative, baseline and positive) are taken into account when calculating the impact of macroeconomic factors on ECLs.

The probability of each scenario is estimated by management as set out in the table that follows. While the probabilities assigned to each scenario have not changed from the prior year, the impact of the weaker macroeconomic environment is reflected in the weaker economic variables associated with each of the scenarios due to the current COVID-19 pandemic and its effect on the economy.

Management has assigned probabilities to each scenario as follows for the 12-month forecast period:

Scenario probability	2021	2020
Baseline (%)	60	60
Negative (%)	35	35
Positive (%)	5	5

These scenarios are then linked to PDs to derive a forward-looking ECL.

The relevance of the outlook to Capitec's loan book is proven by a historical linear relationship to a change in a basket of macroeconomic variables. These variables are:

	Bad			Baseline			Good		
Macroeconomic variable	12 Months stressed	Average 12 months BER	Average remainder of forecast BER	12 Months stressed	Average 12 months BER	Average remainder of forecast BER	12 Months stressed	Average 12 months BER	Average remainder of forecast BER
2021									
Petrol[1]	33.1	19.6	8.5	23.4	14.6	8.1	16.8	11.1	7.3
Consumer price index (CPI)[1]	4.9	3.1	4.9	3.8	2.9	4.5	3.2	2.6	3.8
Unemployment (%)	37.2	33.7	37.0	36.4	33.6	35.7	34.8	32.9	33.6
Real wage rate[1]	(2.0)	0.9	0.8	(2.0)	1.0	0.9	(1.7)	1.1	1.2
Real credit extension[1]	(1.1)	0.3	(0.8)	(0.2)	0.4	1.6	(0.2)	1.5	3.5
2020									
Petrol [1]	11.0	11.0	4.6	10.7	5.8	3.9	0.8	0.8	3.3
CPI [1]	5.2	5.2	4.9	5.1	4.6	4.9	4.1	4.1	4.4
Unemployment (%)	32.1	30.1	33.7	31.0	29.0	32.1	28.8	28.1	32.0
Real wage rate[1]	(6.5)	(2.0)	(4.0)	(4.1)	(0.2)	(1.3)	1.3	1.3	–
Real credit extension[1]	(4.2)	0.2	(4.6)	(2.0)	2.3	(1.4)	3.0	3.0	1.8

[1] *Year-on-year percentage change.*

3. Critical accounting estimates and judgements in applying accounting policies continued

3.2 Estimates continued

3.2.1 Forward-looking information continued

(i) Retail bank continued

Impact of forward-looking information on ECL (including COVID-19) – Current year

The impact of forward-looking information on ECL was determined by applying the stressed macroeconomic variables as set out in the previous table. This includes the impact of COVID-19 and the impact of forward-looking information on SICR.

The stressed macroeconomic variables were determined as the most punitive forecast point of the respective variable over the 12-month forecast period. These were not adjusted for improvements in unemployment rates released by Stats SA in February 2021.

The increase in ECL that results from applying these stressed macroeconomic variables was quantified to equate to the additional ECL required for forecast increased economic strain due to unemployment, reduced affordability of government employees due to an expected 3-year wage freeze and the subsequent impact of increased unemployment on the ability of accounts to qualify for debt counselling.

Impact of forward-looking information on ECL (including COVID-19) – Comparatives

In the prior year, in terms of IAS 10 *Events After the Reporting Period*, non-adjusting post-balance sheet events are events after the reporting period that are indicative of a condition that arose after the end of the reporting period, which was 29 February 2020. Judgement is involved in assessing the point in time when sentiment changed to viewing COVID-19 as a South African pandemic. In making this assessment, we considered that the South African stock market fell substantially on 12 March 2020, which was the sixth worst performance of the JSE since 1978. This aligned to when the global spread of the virus and closure of businesses accelerated beyond all expectations, leading to a revision of global economic growth forecasts. Public announcements were made on 15 March 2020 and 23 March 2020 declaring a State of National Disaster with further measures implemented on 23 March 2020. We considered that there were no reported infections in South Africa at 29 February 2020 and the likelihood of this evolving into an epidemic in South Africa was considered to be small considering the geographic distance. This changed as significant trading partners across Europe were then impacted, resulting in infections. The President's announcement on 15 March 2020 confirmed that the virus had become a local pandemic.

It was concluded that COVID-19 was a non-adjusting post-balance sheet event as at 29 February 2020. As such, only information available up and to 29 February 2020 was considered in determining the severity of the negative economic scenario applied in the prior year.

This was done by stressing 3 of the macroeconomic variables in the BER scenario table reflected previously, to the values as indicated. The stresses were determined by considering that the highest historical South African unemployment rates were between 31% and 32%. During the global economic crisis of 2008, the real wage rate was -4.5% and the real credit extension rate was approximately -3.5%. In determining the stress, the impact of the potential cuts of the government wage bill were also considered.

The impact of forward-looking information on the ECL based on the 3 scenarios is reflected below:

Impact of forward-looking information on ECL	R'm	% change in ECL
2021		
Probability weighted impact of all 3 scenarios	**3 195**	
100% negative scenario	**3 847**	**20.4**
100% baseline scenario	**2 939**	**(8.0)**
100% positive scenario	**1 706**	**(46.6)**
2020		
Probability weighted impact of all 3 scenarios	649	
100% negative scenario	816	25.7
100% baseline scenario	574	(11.6)
100% positive scenario	367	(43.5)

(ii) Business bank

In response to the uncertainties caused by the COVID-19 pandemic and the impact that it has had on the economy, the following processes were undertaken as part of the ECL determination.

- A specific review of high-risk clients was performed on both the performing and non-performing books. Management increased the modelled ECL output for events that influence the modelled output, which are not yet captured by the model. This is primarily done for credit impaired (Stage 3) exposures where collateral recovery expectations are different to that output by the model
- A COVID-19 top-up model was created that affects the individual parameters or components of the impairment model based on 3 macroeconomic scenarios. In terms of this model, additional overlays were raised at a client level whereby exposures were judgementally classified into 1 of 4 risk categories. These classifications were based on criteria which included among others, the industry in which the client operates, whether a moratorium was provided, whether relief renewals were provided and the bank's detailed knowledge of the client. ECL was increased based on the risk classification.

The impact of forward-looking information on ECL was R125 million (2020: R36 million).

3.2.2 Event driven management credit estimates

(i) Retail bank

Certain events/risks that may not be incorporated into the statistical forward-looking model arise from time to time. In such instances, the additional inclusions in the ECL over and above the adjustment to ECL arising from forward-looking information are reviewed and approved by the CC on a monthly basis.

Events for which an amount was added to the ECL include the introduction of DebiCheck. DebiCheck will have an impact on the collection of cash flows on loans and advances where clients move their bank accounts, change debit order dates or where there are changes in the rescheduled contractual cash flows. If clients fails to electronically confirm (authenticate) updated debit orders, the group could fail to collect the agreed upon instalment, on the agreed upon date. The risk is increased in the event of rescheduling loans of those clients where debit orders are collected from other banks and therefore needs to be authenticated by clients with other banks.

For the comparative period, in addition to DebiCheck, a ruling by the Gauteng High Court regarding the use of common law set-off for the collection of instalments on credit agreements, was considered. Set-off did not impact on the models for the current period.

3.2.3 Modelling assumptions

(i) Retail bank

Historical data may not always be reflective of the future. The way in which it is used by the statistical models (PD, EAD and LGD) to estimate the timing and amount of the forecast cash flows based on historical default data, roll rates and recoveries, requires consideration of subsegments.

These include aspects such as client risk groups, time on book, product term, payment frequency, default statuses, employment, industry and rescheduling status as well as the behaviour score of the client.

(ii) Business bank

Management judgement is required to consider how historical data is used to project ECL. In response to this all components of the ECL statistical model (PD, EAD, LGD) used to estimate the timing and amount of forecast cash flows based on historical default data and recoveries have been recalibrated.

4. Business reorganisation and business combination

4.1 Business reorganisation – current year

On 1 December 2020, the assets and liabilities of Mercantile Bank Limited (Mercantile), a wholly owned subsidiary of Capitec Bank Limited (Capitec Bank), were transferred to Capitec Bank. No consideration was transferred for the transaction. The transaction is referred to as a common control transaction which involves the transfer of Mercantile's business to Capitec Bank.

Capitec Bank stated the assets and liabilities of Mercantile at predecessor carrying values and there was therefore no need to adjust these to fair value. Predecessor carrying values are the carrying values related to Mercantile. They comprise the carrying amounts of assets and liabilities of Mercantile from the consolidated Capitec Bank Holdings Limited financial statements. These amounts include any goodwill (as recognised in the consolidated Capitec Bank Holdings Limited financial statements at the date of transfer), and other fair value adjustments or goodwill, recorded at the consolidated level in respect of Mercantile. No new goodwill was recognised.

The decrease in the net assets in the consolidated annual financial statements of Mercantile (i.e. difference between the carrying amount of the net assets in the consolidated annual financial statements at the date of transfer and the fair value of net assets acquired at the date of original external acquisition) is recorded in equity in retained earnings.

Mercantile was consolidated for the period 1 March 2020 to 30 November 2020. As at 1 December 2020, as part of the common control transaction, all assets and liabilities of Mercantile were assumed by Capitec. At a Capitec Bank group level, the income statement comprises 12 months' profit. This is by virtue of the consolidation of Mercantile for 9 months and Capitec Bank being entitled to the profit for the remaining 3 months.

The following table summarises the recognised amounts of assets acquired and liabilities assumed as at 1 December 2020.

R'000	**Predecessor carrying value**
Cash, cash equivalents and money market funds	2 122 024
Financial investments	918 404
Net loans and advances	9 232 629
Trade and other receivables	525 121
Derivative financial instruments	52 095
Financial assets	1 139
Interest in subsidiaries[1]	244 774
Property and equipment	29 311
Right-of-use asset	12 149
Intangible assets	72 075
Deferred income tax asset	48 247
Current income tax asset	2 987
Derivative financial instruments	(37 291)
Deposits	(13 288 010)
Other liabilities	(340 013)
Wholesale funding	(531 593)
Lease liability	(13 008)
Provisions	(44 515)
Deferred income tax liability	(23 312)
Group loans receivable	3 662 101
Equity	(15 866)
Intangible asset on a consolidated level	
Core deposit intangible	68 278
Client relationships intangible	14 979
Goodwill	849 487

[1] *The assets and liabilities of Mercantile Rental Finance Proprietary Limited and Portion 2 of Lot 8 Sandown Proprietary Limited, both wholly owned subsidiaries of Mercantile, were not transferred as a part of the common control transaction, thus, these entities became subsidiaries of Capitec Bank post the common control transaction. Capitec's interest in these subsidiaries was stated as a reallocation of Capitec Bank's investment in Mercantile.*

In the 3 months to 28 February 2021, Mercantile Bank Limited contributed a loss after tax of R65.9 million and total revenue of R542 million to the bank's results.

4.2 Business combination – comparatives

On 7 November 2019, the group obtained control over Mercantile Bank Holdings Limited by acquiring 100% of the shares and voting interest. Mercantile Bank Limited is involved in the full spectrum of domestic and international banking and financial services to niche markets within commercial banking. The acquisition is expected to provide the group with a share in commercial banking.

The Mercantile group is a separate reporting segment in the group. Refer to note 32.

In the 4 months to 29 February 2020, Mercantile Bank Limited contributed profit after tax of R3.4million and total revenue of R647 million to the group's results. If the acquisition had occurred on 1 March 2019, management estimates that consolidated total revenue would have increased by R2.0 billion and profit would have increased by R175 million.

The purchase price of R3.56 billion was settled in cash. Capitec Bank incurred acquisition-related costs of R9.5 million (mainly securities transfer tax) during the year and these will be included in operating expenses for the year ended 29 February 2020.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

R'000	Fair value
Cash, cash equivalents and money market funds	4 592 930
Financial investments	786 290
Net loans and advances	10 141 010
Trade and other receivables	376 532
Derivative financial instruments	62 445
Financial assets	8 078
Property and equipment	239 579
Right-of-use asset	14 339
Intangible assets	96 836
Core deposit intangible	80 780
Client relationships intangible	17 721
Deferred income tax asset	42 434
Derivative financial instruments	(59 412)
Current income tax liability	(34 654)
Deposits	(11 743 652)
Other liabilities	(396 373)
Wholesale funding	(1 244 970)
Lease liability	(14 971)
Provisions	(104 470)
Deferred income tax liability	(99 186)
Fair value of identifiable net assets including identified intangibles	2 761 286

4. Business reorganisation and business combination continued

4.2 Business combination – comparatives continued

Identifiable assets acquired and liabilities assumed continued

Additional intangible assets were identified by management, together with external valuation experts. The external experts and management have applied judgement in identifying the intangible assets that result from the acquisition and have made use of estimates and assumptions in order to determine the fair value of the goodwill, core deposit intangible and client relationships intangible.

Core deposit intangible

The most significant intangible, other than goodwill, relates to core deposit intangible. The value of the core deposits intangible was determined by applying the net funding benefit methodology. The fair value is calculated as the present value of the estimated net funding benefit attributable to the core deposit base over the expected remaining life of the deposit base. This benefit is determined as the internal costs of funding (interest) arising from client deposits versus the prevailing market rate for alternative funding sources.

The key assumptions used in determining the fair value of the core deposit intangible asset are as follow: attrition rate, discount rate, alternative cost of funding and the cost of deposits. Details of these are as follows:

- Rate of attrition: 15% to 25%
- Remaining useful life: 7 years
- Internal cost of funding (varies according to product terms): 1.4% to 7.9%
- Alternative cost of funding premium: 0.25% to 0.5%
- Marginal cost of funding: 5.5% to 8.3%
- Discount rate (cost of equity): 13.9%.

Client relationships intangible

Non-interest income is generated through a range of products and existing client relationships. It was considered to be an intangible asset due to the history of trade between Mercantile and its clients and the future economic benefit to be derived from these relationships.

The multi-period excess earnings method was applied to derive a value for the asset by reference to the operating margins directly attributable to the asset. Any notional charges for the utilisation of contributory assets was deducted. This methodology was applied to various categories of client relationships considering projected client churn and expected useful lives.

For cost of equity used as discount rate refer to note 3.1.3 Intangible assets: Goodwill impairment determination.

Money market funds were classified as cash equivalents on acquisition date, due to the funds having a low risk of significant changes in value. The funds were used to meet short-term commitments. They were short term and highly liquid, convertible to known amounts of cash instruments.

The loans and receivables acquired as part of the business combination are listed below:

R'000	Gross loans and advances	ECL	Net amount	Fair value
Business other	5 014 835	(207 380)	4 807 455	4 807 455
Mortgage loans	5 392 919	(59 364)	5 333 555	5 333 555
Trade and other receivables	376 532	–	376 532	376 532
Total	10 784 287	(266 744)	10 517 542	10 517 542

Goodwill is attributable mainly to the synergies arising from the acquisition of Mercantile Bank Holdings Group as it provides the group with access to business banking, opportunities to diversify the business and the skills and technical talent of the Mercantile workforce. None of the goodwill recognised is expected to be deducted for tax purposes.

	R'000
Total consideration transferred	3 555 772
Fair value of identifiable net assets	(2 761 286)
Goodwill	794 486
Purchase consideration – cash outflow	
Outflow of cash to acquire Mercantile Bank	3 555 772
Less: cash balance acquired	(4 593 222)
Net outflow of cash – investment activities	(1 037 450)

The cash balance acquired as part of the power purchase agreement is different to the cash acquired for cash flow statement purposes; this is mainly due to the ECL of R0.3 million.

Refer to note 3.1.3 for details of the assessment of goodwill for impairment.

5. Cash, cash equivalents and money market fund[(1)]

	GROUP		COMPANY	
R'000	**2021**	**2020**	**2021***	**2020**
Cash on hand	**2 956 685**	3 132 156	**2 956 685**	3 107 346
Rand-denominated bank balances	**15 291 221**	12 057 350	**15 291 193**	11 309 976
Foreign currency-denominated bank balances	**1 692 426**	1 051 447	**1 692 426**	–
Resale agreements: Corporate	**3 528 326**	607 186	**3 528 326**	607 186
Resale agreements: Banks	**23 728 172**	23 482 481	**23 728 172**	23 482 481
Central bank balances				
Mandatory reserve deposits with central bank[(2)]	**2 098 573**	1 863 408	**2 098 573**	1 616 827
Cash and cash equivalents	**49 295 403**	42 194 028	**49 295 375**	40 123 816
Non-cash adjustment: ECL	**(2 438)**	(2 031)	**(2 438)**	(1 870)
Money market unit trusts	**11 511**	25 374	**11 511**	25 374
Total cash, cash equivalents and money market funds	**49 304 476**	42 217 371	**49 304 448**	40 147 320
Maximum exposure to credit risk	**49 306 914**	42 217 371	**49 306 886**	40 147 320
Current portion	**49 304 476**	42 217 371	**49 304 448**	40 147 320

Stage 1 with no movement between stages.
12-month ECL of R2.4 million (2020: 2.0 million).

(1) *Cash, cash equivalents and money market funds are classified as financial assets measured at amortised cost.*

(2) *Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is available for use by the group subject to certain restrictions and limitations determined by the central bank in South Africa. These deposits bear no interest.*

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

6. Financial assets at FVTPL

	GROUP		COMPANY	
R'000	**2021**	**2020**	**2021**	**2020**
Balance as at the beginning of the year	**1 504 262**	–	**1 504 262**	–
Additions – capital	**1 461 000**	1 500 000	**1 461 000**	1 500 000
Capital growth	**5 771**	611	**5 771**	611
Interest accrued	**113 687**	8 513	**113 687**	8 513
Maturities – interest accrued	**(114 980)**	(4 862)	**(114 980)**	(4 862)
Total financial assets at FVTPL[(1)]	**2 969 740**	1 504 262	**2 969 740**	1 504 262
Maximum exposure to credit risk	**2 969 740**	1 504 262	**2 969 740**	1 504 262
Current portion	**2 969 740**	1 504 262	**2 969 740**	1 504 262

(1) *Interest-bearing collective investment scheme investments.*

7. Financial investments at amortised cost[1]

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Interest-bearing instruments[1]				
Balance as at the beginning of the year	**17 207 094**	10 732 394	**16 329 710**	10 732 394
Acquisition of subsidiary[2]	**–**	786 290	**–**	–
Acquisition through business reorganisation[3]	**–**	–	**918 404**	–
Additions[3]	**39 584 913**	17 044 153	**38 849 758**	16 494 410
Interest accrued	**1 378 061**	1 100 045	**1 342 884**	1 080 620
Movement in ECL	**(59 334)**	272	**(59 358)**	281
Maturities – capital	**(21 701 550)**	(11 645 092)	**(21 026 817)**	(11 172 903)
Maturities – interest accrued	**(1 415 656)**	(810 968)	**(1 361 053)**	(805 092)
Total financial investments at amortised cost	**34 993 528**	17 207 094	**34 993 528**	16 329 710
Maximum exposure to credit risk	**35 061 268**	17 207 094	**35 061 268**	16 329 710
Current portion	**30 057 856**	17 207 094	**30 057 886**	16 329 710
Non-current portion	**4 935 642**	–	**4 935 642**	–

Stage 1 with no movement between stages.
12-month ECL of R67.7 million (2020: R8.4 million).

(1) *Interest-bearing instruments are unlisted instruments with a maturity greater than 3 months from date of acquisition. This figure comprises South African National Treasury bills and government bonds.*
(2) *Financial investments acquired due to the Mercantile acquisition during 2020 consist of government bonds and treasury bills.*
(3) *On the statement of cash flow under investing activities, acquisition and redemption of financial investments are shown as R38.8 billion (2020: R16.5 billion) and R21 billion (2020: R11.2 billion), respectively, as the acquisitions and redemptions prior to divisionalisation on 1 December 2020 for Business bank are included in operating activities. Refer to note 2.5.1.1 and note 36.1.*

8. Term deposit investments

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Balance as at the beginning of the year	**–**	9 331 297	**–**	9 331 297
Additions	**3 275 617**	–	**3 275 617**	–
Interest accrued	**42 637**	396 018	**42 637**	396 018
Movement in ECL	**–**	2 888	**–**	2 888
Maturities – capital	**(2 975 617)**	(9 056 000)	**(2 975 617)**	(9 056 000)
Maturities – interest accrued	**(29 778)**	(674 203)	**(29 778)**	(674 203)
Total term deposit investments[1]	**312 859**	–	**312 859**	–
Maximum exposure to credit risk	**312 859**	–	**312 859**	–
Current portion	**312 859**	–	**312 859**	–

Stage 1 with no movement between stages.
12-month ECL of Rnil million (2020: Rnil million).

(1) *All balances are due by banks and have original maturity dates of more than 3 months but contractually less than 1 year. Investments comprise term to notice and fixed-term instruments. Refer to note 33.1 for credit ratings. The credit ratings of the counterparties were considered when determining the ECL.*

9. Net loans and advances

R'000	GROUP 2021	GROUP 2020[4]	COMPANY 2021*	COMPANY 2020[4]
Loans and advances to clients				
Maturity analysis				
Current portion (less than 1 year)	23 126 213	23 883 214	22 713 105	20 813 130
Demand to 1 month	3 860 166	4 099 420	3 860 166	2 512 770
1 to 3 months	3 968 615	4 044 152	3 860 745	3 630 495
3 months to 1 year	15 297 432	15 739 642	14 992 194	14 669 865
Non-current portion (more than 1 year)	52 219 397	52 399 026	51 407 421	45 123 766
1 to 2 years	16 413 441	17 039 513	16 070 981	15 826 930
2 to 5 years	23 053 376	23 874 417	22 645 471	21 417 861
More than 5 years	3 464 833	3 624 564	3 464 473	598 974
Non-contractual	9 287 747	7 860 532	9 226 496	7 280 001
Total	75 345 610	76 282 240	74 120 526	65 936 896
Loan origination fees	(322 618)	(500 502)	(322 618)	(500 502)
Gross loans and advances (gross carrying amount)[3]	75 022 992	75 781 738	73 797 908	65 436 394
Retail	63 982 201	65 436 394	63 982 201	65 436 394
Business loans[2]	5 439 350	4 938 703	4 214 266	–
Mortgage loans	5 601 441	5 406 641	5 601 441	–
Provision for credit impairments (ECL)	(17 837 601)	(13 740 179)	(17 742 789)	(13 424 711)
Retail	(17 184 203)	(13 424 711)	(17 184 203)	(13 424 711)
Business loans[2]	(467 097)	(230 333)	(372 285)	–
Mortgage loans	(186 301)	(85 135)	(186 301)	–
Net loans and advances	57 185 391	62 041 559	56 055 119	52 011 683
Current portion	19 022 401	21 575 603	18 623 489	18 557 075
Non-current portion	38 162 990	40 465 956	37 431 630	33 454 608
Maximum exposure to credit risk				
Loans and advances	75 345 610	76 282 240	74 120 526	65 936 896
Retail loan commitments[4]	4 924 124	1 521 927	4 924 124	1 521 927
Business loan commitments and guarantees[1][4]	796 533	942 674	796 533	–
Maximum exposure to credit risk	81 066 267	78 746 841	79 841 183	67 458 823

(1) These are irrevocable commitments and guarantees that may be drawn down without any credit intervention from Capitec within 1 month.

(2) Business loans are loans granted to Business bank clients such as term loans, rental finance, structured loans and credit cards.

(3) The balances written off during the current year that are still subject to enforcement activities are: retail loans R5.9 billion (2020: R4.9 billion), mortgage loans R3.7 million (2020: Rnil) and business loans R3 million (2020: R64.3 million). Recoveries on these are included in bad debt recoveries.

(4) For loan commitments, the loss allowance is recognised as a provision. For agreements, however, that contain both a drawn and undrawn component, and the group cannot separately identify the ECL on the undrawn component, the ECL is recognised with the loan component. To the extent that the combined ECLs exceed the gross carrying amount of the loan, the excess is recognised as a provision.

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

9. Net loans and advances continued

Credit risk exposure

The following tables contain an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the group's maximum exposure to credit risk on these assets. Refer to note 2.5.1.2.5 for explanations of the terminology used.

Analysis of net loans and advances by stage – Retail bank (group and company)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL				Stage 3 Lifetime ECL					
R'000	Up-to-date[(1)]	Up-to-date loans with SICR and applied for debt review >6 months	Forward-looking SICR[(3)]	Up to 1 month in arrears	COVID-19 reschedules[(2)]	COVID-19 reschedules[(2)]	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review <6 months	Total
2021											
Gross loans and advances	38 708 068	4 219 586	4 563 628	1 008 057	391 882	24 226	1 903 584	2 105 266	2 402 866	8 655 038	63 982 201
Provision for credit impairments (ECL)	(3 637 858)	(1 262 221)	(1 036 611)	(700 514)	(135 805)	(6 968)	(1 578 098)	(894 042)	(836 737)	(7 095 349)	(17 184 203)
	35 070 210	2 957 365	3 527 017	307 543	256 077	17 258	325 486	1 211 224	1 566 129	1 559 689	46 797 998
ECL coverage (%)	9.4	29.9	22.7	69.5	34.7	28.8	82.9	42.5	34.8	82.0	26.9
2020											
Gross loans and advances	48 309 758	3 491 328	954 318	1 171 934	–	–	1 549 892	1 130 157	1 471 174	7 357 833	65 436 394
Provision for credit impairments (ECL)	(3 304 390)	(863 170)	(197 700)	(650 553)	–	–	(1 129 928)	(455 389)	(567 101)	(6 256 480)	(13 424 711)
	45 005 368	2 628 158	756 618	521 381	–	–	419 964	674 768	904 073	1 101 353	52 011 683
ECL coverage (%)	6.8	24.7	20.7	55.5	–	–	72.9	40.3	38.5	85.0	20.5

(1) *Gross loans and advances of R38.7 billion (2020: R48.3 billion) comprise up-to-date loans of R36.1 billion (2020: R45.5 billion) (including loans arising from consolidation), up-to-date loans that rescheduled from up-to-date and have rehabilitated of R1.0 billion (2020: R2.0 billion), up-to-date loans that rescheduled from arrears and that have rehabilitated of R0.5 billion (2020: R0.8 billion) and rehabilitated COVID-19 reschedules of R1.1 billion.*

(2) *COVID-19-related reschedules prior to the PA Directive 3 of 2020 were treated as stage 3 in terms of the existing policy. From 6 April 2020 to 19 July 2020, up-to-date loans that were rescheduled and met SICR criteria due to unemployment and industry triggers were classified as stage 2 COVID-19-related reschedules.*

(3) *Comprises loans where the forward-looking information indicates a SICR trigger. The comparatives have been updated to align to this more granular disclosure of SICR from one into two columns. Refer to note 3.*

COVID-19 debt relief measures provided to clients

Due to the COVID-19 pandemic and its resultant impact on the economy, a liquidity crisis was experienced by a large number of clients across the group. In order to assist clients, the group provided various relief measures:

- New facilities being granted, including the COVID-19 SME scheme guaranteed by the SARB through our Business bank division
- The Retail bank provided relief to clients who were directly/indirectly affected by COVID-19, primarily by offering rescheduling through a self-help campaign. The treatment offered was in the form of either a 3-month payment break or a variable instalment rescheduled agreement. The staging of these loans can be seen in the analysis of net loans and advances by stage – Retail bank table.

In addition to the COVID-19-related reschedules provided, the Retail bank division committed to refund interest charged during the first 3 months of the rescheduled agreement if certain criteria are met. Interest refunds are settled as follows:

- If the original rescheduled loan is still active, the refund will be paid into the original loan account
- If the client consolidated the original rescheduled loan, the refund will be paid into the consolidated loan account
- If neither the original nor the consolidated rescheduled loan account exists, the client refund will be paid into the active loan/access facility with the highest outstanding loan balance
- If the client does not have an active loan/access facility, the refund will be paid into either the Capitec primary savings account or an external bank account.

The interest refund affects the future contractual cash flow of loan agreements and was therefore treated as a loan modification in terms of IFRS 9 *Financial Instruments*.

Credit quality – Retail bank

The internal credit rating risk buckets used to explain low-risk, medium-risk and high-risk are subjectively determined by bucketing accounts by behavioural scores. New loans may be granted to certain high-risk clients, depending on the credit granting strategy and granting scorecards. The increased risk resulting from SICR and forward-looking information is set out in note 3.1.1 and note 3.2, respectively. For the Retail bank, behavioural scores range from 666 (lowest risk) to zero (highest risk). The low-risk band applied was 648 to 666, the medium-risk band 621 to 647 and the high-risk band 0 to 620.

R'000	Stage 1	Stage 2	Stage 3	Total
2021				
Low	**29 769 107**	**3 883 156**	**224 472**	**33 876 735**
Medium	**8 172 687**	**4 060 529**	**2 518 700**	**14 751 916**
High	**766 274**	**2 239 468**	**12 347 808**	**15 353 550**
On balance sheet	**38 708 068**	**10 183 153**	**15 090 980**	**63 982 201**
Low	**3 667 780**	**25 003**	**–**	**3 692 783**
Medium	**876 001**	**16 717**	**–**	**892 718**
High	**315 587**	**23 036**	**–**	**338 623**
Off balance sheet	**4 859 368**	**64 756**	**–**	**4 924 124**
2020				
Low	31 792 825	1 059 775	35 613	32 888 213
Medium	14 594 772	1 722 835	643 207	16 960 814
High	1 922 161	2 834 970	10 830 236	15 587 367
On balance sheet	48 309 758	5 617 580	11 509 056	65 436 394
Low	1 333 587	17 247	–	1 350 834
Medium	100 079	21 551	–	121 630
High	29 196	20 267	–	49 463
Off balance sheet	1 462 862	59 065	–	1 521 927

9. Net loans and advances continued

Credit risk exposure continued

Analysis of net loans and advances by stage – Business bank

	GROUP									
	Stage 1 12-month ECL		Stage 2 Lifetime ECL					Stage 3 Lifetime ECL		
R'000	Up-to-date[(1)]	Up to 1 month in arrears	Up-to-date loans with SICR	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	COVID-19 reschedules[(2)]	COVID-19 reschedules[(2)]	More than 3 months in arrears, legal statuses and applied for business rescue liquidations	Total
2021										
Gross loans and advances	**8 895 296**	**90 230**	**128 913**	**26 134**	**172 317**	**91 839**	**875 845**	**35 907**	**724 310**	**11 040 791**
Business loans	**4 440 446**	**39 233**	**55 361**	**18 761**	**119 557**	**34 306**	**371 187**	**3 703**	**356 796**	**5 439 350**
Mortgage loans[(3)]	**4 454 850**	**50 997**	**73 552**	**7 373**	**52 760**	**57 533**	**504 658**	**32 204**	**367 514**	**5 601 441**
Provision for credit impairments (ECL)	**(203 525)**	**(1 325)**	**(13 466)**	**(5 072)**	**(11 206)**	**(9 965)**	**(98 679)**	**(4 777)**	**(305 383)**	**(653 398)**
Business loans	**(158 263)**	**(992)**	**(10 631)**	**(4 801)**	**(9 180)**	**(5 962)**	**(54 687)**	**(1 907)**	**(220 674)**	**(467 097)**
Mortgage loans	**(45 262)**	**(333)**	**(2 835)**	**(271)**	**(2 026)**	**(4 003)**	**(43 992)**	**(2 870)**	**(84 709)**	**(186 301)**
	8 691 771	**89 905**	**115 447**	**21 062**	**161 111**	**81 874**	**777 166**	**31 130**	**418 927**	**10 387 393**
ECL coverage (%)	**2.3**	**1.5**	**10.4**	**19.4**	**6.5**	**10.9**	**11.3**	**13.3**	**42.2**	**5.9**
2020										
Gross loans and advances	9 229 921	85 381	124 009	27 968	226 446	71 077	–	–	580 542	10 345 344
Business loans	4 450 015	34 648	45 432	8 990	114 642	16 256	–	–	268 720	4 938 703
Mortgage loans	4 779 906	50 733	78 577	18 978	111 804	54 821	–	–	311 822	5 406 641
Provision for credit impairments (ECL)	(84 411)	(636)	(10 714)	(4 448)	(15 710)	(10 987)	–	–	(188 562)	(315 468)
Business loans	(76 628)	(552)	(8 112)	(3 750)	(11 938)	(2 280)	–	–	(127 073)	(230 333)
Mortgage loans	(7 783)	(84)	(2 602)	(698)	(3 772)	(8 707)	–	–	(61 489)	(85 135)
	9 145 510	84 745	113 295	23 520	210 736	60 090	–	–	391 980	10 029 876
ECL coverage (%)	0.9	0.7	8.6	15.9	6.9	15.5	–	–	32.5	3.0

(1) *Gross loans and advances of R8.9 billion (2020: R9.2 billion) comprise up-to-date loans of R8.9 billion (2020: R9.1 billion), up-to-date loans that rescheduled from up-to-date and have rehabilitated of R7.4 million (2020: R58 million) and up-to-date loans that rescheduled from arrears and have rehabilitated of R9.1 million (2020: R40 million). Under stage 1 up-to-date, an amount of R2.56 billion is included relating to COVID-19 reschedules where normal payments have commenced but the continuous repayment is still tracked and currently reflected up-to-date.*

(2) *COVID-19-related reschedules prior to the PA Directive 3 of 2020 were treated as stage 3 in terms of the existing policy. From 6 April 2020 to 19 July 2020, up-to-date loans that were rescheduled and met SICR criteria were classified as stage 2 COVID-19-related reschedules. Balances amounting to R3.4 billion were classified as COVID-19-related.*

(3) *Mortgage loans provided in association with SA Home Loans are not accounted for in gross loans and advances as Capitec is the originator and not the credit provider.*

COMPANY										
	Stage 1 12-month ECL		Stage 2 Lifetime ECL					Stage 3 Lifetime ECL		
R'000	Up-to-date[1]	Up to 1 month in arrears	Up-to-date loans with SICR	2 and 3 months in arrears	Rescheduled from up-to-date (not yet rehabilitated)	Rescheduled from arrears (not yet rehabilitated)	COVID-19 reschedules[2]	COVID-19 reschedules[2]	More than 3 months in arrears, legal statuses and applied for business rescue liquidations	Total
2021										
Gross loans and advances	7 761 187	66 186	128 913	20 455	172 317	91 839	875 845	35 907	663 058	9 815 707
Business loans	3 306 337	15 189	55 361	13 082	119 557	34 306	371 187	3 703	295 544	4 214 266
Mortgage loans[3]	4 454 850	50 997	73 552	7 373	52 760	57 533	504 658	32 204	367 514	5 601 441
Provision for credit impairments (ECL)	(166 128)	(778)	(13 466)	(646)	(11 206)	(9 965)	(98 679)	(4 777)	(252 941)	(558 586)
Business loans	(120 866)	(445)	(10 631)	(375)	(9 180)	(5 962)	(54 687)	(1 907)	(168 232)	(372 285)
Mortgage loans	(45 262)	(333)	(2 835)	(271)	(2 026)	(4 003)	(43 992)	(2 870)	(84 709)	(186 301)
	7 595 059	65 408	115 447	19 809	161 111	81 874	777 166	31 130	410 117	9 257 121
ECL coverage (%)	2.1	1.2	10.4	3.2	6.5	10.9	11.3	13.3	38.1	5.7

(1) *Gross loans and advances of R8.9 billion (2020: R9.2 billion) comprise up-to-date loans of R8.9 billion (2020: R9.1 billion), up-to-date loans that rescheduled from up-to-date and have rehabilitated of R7.4 million (2020: R58 million) and up-to-date loans that rescheduled from arrears and have rehabilitated of R9.1 million (2020: R40 million) and rehabilitated COVID-19 reschedules of R2.56 billion.*

(2) *COVID-19-related reschedules prior to the PA Directive 3 of 2020 were treated as stage 3 in terms of the existing policy. From 6 April 2020 to 19 July 2020, up-to-date loans that were rescheduled and met SICR criteria were classified as stage 2 COVID-19-related reschedules. Balances amounting to R3.4 billion were classified as COVID-19-related.*

(3) *Mortgage loans provided in association with SA Home Loans are not accounted for in gross loans and advances as Capitec is the originator and not the credit provider.*

9. Net loans and advances continued

Credit risk exposure continued

Credit quality – Business bank

The internal credit rating risk buckets are determined subjectively. Parameters included but were not limited to arrears, industry and geographical risk, and whether reschedules were distressed or not for stage 1 and stage 2. For stage 3, litigation, business rescue, sequestration and write-off were considered.

	GROUP			
R'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2021				
Low				
Business loans	**3 051 131**	**6 848**	**–**	**3 057 979**
Mortgage loans	**2 924 087**	**19 621**	**–**	**2 943 708**
Medium				
Business loans	**1 075 939**	**110 232**	**–**	**1 186 171**
Mortgage loans	**1 132 600**	**59 713**	**–**	**1 192 313**
High				
Business loans	**352 609**	**482 092**	**360 499**	**1 195 200**
Mortgage loans	**449 160**	**616 542**	**399 718**	**1 465 420**
On balance sheet	**8 985 526**	**1 295 048**	**760 217**	**11 040 791**
Low				
Business loans	**173 673**	**–**	**–**	**173 673**
Mortgage loans	**138 366**	**–**	**–**	**138 366**
Medium				
Business loans	**282 249**	**–**	**–**	**282 249**
Mortgage loans	**120 975**	**–**	**808**	**121 783**
High				
Business loans	**32 925**	**–**	**11**	**32 936**
Mortgage loans	**38 296**	**9 230**	**–**	**47 526**
Off balance sheet	**786 484**	**9 230**	**819**	**796 533**
2020				
Low				
Business loans	3 829 125	11 282	15 184	3 855 591
Mortgage loans	4 573 665	23 833	76 460	4 673 958
Medium				
Business loans	175 360	7 595	17 833	200 788
Mortgage loans	67 871	27 042	76 680	171 593
High				
Business loans	480 177	166 443	235 703	882 323
Mortgage loans	189 104	213 305	158 682	561 091
On balance sheet	9 315 302	449 500	580 542	10 345 344
Low				
Business loans	441 911	–	–	441 911
Mortgage loans	256 914	2 064	–	258 978
Medium				
Business loans	4 091	–	–	4 091
Mortgage loans	13 350	–	–	13 350
High				
Business loans	218 120	–	–	218 120
Mortgage loans	633	5 591	–	6 224
Off balance sheet	935 019	7 655	–	942 674

R'000	Stage 1	Stage 2	Stage 3	Total
		COMPANY*		
2021				
Low				
Business loans	1 892 978	6 848	–	1 899 826
Mortgage loans	2 924 087	19 621	–	2 943 708
Medium				
Business loans	1 075 939	104 553	–	1 180 492
Mortgage loans	1 132 600	59 713	–	1 192 313
High				
Business loans	352 609	482 093	299 246	1 133 948
Mortgage loans	449 160	616 541	399 719	1 465 420
On balance sheet	7 827 373	1 289 369	698 965	9 815 707
Low				
Business loans	173 673	–	–	173 673
Mortgage loans	138 366	–	–	138 366
Medium				
Business loans	282 249	–	–	282 249
Mortgage loans	120 975	–	808	121 783
High				
Business loans	32 925	–	11	32 936
Mortgage loans	38 296	9 230	–	47 526
Off balance sheet	786 484	9 230	819	796 533

* *There was no company information in the prior year.*

9. Net loans and advances continued

Credit risk exposure continued

Analysis of gross loans and advances – Retail bank

	GROUP AND COMPANY			
R'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2021				
Balance as at 1 March 2020	**48 309 758**	**5 617 580**	**11 509 056**	**65 436 394**
Net loan sales[2]	**30 395 799**	**(676 922)**	**(386 804)**	**29 332 073**
New loan sales[2]	**38 145 883**	**–**	**–**	**38 145 883**
Loans derecognised (other than write-offs)[2]	**(7 750 084)**	**(676 922)**	**(386 804)**	**(8 813 810)**
Income accrued for the year[1]	**12 851 989**	**1 978 290**	**3 647 278**	**18 477 557**
Transfers				
Stage 1 to stage 2	**(10 537 361)**	**10 537 361**	**–**	**–**
Stage 1 to stage 3	**(10 406 750)**	**–**	**10 406 750**	**–**
Stage 2 to stage 3	**–**	**(1 897 983)**	**1 897 983**	**–**
Stage 3 to stage 2	**–**	**626 499**	**(626 499)**	**–**
Stage 3 to stage 1	**624 608**	**–**	**(624 608)**	**–**
Stage 2 to stage 1	**1 210 141**	**(1 210 141)**	**–**	**–**
Repayments	**(33 526 816)**	**(4 721 038)**	**(4 704 626)**	**(42 952 480)**
Modifications	**(213 300)**	**(70 493)**	**(645 599)**	**(929 392)**
Write-offs	**–**	**–**	**(5 381 951)**	**(5 381 951)**
Balance as at 28 February 2021	**38 708 068**	**10 183 153**	**15 090 980**	**63 982 201**
2020				
Balance as at 1 March 2019	41 582 114	4 851 164	9 456 654	55 889 932
Net loan sales[2]	40 354 563	(893 798)	(344 270)	39 116 495
New loan sales[2]	54 146 551	–	–	54 146 551
Loans derecognised (other than write-offs)[2]	(13 791 988)	(893 798)	(344 270)	(15 030 056)
Income accrued for the year[1]	14 615 190	1 015 799	2 736 508	18 367 497
Transfers				–
Stage 1 to stage 2	(5 343 277)	5 343 277	–	–
Stage 1 to stage 3	(7 844 933)	–	7 844 933	–
Stage 2 to stage 3	–	(1 475 015)	1 475 015	–
Stage 3 to stage 2	–	375 555	(375 555)	–
Stage 3 to stage 1	795 092	–	(795 092)	–
Stage 2 to stage 1	1 551 011	(1 551 011)	–	–
Repayments	(37 397 429)	(2 047 375)	(3 387 029)	(42 831 833)
Modifications	–	–	(600 892)	(600 892)
Write-offs	(2 573)	(1 016)	(4 501 216)	(4 504 805)
Balance as at 29 February 2020	48 309 758	5 617 580	11 509 056	65 436 394

(1) The income accrued for the year comprises interest received on loans, initiation fees, monthly service fees and gross insurance income.

(2) New loan sales include new loans issued on consolidating loans. The loans settled are disclosed separately. Monthly credit card access facility and credit facility disbursements are included in new loan sales.

Analysis of gross loans and advances – Business bank

R'000	GROUP Stage 1	Stage 2	Stage 3	Total
2021				
Business loans				
Balance as at 1 March 2020	4 484 663	185 320	268 720	4 938 703
New loan sales	47 365 166	–	–	47 365 166
Income accrued for the year[(1)]	417 124	27 173	32 106	476 403
Transfers				
Stage 1 to stage 2	(448 114)	448 114	–	–
Stage 1 to stage 3	(91 863)	–	91 863	–
Stage 2 to stage 3	–	(32 338)	32 338	–
Stage 3 to stage 2	–	–	–	–
Stage 3 to stage 1	3 118	–	(3 118)	–
Stage 2 to stage 1	4 528	(4 528)	–	–
Repayments	(47 254 943)	(24 569)	(13 124)	(47 292 636)
Write-offs	–	–	(48 286)	(48 286)
Balance as at 28 February 2021	4 479 679	599 172	360 499	5 439 350
2020				
Business loans				
Balance at acquisition	4 801 948	–	212 887	5 014 835
New loan sales	15 067 964	55 498	8 560	15 132 022
Income accrued for the year[(1)]	174 936	6 517	9 499	190 952
Transfers				
Stage 1 to stage 2	(186 187)	186 187	–	–
Stage 1 to stage 3	(108 692)	–	108 692	–
Stage 2 to stage 3	–	(13 204)	13 204	–
Stage 3 to stage 2	–	686	(686)	–
Stage 3 to stage 1	850	–	(850)	–
Stage 2 to stage 1	1 094	(1 094)	–	–
Repayments	(15 267 250)	(49 270)	(31 207)	(15 347 727)
Write-offs	–	–	(51 379)	(51 379)
Balance as at 29 February 2020	4 484 663	185 320	268 720	4 938 703

[(1)] *The income accrued for the year comprises interest received on loans, initiation fees and monthly service fees.*

9. Net loans and advances continued

Credit risk exposure continued

Analysis of gross loans and advances – Business bank continued

	GROUP			
R'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2021				
Mortgage loans				
Balance as at 1 March 2020	4 830 639	264 180	311 822	5 406 641
New loan sales	1 552 799	–	–	1 552 799
Income accrued for the year[(1)]	330 580	36 670	26 991	394 241
Transfers				
Stage 1 to stage 2	(473 377)	437 377	–	–
Stage 1 to stage 3	(87 502)	–	87 502	–
Stage 2 to stage 3	–	(49 934)	49 934	–
Stage 3 to stage 2	–	–	–	–
Stage 3 to stage 1	8 968	–	(8 968)	–
Stage 2 to stage 1	12 076	(12 076)	–	–
Repayments	(1 668 336)	(16 341)	(48 512)	(1 733 189)
Write-offs	–	–	(19 051)	(19 051)
Balance as at 28 February 2021	4 505 847	695 876	399 718	5 601 441
2020				
Mortgage loans				
Balance at acquisition	5 102 518	–	290 400	5 392 918
New loan sales	503 467	3 766	1 949	509 182
Income accrued for the year[(1)]	150 418	8 590	10 129	169 137
Transfers				
Stage 1 to stage 2	(271 065)	271 065	–	–
Stage 1 to stage 3	(26 576)	–	26 576	–
Stage 2 to stage 3	–	(4 483)	4 483	–
Stage 3 to stage 2	–	–	–	–
Stage 3 to stage 1	–	–	–	–
Stage 2 to stage 1	2 704	(2 704)	–	–
Repayments	(630 827)	(12 054)	(7 399)	(650 280)
Write-offs	–	–	(14 316)	(14 316)
Balance as at 29 February 2020	4 830 639	264 180	311 822	5 406 641

[(1)] *The income accrued for the year comprises interest received on loans, initiation fees and monthly service fees.*

R'000	COMPANY Stage 1	Stage 2	Stage 3	Total
2021				
Business loans				
Balance as at 1 December 2020[(2)]	3 596 944	334 306	247 035	4 178 285
New loan sales	10 949 938	–	–	10 949 938
Income accrued for the year[(1)]	69 759	8 298	7 185	85 242
Transfers				
Stage 1 to stage 2	(306 685)	306 685	–	–
Stage 1 to stage 3	(45 144)	–	45 144	–
Stage 2 to stage 3	–	(12 883)	12 883	–
Stage 3 to stage 2	–	–	–	–
Stage 3 to stage 1	7 830	–	(7 830)	–
Stage 2 to stage 1	4 685	(4 685)	–	–
Repayments	(10 955 801)	(38 228)	(311)	(10 994 340)
Write-offs	–	–	(4 859)	(4 859)
Balance as at 28 February 2021	3 321 526	593 493	299 247	4 214 266
Mortgage loans				
Balance as at 1 December 2020[(2)]	4 683 930	441 297	357 039	5 482 266
New loan sales	524 409	–	–	524 409
Income accrued for the year[(1)]	74 284	10 330	7 215	91 829
Transfers				
Stage 1 to stage 2	(318 881)	318 881	–	–
Stage 1 to stage 3	(31 458)	–	31 458	–
Stage 2 to stage 3	–	(36 216)	36 216	–
Stage 3 to stage 2	–	835	(835)	–
Stage 3 to stage 1	–	–	–	–
Stage 2 to stage 1	18 473	(18 473)	–	–
Repayments	(444 910)	(20 778)	(22 745)	(488 433)
Write-offs	–	–	(8 630)	(8 630)
Balance as at 28 February 2021	4 505 847	695 876	399 718	5 601 441

(1) The income accrued for the year comprises interest received on loans, initiation fees and monthly service fees.
(2) Acquisition through business reorganisation. Refer to note 4.1.

9. Net loans and advances continued

Credit risk exposure continued

R'000	2021 Amortised cost before modification	2021 Net modification loss	2021 Gross carrying amount at year-end[1]	2020 Amortised cost before modification	2020 Net modification loss
Modifications on loans and advances – Retail bank					
Debt review	1 627 014	503 508	–	1 763 462	600 892
Interest refund	10 531 810	403 754	2 523 141	–	–
Interest rate change	296 000	8 300	47 218	–	–
Insurance premium relief	5 562 019	13 830	3 245 972	–	–
Total modified loans	**18 016 843**	**929 392**	**5 816 331**	1 763 462	600 892

[1] *This reflects the gross carrying amount at year end of loans that cured to stage 1 during the year when a modification loss occurred.*

Factors impacting and contributing to significant changes in the ECL during the period:

(i) Retail bank

- Gross loans and advances decreased by 2%, ECL increased by 28% and net loans and advances decreased by 10%
- Stage 1 gross loans and advances decreased by 20%, stage 2 increased by 81% and stage 3 increased by 31%
- Credit impairments, comprising loans written off and the movement in ECL charged to the impairment line, increased by 47% to R8.2 billion
- Net new loans of R29.3 billion, down 25% on the prior year, contributed R3.0 billion (2020: R4.9 billion) to the ECL as at 28 February 2021
- Overall ECL coverage increased by 6.4% to 26.9%. The increase is largely driven by the impact of the COVID-19 pandemic. The impact of the pandemic on the forward-looking information is detailed in note 3
- Coverage for stage 1 and stage 2 increased by 2.6% and 0.3%, respectively, while coverage for stage 3 decreased by 4.1%
- Stage 3 coverage on loans in arrears by 2 and 3 months increased from 72.9% to 82.9%
- The coverage of all rescheduled loans not yet rehabilitated (including COVID-19-related reschedules) decreased by 1.3% to 38.0%. The decrease in the coverage ratio is due to the composition of loans included in this category. The coverage ratio varies based on the industries in which clients with loans in this category are employed. The rescheduled loans that remain up-to-date although not rehabilitated consist of the loans of clients that are employed in industries that were not as severely affected by the COVID-19 pandemic
- Coverage of the loans more than 3 months in arrears and with legal statuses decreased from 85.0% to 82.0%. The decrease in coverage ratios is due to the composition of the loans included in this category. There is a larger proportion of debt review loans included than in the prior year. Debt review loans perform better than other loans with legal statuses because clients can only enter debt review if they are still employed.

(ii) Business bank

- Gross business loans and advances increased by 10%, ECL on business loans increased by 102% and net loans and advances increased by 6%
- Stage 1 gross business loans and advances remained stable, stage 2 increased by 223% due to COVID-19 related reschedules and stage 3 increased by 34%
- Credit impairments on business loans, comprising loans written off and the movement in ECL charged to the impairment line, increased from R74 million to R285 million. Credit impairments for 2020 relate to the 4 months ended February 2020 while 2021 includes figures for 12 months
- New business loans of R47.4 billion (2020: R15.1 billion), contributed R60.9 million (2020: R9.0 million) to the ECL at 28 February 2021. New loan sales and the corresponding contribution to ECL for 2020 relate to the 4 months ended February 2020 while 2021 includes figures for 12 months
- Overall ECL coverage increased by 3.9% to 8.6%. The increase is largely driven by the impact of the COVID-19 pandemic. The impact the pandemic on the forward-looking information is detailed in note 3.
- Coverage for stage 1 and stage 2 increased by 1.8% and 0.2%, respectively, while coverage for stage 3 increased by 14.4%
- Gross mortgage loans and advances increased by 4% and the ECL on mortgage loans increased by 118%
- Stage 1 gross mortgage loans and advances decreased by 7%, stage 2 increased by 163% due to COVID-19 related reschedules and stage 3 increased by 28%
- Credit impairments on mortgage loans, comprising loans written off and the movement in ECL charged to the impairment line, increased from R40 million to R120 million. Credit impairments for 2020 relate to the 4 months ended February 2020 while 2021 includes figures for 12 months
- New mortgage loans of R1.6 billion (2020: R0.5 billion), contributed R20.4 million (2020: R0.5 million) to the ECL at 28 February 2021. New loan sales and the corresponding contribution to ECL for 2020 relate to the 4 months ended February 2020 while 2021 includes figures for 12 months
- Overall ECL coverage increased by 1.6% to 3.3%. The increase is largely driven by the impact of the COVID-19 pandemic. The impact the pandemic on the forward-looking information is detailed in note 3
- Coverage for stage 1 increased by 0.8%, coverage for stage 2 decreased by 0.9%, while coverage for stage 3 increased by 2.2%.

9. Net loans and advances continued

Credit risk exposure continued

Analysis of provision for ECL – Retail bank

	GROUP AND COMPANY			
R'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2021				
Balance as at 1 March 2020	**3 304 390**	**1 711 423**	**8 408 898**	**13 424 711**
Movement in the income statement				
New loan sales	**1 355 747**	**643 740**	**1 039 001**	**3 038 488**
Stage 1 to stage 2	**(498 952)**	**1 171 991**	**–**	**673 039**
Stage 1 to stage 3	**(586 603)**	**–**	**3 108 927**	**2 522 324**
Stage 2 to stage 3	**–**	**(453 746)**	**802 295**	**348 549**
Stage 2 to stage 1	**54 996**	**(267 732)**	**–**	**(212 736)**
Stage 3 to stage 1	**40 350**	**–**	**(199 290)**	**(158 940)**
Stage 3 to stage 2	**–**	**122 069**	**(266 655)**	**(144 586)**
Remain in same stage	**(305 472)**	**(118 757)**	**596 657**	**172 428**
Loans and advances settled in the current year	**(575 914)**	**(170 427)**	**(654 895)**	**(1 401 236)**
Modifications	**–**	**–**	**(259 690)**	**(259 690)**
Write-offs	**(58 704)**	**(191 352)**	**(3 048 006)**	**(3 298 062)**
Change in model assumptions and methodology[1]	**908 020**	**687 942**	**883 952**	**2 479 914**
Balance as at 28 February 2021	**3 637 858**	**3 135 151**	**10 411 194**	**17 184 203**
2020				
Balance as at 1 March 2019	2 671 379	1 352 508	7 356 740	11 380 627
Movement in the income statement				
New loan sales	4 853 434	–	–	4 853 434
Stage 1 to stage 2	(880 885)	1 149 243	–	268 358
Stage 1 to stage 3	(2 269 058)	–	4 571 629	2 302 571
Stage 2 to stage 3	–	(385 263)	788 516	403 253
Stage 2 to stage 1	60 559	(317 856)	–	(257 297)
Stage 3 to stage 1	44 817	–	(312 672)	(267 855)
Stage 3 to stage 2	–	77 436	(187 078)	(109 642)
Remain in same stage	(362 400)	(82 901)	486 370	41 069
Loans and advances settled in the current year	(1 016 499)	(316 617)	(668 568)	(2 001 684)
Modifications	–	–	(566 727)	(566 727)
Write-offs	(216 139)	(146 741)	(2 792 251)	(3 155 131)
Change in model assumptions and methodology	419 182	381 614	(267 061)	533 735
Balance as at 29 February 2020	3 304 390	1 711 423	8 408 898	13 424 711

(1) *Refer to note 3 for detail regarding the changes in forward-looking information.*

Analysis of provision for ECL – Business bank

R'000	GROUP Stage 1	Stage 2	Stage 3	Total
2021				
Business loans				
Balance as at 1 March 2020	77 180	26 080	127 073	230 333
Movement in the income statement				
New loan sales	48 145	4 976	7 751	60 872
Stage 1 to stage 2	(26 347)	65 959	–	39 612
Stage 1 to stage 3	(1 052)	–	58 801	57 749
Stage 2 to stage 3	–	(13 794)	25 982	12 188
Stage 2 to stage 1	17	(941)	–	(924)
Stage 3 to stage 1	41	–	(2 213)	(2 172)
Stage 3 to stage 2	–	–	–	–
Remain in same stage	67 450	6 407	55 314	129 171
Loans and advances settled in the current year	(6 179)	(3 426)	(43 149)	(52 754)
Write-offs	–	–	(20 843)	(20 843)
Change in model assumptions and methodology	–	–	13 865	13 865
Balance as at 28 February 2021	159 255	85 261	222 581	467 097
2020				
Business loans				
Balance at acquisition	80 010	–	127 371	207 381
Movement in the income statement				
New loan sales	8 936	155	28	9 119
Stage 1 to stage 2	(15 196)	21 641	–	6 445
Stage 1 to stage 3	(799)	–	37 496	36 697
Stage 2 to stage 3	–	(1 059)	3 042	1 983
Stage 2 to stage 1	6	(233)	–	(227)
Stage 3 to stage 1	2	–	(248)	(246)
Stage 3 to stage 2	–	7	(170)	(163)
Remain in same stage	9 172	6 300	46 110	61 582
Loans and advances settled in the current year	(4 951)	(731)	(47 146)	(52 828)
Write-offs	–	–	(44 624)	(44 624)
Change in model assumptions and methodology	–	–	5 214	5 214
Balance as at 29 February 2020	77 180	26 080	127 073	230 333

9. Net loans and advances continued

Credit risk exposure continued

Analysis of provision for ECL – Business bank continued

	GROUP			
R'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2021				
Mortgage loans				
Balance as at 1 March 2020	7 867	15 779	61 489	85 135
Movement in the income statement				
New loan sales	17 288	3 139	–	20 427
Stage 1 to stage 2	(802)	39 872	–	39 070
Stage 1 to stage 3	(148)	–	12 341	12 193
Stage 2 to stage 3	–	(8 369)	10 742	2 373
Stage 2 to stage 1	103	(379)	–	(276)
Stage 3 to stage 1	14	–	(471)	(457)
Stage 3 to stage 2	–	–	–	–
Remain in same stage	21 876	3 193	28 150	53 219
Loans and advances settled in the current year	(603)	(108)	(12 096)	(12 807)
Write-offs	–	–	(18 116)	(18 116)
Change in model assumptions and methodology	–	–	5 540	5 540
Balance as at 28 February 2021	**45 595**	**53 127**	**87 579**	**186 301**
2020				
Mortgage loans				
Balance at acquisition	12 737	–	46 627	59 364
Movement in the income statement				
New loan sales	531	42	–	573
Stage 1 to stage 2	(7 235)	9 879	–	2 644
Stage 1 to stage 3	(35)	–	3 428	3 393
Stage 2 to stage 3	–	(87)	360	273
Stage 2 to stage 1	4	(48)	–	(44)
Stage 3 to stage 1	–	–	–	–
Stage 3 to stage 2	–	–	–	–
Remain in same stage	2 299	6 066	17 582	25 947
Loans and advances settled in the current year	(434)	(73)	(1 203)	(1 710)
Write-offs	–	–	(13 936)	(13 936)
Change in model assumptions and methodology	–	–	8 631	8 631
Balance as at 29 February 2020	7 867	15 779	61 489	85 135

R'000	COMPANY Stage 1	Stage 2	Stage 3	Total
2021				
Business loans				
Balance as at 1 December 2020[(1)]	122 893	27 533	136 921	287 347
Movement in the income statement				
New loan sales	11 958	735	20	12 713
Stage 1 to stage 2	(28 016)	55 562	–	27 546
Stage 1 to stage 3	(971)	–	13 191	12 220
Stage 2 to stage 3	–	(1 169)	6 489	5 320
Stage 2 to stage 1	92	(399)	–	(307)
Stage 3 to stage 1	8	–	(174)	(166)
Stage 3 to stage 2	–	–	–	–
Remain in same stage	19 328	(1 103)	15 510	33 735
Loans and advances settled in the current year	(3 981)	(324)	(2 090)	(6 395)
Write-offs	–	–	(2 835)	(2 835)
Change in model assumptions and methodology	–	–	3 107	3 107
Balance as at 28 February 2021	121 311	80 835	170 139	372 285
Mortgage loan				
Balance as at 1 December 2020[(1)]	38 486	18 624	83 465	140 575
Movement in the income statement				
New loan sales	7 916	–	–	7 916
Stage 1 to stage 2	(2 742)	28 317	–	25 575
Stage 1 to stage 3	(346)	–	3 890	3 544
Stage 2 to stage 3	–	(1 315)	3 151	1 836
Stage 2 to stage 1	161	(670)	–	(509)
Stage 3 to stage 1	–	–	–	–
Stage 3 to stage 2	–	19	(58)	(39)
Remain in same stage	4 032	8 493	1 601	14 126
Loans and advances settled in the current year	(1 912)	(341)	(1 988)	(4 241)
Write-offs	–	–	(8 142)	(8 142)
Change in model assumptions and methodology	–	–	5 660	5 660
Balance as at 28 February 2021	45 595	53 127	87 579	186 301

[(1)] *Acquisition through business reorganisation. Refer to note 4.1.*

9. Net loans and advances continued

Detailed analysis of leases (rental assets) included in other business loans

	GROUP	
R'000	**2021**	**2020**
Gross investment in lease receivables		
Less than 1 year	**530 261**	536 670
1 to 2 years	**416 800**	467 046
2 to 3 years	**291 143**	352 707
3 to 4 years	**159 631**	212 138
4 to 5 years	**46 977**	76 662
More than 5 years	**1 133**	66
Gross investment in lease receivables	**1 445 945**	1 645 289
Unearned finance income	**(220 860)**	(317 673)
Net investment in lease receivables	**1 225 085**	1 327 616
Net lease receivable		
Less than 1 year	**426 413**	459 824
1 to 5 years	**798 021**	867 738
More than 5 years	**651**	54
Net investment in lease receivable	**1 225 085**	1 327 616
Less: ECL	**(94 812)**	(71 513)
Net lease receivable	**1 130 273**	1 256 103

These agreements consist of rental finance and instalment sale agreements. The rental finance agreements are typically granted to our Business bank clients to lease security equipment, copiers and telecommunication. The instalment sale agreements are granted to finance motor vehicles and equipment of our Business bank clients. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the reporting date is R94.8 million (2020: R71.5 million). Rental assets to the value of Rnil million (2020: R360 million) serve as security for the asset-backed notes. Refer to note 19.

Analysis of the amounts recognised in the income statement for rental finance

	GROUP	
R'000	**2021**	**2020**
Selling profit or loss	**4 650**	2 657
Finance income on the net investment in leases	**143 835**	59 673
Income relating to variable lease payments not included in the measurement of the net investment in leases	**18 889**	6 577

Significant changes in the carrying amount of the net investment in finance leases for the year

New rental agreements amounted to R351.0 million (2020: R197.1 million), while the cost of early-settled deals was R53.2 million (2020: R21.2 million). The capital portion of bad debts written off was R28.8 million (2020: R10.4 million).

Collateral held as security and other credit enhancements relating to credit impaired financial assets

R'000	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
2021				
Business loans	**360 500**	**(222 581)**	**137 919**	**179 608**
Mortgage loans	**399 718**	**(87 579)**	**312 139**	**398 833**
	760 218	**(310 160)**	**450 058**	**578 441**
2020				
Business loans	268 720	(127 073)	141 647	155 199
Mortgage loans	311 822	(61 489)	250 333	299 993
	580 542	(188 562)	391 980	455 192

Fair value of collateral and other credit enhancements is determined by referencing the realisable value of security held before adjusting for expected recoveries.

All Business bank clients are accorded a risk grading. The risk grading is dependent on the client's creditworthiness and standing with the group, and is subject to ongoing assessment of the client's financial standing and the acceptability of their dealings with the group, including adherence to repayment terms and compliance with other set conditions.

Description of collateral held as security and other credit enhancements	Method of valuation
Cession of debtors	15% – 75% of debtors due and payable under 90 days and depending on debtor credit quality
Pledge of shares	50% of listed shares value, nil for unlisted shares
Pledge and cession of assets (specific and general)	Variable depending on asset type and value
Cession of life and endowment policies	100% of surrender value
Pledge of call and savings accounts, fixed and notice deposits	100% of asset value
Vacant land	50% of professional valuation
Residential properties	80% of professional valuation (certain segments up to 100%)
Commercial and industrial properties	70% of professional valuation
Catering, industrial and office equipment	Variable depending on asset type and depreciated value
Trucks	Variable depending on asset type and depreciated value
Earthmoving equipment	Variable depending on asset type and depreciated value
Motor vehicles	Variable depending on asset type and depreciated value
General notarial bond	Variable depending on asset type and depreciated value
Special notarial bond	Variable depending on asset type and depreciated value

At the end of the financial year ended 28 February 2021, loans where collateral held exceeded the carrying amount of the advance (i.e. where no coverage was calculated) amounted to R5.3 billion (2020: R5.3 billion).

10. Other receivables

	GROUP		COMPANY	
R'000	2021	2020	2021	2020
Financial receivable	**983 791**	1 807 324	**923 184**	1 389 332
Deposits	**33 929**	34 363	**33 929**	34 363
SARB settlement balance	**396 892**	817 689	**396 892**	641 044
Other receivables[2]	**552 970**	682 023	**492 363**	440 676
Funeral plan income receivable[4]	**–**	273 249	**–**	273 249
Non-financial receivable	**120 945**	239 261	**112 802**	210 669
Prepayments[1]	**120 945**	239 261	**112 802**	210 669
Total other receivables[3]	**1 104 736**	2 046 585	**1 035 986**	1 600 001
Current portion	**1 066 539**	2 009 327	**997 789**	1 562 743
Non-current portion	**38 197**	37 258	**38 197**	37 258
Maximum exposure to credit risk	**1 104 736**	2 046 585	**1 035 986**	1 600 001

[1] *Prepayments relate to IT and business development expenses.*
[2] *Other receivables includes sundry debtors.*
[3] *No further information is provided on the loss allowance on other receivables as it is insignificant.*
[4] *In the current year, the funeral plan income receivable was classified as assets held for sale. Refer to note 45.*

11. Net insurance receivable

	GROUP		COMPANY	
R'000	2021	2020	2021	2020
Opening balance	**–**	236 391	**–**	236 391
Underwriting profit after tax	**–**	980 838	**–**	980 838
Interest received	**–**	21 895	**–**	21 895
Additional investment[2]	**–**	–	**–**	–
Distribution paid to the group[3]	**–**	(1 021 701)	**–**	(1 021 701)
Net insurance receivable[1]	**–**	217 423	**–**	217 423
Current portion	**–**	217 423	**–**	217 423

[1] *The amount receivable from the insurer represents the right to a residual interest in the cell captive reduced by the distributions declared by the cell captive insurer on the specific class of preference shares held by the group.*
[2] *The group subscribed for an additional ordinary share, at a subscription price of R100 million, on 30 June 2020.*
[3] *No distribution was declared in May 2020 in order to ensure that the cell captive meets the required solvency levels as defined by the Solvency Assessment and Management (SAM) regulations. In the current year the net insurance receivable was classified as assets held for sale. Refer to note 45.*

12. Financial assets – equity instruments at FVOCI

	GROUP		COMPANY	
R'000	2021	2020	2021*	2020
Unlisted securities				
Balance at the beginning of the year[1]	101 139	100 000	100 000	100 000
Acquisition of subsidiary[2]	–	8 078	–	–
Acquisition through business reorganisation	–	–	1 139	–
Disposal of equity investments	(1 139)	–	(1 139)	–
Fair value adjustment	(30 660)	(6 939)	(30 660)	–
Total financial assets – equity instruments at FVOCI	69 340	101 139	69 340	100 000

[1] *Included in the total is an investment in African Bank. Capitec Bank is a participant in a consortium that recapitalised African Bank. The other members of the consortium comprise the Public Investment Corporation and 5 other South African banks.*

[2] *The subsidiary held an investment in unlisted equities that was subsequently revalued. The register containing the details of the investments is available for inspection at the registered office of the company.*

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

13. Group loans receivable

	GROUP		COMPANY	
R'000	2021	2020	2021	2020
Loans to fellow subsidiaries	64 161	–	64 161	–
Loans to subsidiaries[3]	–	–	1 032 649	–
ECL: loans to subsidiaries[3]	–	–	(13 512)	–
Loan to other group company[2]	–	–	–	200 000
Loan to holding company	16 703	15 257	16 703	15 257
Total group loan receivable[1]	80 864	15 257	1 100 001	215 257
Current	–	15 257	–	215 257
Non-current[2]	80 864	–	1 100 001	–

[1] *All loans to group companies are repayable on demand, bear interest as agreed by the parties from time to time and no fixed repayment terms have been set.*

[2] *Capitec Bank Limited, however, agreed not to request payment of these loans within the next 12 months.*

[3] *Loan to Mercantile Rental Finance Proprietary Limited (MRF), a wholly owned group subsidiary. An IFRS 9 ECL has been raised based on underlying rental finance exposures. The subsidiary has share capital and reserves of R75 million. An ECL was raised on the exposure to MRF applying the Business bank's IFRS 9 impairment model.*

14. Interest in subsidiaries and joint venture

	GROUP		COMPANY	
R'000	2021	2020	2021*	2020
Interest in subsidiaries				
Investment in unlisted subsidiaries at cost – Mercantile Bank Limited[1]	–	–	–	3 555 772
Investment in unlisted subsidiaries at cost – Mercantile Mercantile Rental Finance Proprietary Limited	–	–	103 029	–
Investment in unlisted subsidiaries at cost	–	–	141 745	–
Total interest in subsidiaries	–	–	244 774	3 555 772

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4*

[1] *Name changed to Mer Pastcomp Limited.*

14. Interest in subsidiaries and joint venture continued

Subsidiaries	Domicile	Holding	Nature of business
Mercantile Rental Finance Proprietary Limited	South Africa	100% (2020: 100%)	Rental finance
Portion 2 of Lot 8 Sandown Proprietary Limited	South Africa	100% (2020: 100%)	Dormant
Mercantile Bank Limited	South Africa	100% (2020: 100%)	Dormant
Mercantile Payment Solutions Proprietary Limited[1]	South Africa	100% (2020: 50%)	Dormant

[1] *Mercantile Bank Limited acquired 50% of MPS. Refer to note 3.1.3. The assets and liabilities of the business were then transferred to Mercantile Bank Limited on 30 November 2020 through a common control business reorganisation. In both instances the net asset value of the business was Rnil.*

	GROUP		COMPANY	
R'000	**2021**	**2020**	**2021**	**2020**
Interest in joint venture				
Imvelo Ventures Proprietary Limited				
Opening balance	**108 540**	–	**107 202**	–
Interest acquired	**25 300**	107 202	**25 300**	107 202
Share of profit	**3 656**	1 338	**–**	–
Total interest in joint venture	**137 496**	108 540	**132 502**	107 202
Total interest in joint venture	**137 496**	108 540	**132 502**	107 202

Joint venture	Domicile	Holding	Nature of business
Imvelo Ventures Proprietary Limited	South Africa	17.50% (2020: 17.50%)	Broad-based black economic empowerment investment

	GROUP		COMPANY	
R'000	**2021**	**2020**	**2021**	**2020**
Imvelo Ventures Proprietary Limited				
Reconciliation to carrying amounts				
Non-current assets	**112 510**	11 694	**112 510**	11 694
Current assets	**60 018**	110 727	**60 018**	110 727
Non-current liabilities	**(4 350)**	–	**(4 350)**	–
Current liabilities	**(681)**	(1 106)	**(681)**	(1 106)
Net assets at 100%	**167 497**	121 315	**167 497**	121 315
The group's share of net assets at acquisition	**29 312**	21 230	**29 312**	21 230
Difference in initial cost versus share of net assets acquired	**103 190**	85 972	**103 190**	85 972
Cost of investment in Imvelo Ventures	**132 502**	107 202	**132 502**	107 202
Cumulative share of profit	**4 994**	1 338	**–**	–
Carrying amount of investment in Imvelo Ventures	**137 496**	108 540	**132 502**	107 202

15. Property and equipment

R'000	Assets under construction – building	Land and buildings	Computer equipment	Office equipment and vehicles	Total
			GROUP		
2021					
Opening net book value	688 288	293 774	1 247 901	730 200	2 960 163
Additions	–	33 697	171 531	344 366	549 594
Transfers	(688 288)	608 523	22 493	57 272	–
Disposals	–	–	(3 233)	(17 773)	(21 006)
Depreciation charge	–	(19 402)	(181 858)	(386 913)	(588 173)
Net book value at the end of the year	–	916 592	1 256 834	727 152	2 900 578
Cost	–	939 537	2 767 793	2 045 712	5 753 042
Accumulated depreciation	–	(22 945)	(1 510 959)	(1 318 560)	(2 852 464)
Net book value at the end of the year	–	916 592	1 256 834	727 152	2 900 578
Non-current portion	–	916 592	1 256 834	727 152	2 900 578
2020					
Opening net book value	–	–	1 110 877	753 020	1 863 897
Additions	688 288	91 674	383 515	264 937	1 428 414
Acquisition of subsidiary	–	205 939	23 820	9 819	239 578
Disposals	–	–	(6 581)	(53 196)	(59 777)
Depreciation charge	–	(3 839)	(263 730)	(244 380)	(511 949)
Net book value at the end of the year	688 288	293 774	1 247 901	730 200	2 960 163
Cost	688 288	297 613	2 596 546	1 707 572	5 290 019
Accumulated depreciation	–	(3 839)	(1 348 645)	(977 372)	(2 329 856)
Net book value at the end of the year	688 288	293 774	1 247 901	730 200	2 960 163
Non-current portion	688 288	293 774	1 247 901	730 200	2 960 163

15. Property and equipment continued

R'000	Assets under construction building	Land and buildings	COMPANY* Computer equipment	Office equipment and vehicles	Total
2021					
Opening net book value	688 288	91 674	1 227 486	721 504	2 728 952
Acquisition through business reorganisation	–	4 605	17 317	7 389	29 311
Addition	–	225 102	164 645	342 851	732 598
Transfers	(688 288)	608 523	22 493	57 272	–
Disposals	–	–	(2 849)	(17 773)	(20 622)
Depreciation charge	–	(13 615)	(172 627)	(384 410)	(570 652)
Net book value at the end of the year	–	916 289	1 256 465	726 833	2 899 587
Cost	–	938 869	2 821 900	2 077 153	5 837 922
Accumulated depreciation	–	(22 580)	(1 565 435)	(1 350 320)	(2 938 335)
Net book value at the end of the year	–	916 289	1 256 465	726 833	2 899 587
Non-current portion	–	916 289	1 256 465	726 833	2 899 587
2020					
Opening net book value	–	–	1 110 877	753 020	1 863 897
Additions	688 288	91 674	382 801	264 739	1 427 502
Disposals	–	–	(6 581)	(53 194)	(59 775)
Depreciation charge	–	–	(259 611)	(243 061)	(502 672)
Net book value at the end of the year	688 288	91 674	1 227 486	721 504	2 728 952
Cost	688 288	91 674	2 572 011	1 697 557	5 049 530
Accumulated depreciation	–	–	(1 344 525)	(976 053)	(2 320 578)
Net book value at the end of the year	688 288	91 674	1 227 486	721 504	2 728 952
Non-current portion	688 288	91 674	1 227 486	721 504	2 728 952

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

16. Right-of-use assets

R'000	GROUP Premises	Total
2021		
Opening balance	**2 460 025**	**2 460 025**
Additions	**221 223**	**221 223**
Terminations and modifications	**(195 200)**	**(195 200)**
Depreciation charge	**(413 919)**	**(413 919)**
Net book value at the end of the year	**2 072 129**	**2 072 129**
Cost	**2 954 751**	**2 954 751**
Accumulated depreciation	**(882 622)**	**(882 622)**
Net book value at the end of the year	**2 072 129**	**2 072 129**
Current portion	**350 182**	**350 182**
Non-current portion	**1 721 947**	**1 721 947**
Future cash outflows to which the group is potentially exposed that are not reflected in the measurement of lease liabilities:		
Leases not yet commenced to which the group is committed	**61 177**	**61 177**
2020		
Adoption of IFRS 16	2 650 865	2 650 865
Additions	233 691	233 691
Terminations and modifications	(18 364)	(18 364)
Acquisition of subsidiary	14 339	14 339
Depreciation charge	(420 506)	(420 506)
Net book value at the end of the year	2 460 025	2 460 025
Cost	2 880 531	2 880 531
Accumulated depreciation	(420 506)	(420 506)
Net book value at the end of the year	2 460 025	2 460 025
Current portion	435 985	435 985
Non-current portion	2 024 040	2 024 040
Future cash outflows to which the group is potentially exposed that are not reflected in the measurement of lease liabilities:		
Leases not yet commenced to which the group is committed	145 699	145 699

16. Right-of-use assets continued

R'000	COMPANY* Premises	Total
2021		
Opening balance	**2 447 932**	**2 447 932**
Acquisition through business reorganisation	**12 149**	**12 149**
Additions	**212 650**	**212 650**
Terminations and modifications	**(195 200)**	**(195 200)**
Depreciation charge	**(406 812)**	**(406 812)**
Net book value at the end of the year	**2 070 719**	**2 070 719**
Cost	**2 957 654**	**2 957 654**
Accumulated depreciation	**(886 935)**	**(886 935)**
Net book value at the end of the year	**2 070 719**	**2 070 719**
Current portion	**350 182**	**350 182**
Non-current portion	**1 720 537**	**1 720 537**
Future cash outflows to which the group is potentially exposed that are not reflected in the measurement of lease liabilities:		
Leases not yet commenced to which the group is committed	**61 177**	**61 177**
2020		
Adoption of IFRS 16	2 650 865	2 650 865
Additions	232 892	232 892
Terminations and modifications	(18 364)	(18 364)
Depreciation charge	(417 461)	(417 461)
Net book value at the end of the year	2 447 932	2 447 932
Cost	2 865 393	2 865 393
Accumulated depreciation	(417 461)	(417 461)
Net book value at the end of the year	2 447 932	2 447 932
Current portion	435 985	435 985
Non-current portion	2 011 947	2 011 947
Future cash outflows to which the group is potentially exposed that are not reflected in the measurement of lease liabilities:		
Leases not yet commenced to which the group is committed	145 699	145 699

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

17. Intangible assets

R'000	Computer software[(1)]	Internally generated intangible assets[(2)]	Core deposit intangible	Client relationships	Goodwill	Total
			GROUP			
2021						
Opening net book value	**436 577**	**48 927**	**76 933**	**16 877**	**794 487**	**1 373 801**
Additions	**251 237**	**42 622**	**–**	**–**	**–**	**293 859**
Acquisition of subsidiary[(3)]	**–**	**–**	**–**	**–**	**55 000**	**55 000**
Disposals	**(90)**	**–**	**–**	**–**	**–**	**(90)**
Amortisation	**(220 102)**	**(7 095)**	**(11 540)**	**(2 531)**	**–**	**(241 268)**
Net book value at the end of the year	**467 622**	**84 454**	**65 393**	**14 346**	**849 487**	**1 481 302**
Cost	**1 223 648**	**91 549**	**80 780**	**17 721**	**849 487**	**2 263 185**
Accumulated amortisation	**(756 026)**	**(7 095)**	**(15 387)**	**(3 375)**	**–**	**(781 883)**
Net book value at the end of the year	**467 622**	**84 454**	**65 393**	**14 346**	**849 487**	**1 481 302**
2020						
Opening net book value	299 559	16 724	–	–	–	316 283
Additions	231 056	32 203	–	–	–	263 259
Acquisition of subsidiary	96 836	–	80 780	17 721	794 487	989 824
Disposals	(450)	–	–	–	–	(450)
Amortisation	(190 424)	–	(3 847)	(844)	–	(195 115)
Net book value at the end of the year	436 577	48 927	76 933	16 877	794 487	1 373 801
Cost	972 073	48 927	80 780	17 721	794 487	1 913 988
Accumulated amortisation	(535 496)	–	(3 847)	(844)	–	(540 187)
Net book value at the end of the year	436 577	48 927	76 933	16 877	794 487	1 373 801

(1) *Computer software comprises primarily of main banking infrastructure applications, which are purchased from our respective vendors.*

(2) *Internally generated intangible assets comprise assets under construction relating to SAP software, which went live during the 2021 financial year.*

(3) *Refer to notes 3.1.3 for details.*

17. Intangible assets continued

R'000	Computer software[1]	Internally generated intangible assets[2]	Core deposit intangible	Client relationships	Goodwill	Total
	COMPANY					
2021						
Opening net book value	353 047	48 927	–	–	–	401 974
Acquisition through business reorganisation	72 075	–	68 278	14 979	849 487	1 004 819
Additions	235 097	42 622	–	–	–	277 719
Disposals	–	–	–	–	–	–
Amortisation	(192 911)	(7 095)	(2 885)	(633)	–	(203 524)
Net book value at the end of the year	467 308	84 454	65 393	14 346	849 487	1 480 988
Cost	1 575 373	91 549	80 780	17 721	849 487	2 614 910
Accumulated amortisation	(1 108 065)	(7 095)	(15 387)	(3 375)	–	(1 133 922)
Net book value at the end of the year	467 308	84 454	65 393	14 346	849 487	1 480 988
2020						
Opening net book value	299 559	16 724	–	–	–	316 283
Additions	225 232	32 203	–	–	–	257 435
Disposals	(450)	–	–	–	–	(450)
Amortisation	(171 294)	–	–	–	–	(171 294)
Net book value at the end of the year	353 047	48 927	–	–	–	401 974
Cost	869 413	48 927	–	–	–	918 340
Accumulated amortisation	(516 366)	–	–	–	–	(516 366)
Net book value at the end of the year	353 047	48 927	–	–	–	401 974

[1] *Computer software comprises primarily of main banking infrastructure applications, which are purchased from our respective vendors.*

[2] *Internally-generated intangible assets comprise assets under construction relating to SAP software, which went live during FY2021. Refer to note 41 for capital commitments.*

18. Deferred income tax asset and liability

18.1 Deferred income tax asset

	GROUP						
R'000	Impairments, provisions and accruals	Cash flow hedge	Capital allowances	Lease liability	Intangible assets	Prepayments	Total
2021							
Balance at the beginning of the year	**1 990 054**	**8 201**	**(40 748)**	**(52 231)**	**(26 267)**	**(25 476)**	**1 853 533**
Income statement charge	**103 202**	**–**	**(13 769)**	**169 339**	**3 940**	**21 366**	**284 078**
Debited to equity through other comprehensive income	**(32)**	**3 072**	**–**	**–**	**–**	**–**	**3 040**
Balance at the end of the year[(1)]	**2 093 224**	**11 273**	**(54 517)**	**117 108**	**(22 327)**	**(4 110)**	**2 140 651**
Estimated to be recovered within 1 year							**1 635 446**
Estimated to be recovered after 1 year							**505 205**
Balance at the end of the year							**2 140 651**
2020							
Balance at the beginning of the year	1 669 229	3 629	(64 407)	–	–	(24 869)	1 583 582
Income statement charge	313 612	–	27 806	(93 508)	1 313	(607)	248 616
Transfer of deferred tax IFRS 16 transition date	(41 277)	–	–	41 277	–	–	–
Acquisition of subsidiary	47 108	–	(4 147)	–	(27 580)	–	15 381
Debited to equity through other comprehensive income	1 382	4 572	–	–	–	–	5 954
Balance at the end of the year[(1)]	1 990 054	8 201	(40 748)	(52 231)	(26 267)	(25 476)	1 853 533
Estimated to be recovered within 1 year							1 707 753
Estimated to be recovered after 1 year							145 780
Balance at the end of the year							1 853 533

[(1)] *Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2020: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised and is fully recoverable. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.*

18. Deferred income tax asset and liability continued

18.1 Deferred income tax asset continued

COMPANY

R'000	Impairments, provisions and accruals	Cash flow hedge	Capital allowances	Lease liability	Intangible assets	Prepayments	Total
2021							
Balance at the beginning of the year	**1 963 863**	**8 201**	**(65 269)**	**(52 231)**	**–**	**(25 476)**	**1 829 088**
Income statement charge	**104 837**	**–**	**48 867**	**169 339**	**985**	**21 366**	**345 394**
Credited directly to equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer of assets and liabilities Mercantile Bank Limited[2]	**48 247**	**–**	**–**	**–**	**(23 312)**	**–**	**24 935**
Debited to equity through other comprehensive income	**(32)**	**3 072**	**–**	**–**	**–**	**–**	**3 040**
Balance at the end of the year[1]	**2 116 915**	**11 273**	**(16 402)**	**117 108**	**(22 327)**	**(4 110)**	**2 202 457**
Estimated to be recovered within 1 year							**1 904 116**
Estimated to be recovered after 1 year							**298 341**
Balance at the end of the year							**2 202 457**
2020							
Balance at the beginning of the year	1 669 229	3 629	(64 407)	–	–	(24 869)	1 583 582
Income statement charge	335 911	–	(862)	(93 508)	–	(607)	240 934
Transfer of deferred tax IFRS 16 transition date	(41 277)	–	–	41 277	–	–	–
Debited to equity through other comprehensive income	–	4 572	–	–	–	–	4 572
Balance at the end of the year[1]	1 963 863	8 201	(65 269)	(52 231)	–	(25 476)	1 829 088
Estimated to be recovered within 1 year							1 683 308
Estimated to be recovered after 1 year							145 780
Balance at the end of the year							1 829 088

(1) *Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2020: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised and is fully recoverable. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.*

(2) *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

18.2 Deferred income tax liability

	GROUP						
R'000	Impairments, provisions and accruals	Cash flow hedge	Capital allowances	Lease liability	Intangible assets	Prepayments	Total
2021							
Balance at the beginning of the year	**(7 980)**	**–**	**80 966**	**–**	**–**	**–**	**72 986**
Income statement charge	**7 980**	**–**	**(80 966)**	**–**	**–**	**–**	**(72 986)**
Balance at the end of the year[1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2020							
Balance at the beginning of the year	–	–	–	–	–	–	–
Income statement charge	(4 118)	–	4 971	–	–	–	853
Acquisition of subsidiary	(3 862)	–	75 995	–	–	–	72 133
Balance at the end of the year[1]	(7 980)	–	80 966	–	–	–	72 986
Estimated to be recovered within 1 year	–	–	–	–	–	–	–
Estimated to be recovered after 1 year	–	–	–	–	–	–	72 986

[1] *Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2020: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised and are fully recoverable.*

On 24 February 2021, the Minister of Finance announced a proposed change in the tax rate to 27% alongside other changes in tax legislation. The tax rate change would possibly only be substantively enacted at a future date. For this reason, the impact of the change does not have an impact on the currently reported deferred tax balances of the group.

19. Deposits and wholesale funding

R'000	GROUP 2021	GROUP 2020	COMPANY 2021*	COMPANY 2020
Deposits				
By maturity				
Within 1 month	**82 027 944**	65 943 829	**82 168 805**	56 764 816
1 to 3 months	**4 977 321**	4 447 667	**4 977 440**	3 352 104
3 months to 1 year	**15 979 759**	14 751 820	**15 979 759**	14 434 451
1 to 2 years	**7 939 721**	7 555 970	**7 939 721**	6 001 691
2 to 5 years	**7 607 166**	6 949 806	**7 607 166**	6 943 853
More than 5 years	**471**	15	**471**	15
Total deposits	**118 532 382**	99 649 107	**118 673 362**	87 496 930
Wholesale funding				
By maturity				
Within 1 month	**46 386**	48 949	**46 386**	41 566
1 to 3 months	**1 045 809**	992 031	**1 045 809**	992 031
3 months to 1 year	**89 581**	844 071	**89 581**	604 071
1 to 2 years	**200 032**	1 130 495	**200 032**	1 020 495
2 to 5 years	**973 969**	678 123	**973 969**	678 123
More than 5 years	**20 269**	–	**20 269**	–
Total wholesale funding	**2 376 046**	3 693 669	**2 376 046**	3 336 286
By nature				
Deposits				
Call accounts	**71 164 260**	56 037 341	**71 164 379**	55 160 413
Current accounts[(2)]	**6 948 321**	6 544 670	**7 089 182**	–
Term and notice deposits[(2)]	**3 746 237**	3 652 977	**3 746 237**	–
Foreign currency deposits[(2)]	**1 243 321**	883 524	**1 243 321**	–
Fixed deposits	**35 430 243**	32 530 595	**35 430 243**	32 336 517
Total deposits	**118 532 382**	99 649 107	**118 673 362**	87 496 930
Wholesale funding				
Asset-backed notes	**–**	357 383	**–**	–
Listed senior bonds[(1)]	**1 519 970**	2 989 725	**1 519 970**	2 989 725
Unlisted negotiable instruments	**140 463**	246 905	**140 463**	246 905
Other wholesale funding	**715 613**	99 656	**715 613**	99 656
Total wholesale funding	**2 376 046**	3 693 669	**2 376 046**	3 336 286
Total deposits and wholesale funding	**120 908 428**	103 342 776	**121 049 408**	90 833 216

Description	Nominal amount	Issue date	Term	Rate
2021				
Listed senior bonds				
Senior debt – listed bonds – fixed rated[1]	R500 million	6 May 2016	5 years	R208 government bond plus 2.40%
Senior debt – listed bonds – floating rate[1]	R500 million[2]	21 May 2018	3 years	3-month JIBAR plus 1.53%
Senior debt – listed bonds – floating rate[1]	R500 million[2]	30 April 2019	5 years	3-month JIBAR plus 1.50%
Unlisted negotiable instruments				
Negotiable certificate of deposit – fixed rate	R46 million	8 June 2017	5 years	5-year mid-swap plus 2.40%
Negotiable certificate of deposit – fixed rate	R33 million	22 January 2018	5 years	5-year mid-swap plus 2.00%
Negotiable certificate of deposit – fixed rate	R12 million	9 March 2018	3 years	3-year mid-swap plus 1.50%
Negotiable certificate of deposit – fixed rate	R41 million	10 April 2018	5 years	5-year mid-swap plus 2.00%
Negotiable certificate of deposit – fixed rate	R5 million	10 April 2018	3 years	3-year mid-swap plus 1.50%
Other wholesale funding				
Bilateral loan – fixed rate	R90 million	1 December 2004	20 years	Fixed rate of 11% nominal annual compounded monthly (NACM)
Call deposit – floating rate	R28 million	26 January 2018	Call	Linked to repo
COVID-19 Loan Guarantee Scheme	R620 million	Various	5 years	Linked to repo

19. Deposits and wholesale funding continued

Description	Nominal amount	Issue date	Term	Rate
2020				
Listed senior bonds				
Senior debt – listed bonds – fixed rate[1]	R450 million	6 May 2013	7 years	R208 government bond plus 2.50%
Senior debt – listed bonds – floating rate[1]	R500 million[2]	2 November 2015	5 years	3-month JIBAR plus 2.60%
Senior debt – listed bonds – fixed rate[1]	R500 million	6 May 2016	5 years	R208 government bond plus 2.40%
Senior debt – listed bonds – floating rate[1]	R500 million[2]	12 May 2017	3 years	3-month JIBAR plus 2.00%
Senior debt – listed bonds – floating rate[1]	R500 million[2]	21 May 2018	3 years	3-month JIBAR plus 1.53%
Senior debt – listed bonds – floating rate[1]	R500 million[2]	30 April 2019	5 years	3-month JIBAR plus 1.50%
Unlisted negotiable instruments				
Negotiable certificate of deposit – fixed rate	R6 million	9 March 2017	3 years	3-year mid-swap plus 1.70%
Negotiable certificate of deposit – fixed rate	R46 million	8 June 2017	5 years	5-year mid-swap plus 2.40%
Floating-rate note[1]	R100 million[2]	24 November 2017	3 years	3-month JIBAR plus 1.60%
Negotiable certificate of deposit – fixed rate	R33 million	22 January 2018	5 years	5-year mid-swap plus 2.00%
Call deposit – floating rate	R28 million	26 January 2018	Call	Linked to repo
Negotiable certificate of deposit – fixed rate	R12 million	9 March 2018	3 years	3-year mid-swap plus 1.50%
Negotiable certificate of deposit – fixed rate	R41 million	10 April 2018	5 years	5-year mid-swap plus 2.00%
Negotiable certificate of deposit – fixed rate	R5 million	10 April 2018	3 years	3-year mid-swap plus 1.50%
Negotiable certificate of deposit – fixed rate	R4 million	10 April 2018	1 year	1-year mid-swap plus 1.00%
Asset-backed notes[3]				
Secured, compulsorily redeemable	R240 million	6 June 2017	3 years	3-month JIBAR
Secured, compulsorily redeemable	R110 million	6 December 2018	3 years	3-month JIBAR
Other wholesale funding				
Bilateral loan – fixed rate	R90 million	1 December 2004	20 years	Fixed rate of 11% NACM

[1] Comprises notes listed on Capitec Bank's domestic medium-term note programme registered on the JSE interest rate board.
[2] Wholesale funding issued at variable rates is hedged through interest rate swap agreements as set out in note 44. The nominal value of hedged funding totalled R1.0 billion (2020: R2.1 billion) and consists of:
Listed senior bonds R1 billion (2020: R2 billion).
Unlisted negotiable instruments nil million (2020: R100 million).
[3] Business bank instruments were secured by rental finance assets. Refer to note 9.
** The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

R'000	Subordi-nated debt – unlisted	Subordi-nated debt – listed	Senior listed bonds	GROUP Asset-backed notes	Secured debt	Other wholesale funding	Total
2021							
Reconciliation of movements in cash flows arising from financing activities							
Opening balance as at 1 March 2020	–	–	2 989 725	357 383	–	–	3 347 108
Issue of institutional bonds and other funding	–	–	–	–	–	–	–
Redemption of institutional bonds and other funding	–	–	(1 450 000)	(357 383)	–	–	(1 807 383)
Interest expense accrued	–	–	197 311	–	–	–	197 311
Swap interest accrued	–	–	(43 566)	–	–	–	(43 566)
Interest paid	–	–	(173 500)	–	–	–	(173 500)
Balance as at 28 February 2021	–	–	1 519 970	–	–	–	1 519 970
Other funding (operating activities: unlisted negotiable instruments and other wholesale funding)							856 076
Total wholesale funding							2 376 046
2020							
Reconciliation of movements in cash flows arising from financing activities							
Opening balance as at 1 March 2019	508 640	1 336 980	2 737 447	–	–	–	4 583 067
Acquisition of subsidiary	–	–	–	354 812	141 045	749 113	1 244 970
Issue of institutional bonds and other funding	–	–	500 000	–	–	–	500 000
Redemption of institutional bonds and other funding	(500 000)	(1 322 000)	(250 000)	–	(141 045)	(749 113)	(2 962 158)
Interest expense accrued	21 072	95 319	282 094	2 571	–	–	401 056
Swap interest accrued	(34)	(1 990)	(13 288)	–	–	–	(15 312)
Interest paid	(29 678)	(108 309)	(266 528)				(404 515)
Balance as at 29 February 2020	–	–	2 989 725	357 383	–	–	3 347 108
Other funding (operating activities: unlisted negotiable instruments and other wholesale funding)							346 561
Total wholesale funding							3 693 669

[1] *The company only has senior listed bonds.*

20. Other liabilities

R'000	GROUP 2021	GROUP 2020	COMPANY 2021*	COMPANY 2020
Trade payables	**1 728 490**	1 302 573	**1 666 594**	943 155
Dividends payable	**1 971**	3 386	**1971**	3 386
Accruals	**896 256**	898 164	**894 994**	882 358
Share option and share appreciation rights (SARs) accrual (note 42 and 43)	**372 326**	427 995	**372 326**	427 511
Total other liabilities	**2 999 043**	2 632 118	**2 935 885**	2 256 410
Current portion	**2 606 600**	2 288 831	**2 543 442**	1 913 123
Non-current portion	**392 443**	343 287	**392 443**	343 287

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

21. Lease liabilities

R'000	GROUP 2021	GROUP 2020	COMPANY 2021*	COMPANY 2020
Lease liabilities	**2 523 371**	2 794 847	**2 521 688**	2 781 889
Total lease liabilities	**2 523 371**	2 794 847	**2 521 688**	2 781 889
Lease liability				
Maturity analysis – contractual undiscounted cash flows				
Less than 1 year	**530 472**	535 393	**528 977**	527 608
1 to 5 years	**1 897 222**	2 054 667	**1 896 949**	2 048 428
More than 5 years	**1 150 296**	1 537 962	**1 150 296**	1 537 962
Total undiscounted lease liabilities at year-end	**3 577 990**	4 128 022	**3 576 222**	4 113 998
Lease liabilities included in the statement of financial position at year-end				
Current portion	**256 916**	283 731	**257 213**	276 137
Non-current portion	**2 266 455**	2 511 116	**2 264 475**	2 505 751
Amounts recognised in profit and loss				
Interest on lease liability	**242 502**	255 583	**241 578**	255 201
Expense relating to short-term leases	**629**	5 894	**43**	5 289
Amounts recognised in the statement of cash flows				
Total cash flow for leases(1)	**490 761**	501 832	**480 191**	498 579

(1) *Refer to note 36.2 for a breakdown of the cash flows included in operating and financing activities.*
* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

Premises leases

The group enters into operating leases for branches, off-site ATM locations, office space and storage facilities. The leases for its branches typically run for a period of 5 years. The majority of the leases include an option to renew the lease for an additional period of the same duration after the end of the agreement term. The group includes extension options when determining the lease term as branches are a strategic part of the business.

Other leases

The leases are short-term and/or leases of low-value items. The group has elected not to recognise right-of-use assets and lease liabilities for these leases.

22. Post-retirement medical benefits

Capitec Bank (Business bank division), operates a post-retirement medical scheme. The scheme relates to retired employees of Mercantile Bank Limited. Independent actuaries value this scheme annually. It is the actuary's opinion that the plan is in a sound financial position. The scheme was last valued on the 28 February 2021. The amounts recognised in the statement of financial position as part of provisions are as follows (refer to note 23):

	GROUP		COMPANY	
R'000	**2021**	**2020**	**2021***	**2020**
Present value of total service liabilities	**16 203**	17 234	**16 203**	–
Liability in the statement of financial position	**16 203**	17 234	**16 203**	–
The amounts recognised in the statements of comprehensive income are as follows:				
Net interest cost	**1 473**	96	**–**	–
Employee cost	**(1 957)**	(487)	**(574)**	–
Current service cost	**6**	6	**6**	–
Employer benefits payments	**(1 963)**	(493)	**(580)**	–
Total included in other comprehensive income	**(484)**	(391)	**(574)**	–
The amounts recognised in the statements of comprehensive income are as follows:				
Remeasurement of defined benefit obligation	**(547)**	(567)	**(547)**	–
Total included in other comprehensive income	**(547)**	(567)	**(547)**	–
Reconciliation of the movement in the present value of total service liabilities:				
Balance at the beginning of the year	**17 234**	18 192	**–**	–
Acquisition through business reorganisation	**–**	–	**17 324**	–
Current service cost	**6**	6	**6**	–
Interest costs	**1 473**	96	**–**	–
Remeasurement of defined benefit obligation	**(547)**	(567)	**(547)**	–
Employer benefits payments	**(1 963)**	(493)	**(580)**	–
Balance at the end of the year	**16 203**	17 234	**16 203**	–
The principal actuarial assumptions used were as follows:				
Discount rate (%)	**9.1**	9.1	**9.1**	–
Rate of medical inflation (%)	**5.8**	6.6	**5.8**	–
Salary inflation (%)	**5.3**	6.1	**5.3**	–

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

The effect of a 1% increase/decrease on the assumed rate of medical inflation would be an increase in the liability in the amount of R1.3 million (2020: R1.6 million) or a decrease of R1.2 million (2020: R1.4 million), respectively.

23. Employee benefit liabilities

	GROUP		
R'000	Performance incentive scheme[1]	Post-retirement medical benefits	Total
2021			
Balance at the beginning of the year	**153 976**	**17 234**	**171 210**
Addition	**74 172**	**110**	**74 282**
Used during the year	**(104 925)**	**(1 141)**	**(106 066)**
Balance at the end of the year	**123 223**	**16 203**	**139 426**
2020			
Balance at the beginning of the year	91 005	–	91 005
Acquisition of subsidiary	86 278	18 192	104 470
Addition	82 265	102	82 367
Used during the year	(105 572)	(1 060)	(106 632)
Balance at the end of the year	153 976	17 234	171 210

	2021	2020
Current portion	**38 480**	61 409
Non-current portion	**100 946**	109 801

	COMPANY		
R'000	Performance incentive scheme[1]	Post-retirement medical benefits*	Total
2021			
Balance at the beginning of the year	**109 801**	**–**	**109 801**
Acquisition through business reorganisation	**27 191**	**17 324**	**44 515**
Addition	**29 358**	**6**	**29 364**
Used during the year	**(44 967)**	**(1 127)**	**(46 094)**
Balance at the end of the year	**121 383**	**16 203**	**137 586**
2020			
Balance at the beginning of the year	91 005	–	91 005
Addition	73 528	–	73 528
Used during the year	(54 732)	–	(54 732)
Balance at the end of the year	109 801	–	109 801

	2021	2020
Current portion	**36 639**	–
Non-current portion	**100 947**	109 801

[1] *Senior management qualify for a cash-settled performance bonus scheme. The scheme rewards managers based on the growth in headline earnings per share (HEPS) and, in order to foster a long-term approach by management, the bonus is paid out over a 3-year period. The bonuses that have been earned and will be paid out in the 2022 and 2023 financial years are included in employee benefit liabilities. The bonus to be paid in the 2021 financial year is included in accruals.*

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

24. Group loan payable

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Loan owing to fellow group subsidiary[(2)]	–	65 821	1 312	2 178 434
Loan owing to fellow group trust[(1)]	2 918	4 430	2 918	4 430
Total group loan payable[(3)]	2 918	70 251	4 230	2 182 864
Current	2 918	70 251	4 230	2 182 864

(1) The loan is interest-free and has no fixed repayment terms.

(2) The loan bears interest at rates determined from time to time and has no fixed repayment terms.

(3) The loan owing to fellow group subsidiaries increased by R1.27 billion prior to the divisionalisation of Mercantile Bank Limited and the total balance of R3.34 billion was eliminated as part of the business reorganisation referred to in note 4.1.

25. Share capital and premium

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Authorised				
Ordinary shares[(3)]				
5 000 000 000 shares of R0.01 each	50 000	50 000	50 000	50 000
Non-redeemable, non-cumulative, non-participating preference shares				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
Loss-absorbent preference shares (conversion)[(4)]				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
Loss-absorbent preference shares (write-off)[(4)]				
100 000 000 shares of R0.01 each	1 000	1 000	1 000	1 000
Issued[(1)]				
1 300 000 (2020: 1 300 000) shares of R0.01 each at par	13	13	13	13
Share premium	6 105 968	6 105 968	6 105 968	6 105 968
Ordinary share capital and premium	6 105 981	6 105 981	6 105 981	6 105 981
616 419 (2020: 809 821) shares of R0.01 each at par	6	8	6	8
Share premium	55 635	73 090	55 635	73 090
Non-redeemable, non-cumulative, non-participating preference share capital and premium[(2)]	55 641	73 098	55 641	73 098
Total issued share capital and premium[(2)]	6 161 622	6 179 079	6 161 622	6 179 079

(1) All issued ordinary and preference shares are fully paid up. No ordinary shares were cancelled in the current or prior year. 193 402 (2020: 94 228) preference shares with a value of R17.5 million (par and premium) (2020: R8.5 million) were repurchased and cancelled during the year. This was done as they no longer qualified as regulatory capital in terms of the regulations relating to banks. The average price paid was R100.41 (2020: R99.05) per share.

(2) The preference shares carry a coupon rate of 83.33% (2020: 83.33%) of the prime rate on a face value of R100 per share. The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. At year-end, 78.51% (2020: 71.77%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.

(3) At the AGM held on 29 May 2020, shareholders authorised that 5 781 350 shares equal to 5% of the issued ordinary shares of the company be placed under the control of the directors until the next AGM.

(4) In addition to the above authority, shareholders further authorised that loss-absorbent convertible capital securities to a maximum aggregate issue price not exceeding R1.5 billion, but subject to a conversion into ordinary shares not exceeding 10 600 000 ordinary shares (over and above the authority above), be placed under the control of the directors until the next AGM.

26. Reserves

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Cash flow hedge reserve				
Balance at the beginning of the year	(21 345)	(9 588)	(21 345)	(9 588)
Amount recognised in other comprehensive income during the year	(57 488)	(31 706)	(57 488)	(31 706)
Amount reclassified from other comprehensive income to profit and loss for the year	46 517	15 377	46 517	15 377
	(32 316)	(25 917)	(32 316)	(25 917)
Deferred tax recognised in other comprehensive income during the year	3 072	4 572	3 072	4 572
Balance at the end of the year[1]	(29 244)	(21 345)	(29 244)	(21 345)
Other reserve[2]				
Balance at the beginning of the year	(4 962)	–	–	–
Amount recognised in other comprehensive income during the year	(30 655)	(6 344)	(30 655)	–
Balance at the end of the year	(35 617)	(6 344)	(30 655)	–
Deferred tax recognised in other comprehensive income during the year	(32)	1 382	(32)	–
Balance at the end of the year	(35 649)	(4 962)	(30 687)	–

[1] *The cash flow hedge reserve is released to the income statement on realisation of the interest expense on the hedged items. The hedged items are detailed in note 19 and comprise variable rate bonds and a floating-rate note. Refer to note 44 for additional disclosure relating to the hedging instruments.*

[2] *The other reserves include the employee benefits reserve and other reserves.*

27. Net lending, investment and transaction fee income

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Interest income				
Loans and advances	12 902 016	12 893 147	12 224 666	12 544 336
Loan origination fees	498 546	658 198	483 081	651 092
Non-bank money market placements	2	3 488	2	3 488
Money market funds and term deposit investments	948 545	1 753 134	902 762	1 668 529
Bank balances	1 422	2 225	1 395	2 225
Resale agreements	731 231	606 187	731 231	606 187
Debentures	44 363	–	44 363	–
Interest-bearing instruments[1]	1 417 418	1 123 439	1 382 241	1 104 013
Other	–	–	37 127	–
Total interest income	16 543 543	17 039 818	15 806 868	16 579 870
Loan fee				
Monthly service fee	968 657	979 624	967 902	975 456
Total lending and investment income	17 512 200	18 019 442	16 774 770	17 555 326

[1] *Interest-bearing instruments include treasury bills, government bonds and resale agreements with maturities greater than 3 months.*

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Interest expense				
Call and current accounts	(1 770 119)	(2 317 387)	(1 588 437)	(2 288 596)
Notice, term, foreign and fixed deposit	(2 728 237)	(2 570 045)	(2 567 583)	(2 446 768)
Subordinated debt	–	(116 391)	–	(116 391)
Listed senior bonds	(197 311)	(282 094)	(197 311)	(282 094)
Unlisted negotiable instruments	(19 214)	(28 298)	(19 214)	(28 298)
Interest paid (IFRS 16 *Leases*)	(242 502)	(255 583)	(241 578)	(255 201)
Other	(31 352)	(110 050)	(105 996)	(27 086)
Total interest expense	(4 988 735)	(5 679 848)	(4 720 119)	(5 444 434)
Loan fee expense[1]	(71 405)	(90 186)	(71 405)	(90 186)
Total lending and investment expense	(5 060 140)	(5 770 034)	(4 791 524)	(5 534 620)
Net lending and investment income	12 452 060	12 249 408	11 983 246	12 020 706
Transaction fee income				
Account transaction fees[2]	6 956 874	6 961 377	6 907 800	6 843 358
Card-based commission and fees	2 786 350	2 794 935	2 562 798	1 770 398
Other fees	2 296 152	506 237	2 164 815	1 481 011
Total transaction fee income	12 039 376	10 262 549	11 635 413	10 094 767

(1) *Credit life insurance cost on the first-party cell captive for loans issued prior to May 2016.*
(2) *Account transaction fees were disclosed as part of other fees in 2020.*

28. Credit impairments

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Bad debts written off[1]	6 378 680	5 171 393	6 324 830	5 105 697
Movement in provision for credit impairments[2]	2 378 089	565 838	2 171 496	517 114
Gross credit impairment charge	8 756 769	5 737 231	8 496 326	5 622 811
Bad debts recovered[3]	(932 048)	(1 263 561)	(930 134)	(1 262 525)
Net credit impairment charge	7 824 721	4 473 670	7 566 192	4 360 286

(1) *This comprises those elements of the movement in gross loans and advances pertaining to write-offs and modifications as disclosed in note 9.*
(2) *This comprises all elements in the movement in provision for ECL as disclosed in note 9 other than for the take-on balance on acquisition of subsidiary in 2020 and ECL raised directly against interest received for loans in stage 3 where interest is recognised on the net carrying amount – R1 779 million (2020: R1 526 million). As such, it includes new ECL raised as well as ECL released on loans settled during the year and loans that were written off.*
(3) *Bad debts recovered include R199 million (2020: R67 million) in recoveries on loans written off since 1 March 2018 under the write-off policy adopted on transition to IFRS 9.*

29. Operating expenses

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
The following items are included in operating profit before tax:				
Loss on disposal of property and equipment	**10 655**	46 077	**10 448**	46 075
Loss on disposal of intangible assets	**90**	450	**–**	450
Depreciation on property and equipment	**588 173**	511 949	**570 652**	502 672
Depreciation charge on right-of-use asset – premises	**413 919**	420 506	**406 812**	417 461
Amortisation of intangible assets	**241 268**	190 424	**203 524**	171 294
	1 254 105	1 169 406	**1 191 436**	1 137 952
Advertising and marketing expenses	**210 455**	254 368	**209 341**	253 661
Bank charges and cash handling fees	**330 889**	321 992	**326 621**	321 732
Consumables	**476 187**	403 373	**474 217**	400 680
Communication expenses	**238 281**	216 918	**235 132**	215 400
Security and cash-in-transit fees	**514 169**	468 179	**506 911**	463 912
IT expenses	**654 859**	517 405	**586 112**	496 038
Auditors' remuneration				
Audit fees – current year[1]	**26 253**	24 909	**26 253**	14 879
Audit fees – prior year (including disbursements)	**1 027**	749	**1 027**	749
Other services	**9 894**	1 712	**9 819**	1 200
Total auditors' remuneration	**37 174**	27 370	**37 099**	16 828
Employee costs				
Salaries and bonus costs	**4 425 791**	4 070 179	**4 184 919**	3 971 582
Cash-settled share-based payment	**68 698**	65 034	**65 933**	64 792
Cash-settled SARs	**60 762**	65 559	**57 997**	65 317
Social security cost	**141 409**	123 270	**121 854**	121 975
Training cost	**35 939**	83 600	**33 711**	83 461
Training refund	**(10 114)**	(11 252)	**(10 114)**	(11 525)
Total employee costs	**4 722 485**	4 396 390	**4 454 300**	4 295 602

[1] *Audit fees for the current year include Rnil million (2020: R10.0 million) paid to an audit firm other than the group auditors.*

30. Income tax expense

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Current tax	**1 475 892**	2 042 406	**1 453 218**	2 032 444
Deferred tax	**(357 064)**	(247 763)	**(345 394)**	(240 934)
Income tax expense	**1 118 828**	1 794 643	**1 107 824**	1 791 510
Effective tax rate (%)	**20**	22	**19**	22
The tax on the profit before tax differs from the theoretical amount that would arise using the basic normal company tax rate as follows:				
Operating profit before tax[(1)]	**4 069 154**	6 621 260	**4 082 378**	6 616 721
Tax calculated at a tax rate of 28%	**1 139 363**	1 853 953	**1 143 066**	1 852 682
Adjustments for prior periods	**13 520**	(5 078)	**(11)**	(4 317)
Expenses not deductible for tax purposes	**16 820**	6 573	**15 084**	6 858
Allowances not in the income statement[(2)]	**(50 875)**	(64 008)	**(50 315)**	(63 713)
Non-taxable portion of capital gain	**–**	973	**–**	–
Movement in unutilised tax losses	**–**	2 230	**–**	–
Income tax expense	**1 118 828**	1 794 643	**1 107 824**	1 791 510

(1) *The 2020 figures have been adjusted to remove the impact of the discontinued operation. Income from cell captives are not subject to income tax.*

(2) *The adjustment regarding allowances not in the income statement relate to learnership agreements as per section 12H of the Income Tax Act, Act 58 of 1962.*

31. Dividends paid

The company declared the following dividends for the current and previous financial years:

R'000	Rand	Declared	LDT	Date paid
2021				
Ordinary dividend				
Final	**–**	**–**	**–**	**–**
Preference dividend				
Interim	**2 360**	**31 Aug 2020**	**31 Aug 2020**	**23 Mar 2021**
Final	**1 930**	**28 Feb 2021**	**26 Feb 2021**	**21 Sep 2020**
2020				
Ordinary dividend				
Interim	872 984	26 Sep 2019	29 Oct 2019	4 Nov 2019
Preference dividend				
Interim	3 527	31 Aug 2019	17 Sep 2019	23 Sep 2019
Final	3 345	29 Feb 2020	17 Mar 2020	23 Mar 2020

32. Segment information

Operating segments are identified on the basis of internal reports about components of the group that are regularly reviewed by the CODM in order to allocate resources to the segments and to assess their performance. The group EXCO, headed by the CEO, has been identified by the group as the CODM, who is responsible for assessing the performance and allocation of resources of the group.

The CODM identified 2 operating segments – Retail bank and Business bank – within the South African economic environment. The business is widely distributed with no reliance on any major clients. In addition, no client accounts for more than 10% of revenue.

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

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

Retail bank

- Transactional banking services
- Loan products that are granted to Retail bank clients. There are 4 different loan products granted, namely term loans, credit facilities, credit cards and access facilities
- Insurance income from the sale of credit life insurance policies
- Profit-sharing arrangement with regard to the funeral insurance policies sold by the group.

Business bank

- Loan products that are granted to Business bank clients. There are 5 different loan products granted, namely term loans, mortgage loans, overdrafts, instalment sales and leases and credit cards
- Treasury products include foreign exchange spot trades, foreign exchange forward contracts, vanilla FX options and money market call or term deposits.

The revenue from external parties and all other items of income, expenses, profits and losses reported in the segment report is measured in a manner consistent with that in the income statement. The fees from external clients for each major group of products and services are disclosed in note 27.

	GROUP					
	2021			2020		
R'000	Retail bank	Business bank	Total	Retail bank	Business bank	Total
Lending, investment and insurance income	16 532 524	979 676	17 512 200	17 555 325	479 005	18 019 442
Interest income on lending	12 530 754	869 808	13 400 562	13 195 426	355 917	13 545 129
Interest income on investments	2 917 678	225 303	3 142 981	3 384 443	118 920	3 494 689
Loan fee income	964 803	3 854	968 657	975 456	4 168	979 624
Net insurance income	–	–	–	–	–	–
Lending and investment expenses	(4 682 826)	(496 603)	(5 060 140)	(5 534 621)	(250 301)	(5 770 034)
Interest expense	(4 611 421)	(496 603)	(4 988 735)	(5 444 435)	(250 301)	(5 679 848)
Loan fee expense	(71 405)	–	(71 405)	(90 186)	–	(90 186)
Net lending, investment and insurance income	11 849 698	602 362	12 452 060	12 020 704	228 704	12 249 408
Transaction fee income	11 015 690	1 127 260	12 142 950	10 094 767	167 782	10 262 549
Transaction fee expense	(2 922 084)	(513 375)	(3 435 459)	(2 735 988)	(110 935)	(2 846 923)
Net transaction income	8 093 606	613 885	8 707 491	7 358 779	56 847	7 415 626
Foreign currency income	–	409 165	409 165	–	38 691	38 691
Foreign currency expense	–	(298 413)	(298 413)	–	–	–
Funeral plan income	–	–	–	–	–	–
Other income	108 746	3 106	111 852	18 801	12 704	31 505
Credit impairments	(7 419 616)	(405 105)	(7 824 721)	(4 360 286)	(113 384)	(4 473 670)
Net income	12 632 434	925 000	13 557 434	15 037 998	223 562	15 261 560
Operating expenses[(3)]	(8 571 009)	(906 856)	(9 477 865)	(8 421 276)	(215 671)	(8 636 947)
Amortisation of intangible assets – core deposits and client relationships[(1)]	–	–	(14 071)	–	–	(4 691)
Share of net profit of joint venture	3 656	–	3 656	1 338	–	1 338
Operating profit before tax[(1)]	4 065 081	18 144	4 069 154	6 618 060	7 891	6 621 260
Income tax expense	(1 103 150)	(19 619)	(1 122 769)	(1 791 510)	(4 446)	(1 795 956)
Tax on amortisation of intangible assets[(1)]	–	–	3 940	–	–	1 313
Profit for the year – continued operations	2 961 931	(1 475)	2 950 325	4 826 550	3 445	4 826 617
Profit for the year – discontinued operations	1 615 483	–	1 615 483	1 393 971	–	1 393 971
Profit/(loss) for the year[(1)]	4 577 414	(1 475)	4 565 808	6 220 521	3 445	6 220 588
Assets						
Net loans and advances	46 797 998	10 387 393	57 185 391	52 011 683	10 029 876	62 041 559
Assets held to sale	1 511 848	–	1 511 848	–	–	–
Other[(2)]	94 257 784	7 448 527	96 666 484	67 436 172	5 720 394	71 218 890
Acquisition of Mercantile	–	–	929 226	–	–	888 297
Goodwill[(1)]	–	–	849 487	–	–	794 487
Intangible asset – core deposit intangible[(1)]	–	–	65 393	–	–	76 933
Intangible asset – client relationships[(1)]	–	–	14 346	–	–	16 877
Total assets[(2)]	142 567 630	17 835 920	156 292 949	119 447 855	15 750 270	134 148 746

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

(2) *The Retail bank and the Business bank assets include an amount of R5 billion (2020: R1.9 billion) in investments that eliminates against liabilities at a group level. Interest on the investment amounted to R143 million (2020: R14 million) and is disclosed in Retail bank interest expenses and Business bank interest on investments.*

(3) *Shared service costs have been included in the Retail bank segment as they are not material to the group.*

33. Financial risk management

The board of directors are responsible for risk management and views it as an integral part of providing a responsible return on shareholders' equity.

Note 33 should be read with the sections in the risk management report from pages 94 to 117 of the integrated annual report.

To assist the board, the group is managed through a system of internal controls functioning throughout the entities. Risk awareness pervades every aspect of the business and is the responsibility of each employee of the group. The risk and capital management committee (RCMC) assists the board in reviewing the processes followed to identify risk and in assessing the potential impact of identified risks in the group environment. The committee is comprised of 3 independent non-executive directors, 3 non-executive directors and 1 executive director. The committee's terms of reference are detailed in a board-approved charter. The committees assist the board in reviewing the processes followed to identify risk and in assessing the potential impact of identified risks in the group environment.

Specific risks are dealt with in a structured manner by the following subcommittees comprising executives and senior management:

- CC – credit counterparty risk
- ALCO – interest rate, market, liquidity, counterparty, currency and capital adequacy risk
- Risk committee – legal, compliance, technology, operational and reputational risk.

The RCMC ensures that risk assessment is an ongoing process and that a formal risk assessment is undertaken at least quarterly. The group operates in a structured manner with defined processes and procedures enabling risk assessment within a controlled environment. Accordingly, an assessment of key risks is performed and weightings are assigned based on impact and probability. Existing controls are assessed and, if necessary, adjusted. Thereafter, reports are generated at regular intervals to enable monitoring of risk levels.

33.1 Credit risk

Refer to pages 99 to 103 of the integrated annual report for the qualitative disclosure of credit risk, marked as audited as well as note 9.

The group grants retail loans and certain business loans for which no security is obtained and, accordingly, the entire balance as per the statement of financial position is exposed to credit risk. Exposure to systemic credit risk is regarded as being potentially higher due to the credit characteristics of the client base. Exposure to single-name concentration credit risk is low, however, due to the nature (smaller average loan sizes) and distribution (numerous individuals across the spectrum of economic sectors and provinces) of the loan book. The group also offers a spread of business banking products common to the banking industry. The core market focus is established small to medium-sized businesses and commercial companies across a wide variety of industries as well as private banking to the respective entrepreneurs. A group subsidiary, Mercantile Rental Finance, provides rental finance solutions with its core focus being the office automation, telecommunications and IT sectors.

Credit risk is managed through every stage of the credit life cycle by following a combination of governance, decision support and business support. Governance includes regulators, industry associations, the group's financial governance and committees which support and influence credit strategy. Decision support is a specialist credit risk statistical analysis team that develops credit models and scorecards that are aligned with business strategies and credit risk appetite for unsecured retail lending. Credit risk management is provided by other areas of business to ensure optimisation of the granting, collections and recoveries models and systems.

Measures taken by the group to limit credit risk for unsecured retail lending to acceptable levels include, *inter alia*, the application of standard credit acceptance procedures to assess potential clients, daily monitoring of collectible balances at both branch and head office level and monitoring by the RCMC. Dependent on the risk profile of the client across all portfolios of the Business bank, the risk inherent in the product offering and the track record and payment history of the client, varying types and levels of security are taken to mitigate credit-related risks. The group does, however, have a small structured loan portfolio for its Business bank clients that includes an element of unsecured lending and the group is financially rewarded for the additional risk taken.

The key consideration regarding credit risk management for the group is to maintain the Retail bank lending book within the group's credit risk appetite through customised acquisition, retention and rehabilitation strategies.

The reason why clients approach credit providers for credit is that they have specific requirements. These requirements include the need for emergency cash, education, second-hand vehicles and housing.

We encourage clients to match the term of the loan to the requirement for funds. Thus, short-term loans and facilities (similar to overdrafts) are used for cash flow reasons, while medium-term loans are matched against appliances and education. The predominate use of long-term loans is for housing. By continuously refining our credit offer, we are able to provide clients unsecured credit solutions that best suit their personal needs and at competitive interest rates compared to the secured credit market.

In order to execute on this solution, we incorporate a comprehensive assessment of the client's behaviour, affordability and source of income. For the assessment, we use information from the credit bureaus, bank statements and payslips. We apply 3 parallel disposable income calculations i.e. the National Credit Act, Act 34 of 2005 (NCA) affordability calculation, a Capitec client disposable income calculation that maintains conservative buffers and the client's own calculation. We then apply the most stringent of the 3. Branch employees have no credit granting discretion and all exceptions are managed and monitored by a centralised specialist team.

During the loan application process, we present the maximum loan amount, maximum term and maximum instalment to the client. Within these constraints, the client may select any combination that best suits them. We encourage clients to take up credit for shorter periods of time and for smaller amounts. This is done through a pricing model that discounts the interest rate in instances where clients select a term that is shorter than the maximum for which they qualify. This is due to the manner in which the pricing for risk model reacts to the lower default rates for such clients.

When existing clients apply for further credit, we conduct a full credit assessment. If a client qualifies for further credit, it can be extended as a further agreement in addition to the current credit; or the client can have the existing credit consolidated into a new credit agreement. This is only available for clients if instalments are up-to-date on all Capitec loans and to clients who have a satisfactory credit risk.

Our scoring models react to instances where a client repeatedly takes up credit, and when their debt-to-income ratio becomes too high. In such instances, we limit the term and amount of credit offered to clients or we decline the application for credit.

Acquisition and retention strategies are built on the principles of the client's credit behaviour (willingness to pay), affordability and source of income. Rehabilitation strategies are need-driven to assist clients based on their unique circumstances.

Unforeseen circumstances may lead to reduced income or increased expenditure for the client. The circumstances may include:

- employers who reduce overtime and bonuses or place employees on short pay due to difficult economic conditions
- strikes
- clients may be forced to change employment at reduced salaries due to poor performance or health problems
- financial problems faced by employers.

These instances may result in a client missing an instalment on a loan and being in arrears.

If the client is in arrears due to challenges regarding the client's inability to repay the debt, we either negotiate with the client to immediately bring the arrears instalments up-to-date, or we attempt to help and manage the situation through agreeing a course of action with the client by amending the loan agreement (loan reschedule).

33. Financial risk management continued

33.1 Credit risk continued

The first solution is preferable, as it:

- reduces arrears if the client pays on the same date
- improves our cash flow
- helps restore the client to a creditworthy position
- limits the overall cost of credit for clients.

Practically, there is a risk that placing too much pressure on clients (such as expecting clients in financial distress to repay 2 instalments in a single month when they cannot afford to do so) can be counterproductive. In such a case, clients could refuse to cooperate, stop communicating with us and stop paying instalments.

We have extensive history that measures the yields we can receive by handing clients over to external debt collectors. We monitor the cash flow yields that we receive from this process against internal collection processes, including rescheduling. We optimise the strategy for different client groups and use handover samples for each strategy to monitor the relative performance and validate the strategy for each client group.

Factors that we consider in delivering the optimal strategy for a client include:

- the risk profile and payment history of the client
- the arrears status of the client
- whether the client was rescheduled previously
- the credit exposure amount
- free cash flow estimates derived from clients' bank accounts or credit bureau records (salary less debit orders)
- any information we have about the client's employer.

Depending on a combination of factors, the optimal strategy is to encourage clients with some free cash flow or limited credit exposure to bring arrear instalments up-to-date; or assist clients who have cash flow difficulty but have good behaviour history, to reduce their instalments and extend the term of the credit agreement (i.e. reschedule). When there is a clear temporary interruption of income such as a strike or a client is on maternity leave, we may allow a reduced instalment for a short period (typically 3 months) with subsequent increased instalments, in order to assist the client through this period (i.e. variable reschedule). We hand over clients and write the loan off when the problem appears to relate to the client's unwillingness or inability to pay.

We use system-based rules to limit instances where we allow rescheduling. The rules engine determines whether clients are eligible for rescheduling as well as the maximum term for which the loan can be extended. We do not reschedule all loans that meet our criteria, as this depends on the individual circumstances of each client applying to reschedule. Successfully treating clients who were in arrears decreases the overall quality of the loan book, as clients who would otherwise have been written off remain on the statement of financial position. We do, however, treat, monitor and separately disclose the performance of these clients.

We monitor the performance and cure rate of reschedules using a segmented approach to ensure that it remains within the bank's risk appetite. Refer to note 9 for reschedule information.

This process allows us to optimise collections and reduce clients' debt levels. Our aim is always to partner with our clients through both good and tough times and act in their best interest.

The group adopts a measured approach to credit granting for its Business bank clients, within a specifically defined and structured approval process. The granting of credit is managed via a mandated approval process automated on the bank's workflow system. Levels of credit approval mandates are determined by the experience of the mandated individual, with dual or multiple sign-off on all material values. Mandates have also been accorded to frontline management within predetermined rules and parameters as approved by the RCMC, which approvals are evaluated and monitored by credit on an ongoing basis.

An ongoing weekly review is undertaken by the CC of all new and renewal proposals for lending in excess of R2 million (in aggregate). This meeting covers a wide variety of topics, including reporting on excess and arrear positions, security-related matters, possible changes in risk grades, the bank's advances portfolio composition and performance, and any other relevant credit-related matters requiring specific mention or discussion. Adverse behavioural patterns, such as continual excesses above approved limits and arrears on loan facilities, are monitored closely by the credit department and are discussed at the weekly CC meeting with appropriate actions being taken.

Identified accounts with continued behavioural concerns and/or financial underperformance are monitored by way of monthly 'watch list' meetings and reporting. To protect the group, prompt action is taken by senior internal stakeholders, including the CEO, on large defaults. This action has seen a good measure of historical success given our flat structure that drives agility.

Counterparties to derivatives expose the group to credit-related losses in the event of non-performance. The Business bank continually monitors its positions and the credit ratings, if applicable, of its counterparties and limits the value of agreements it enters into with any one party to within preapproved transactional limits.

Credit risk mitigation

Interest rate limits and fees for credit agreements were changed on 6 May 2016 by the National Credit Regulator. Prior to this date, we charged our Retail bank clients an all-inclusive rate and Capitec insured the loan book against death and retrenchment. We continue to insure our pre-May 2016 loan book through a first-party cell captive structure. Following the changes from May 2016, all loans granted that are greater than 6 months require our Retail bank clients to take out credit life insurance. This protects them against the unfortunate event of retrenchment, temporary or permanent disability and loss of income, and in the case of death, there is no claim against their deceased estate for any amount outstanding. We provide our clients with the option to take out the appropriate credit life insurance through a third-party cell captive.

Collateral and other credit enhancements

The group employs a range of policies and practices to mitigate credit risk for its Business bank clients. The most common of these is accepting collateral for funds advanced. The Business bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Business bank prepares a valuation of the collateral obtained as part of the loan origination process and this assessment is reviewed periodically. The principal collateral types for loans and advances are:

- mortgages over residential and commercial properties
- pledge and session over business assets, such as stock and accounts receivable
- pledge and cession over financial instruments, such as debt securities.

Longer-term finance and lending to small- to medium-sized business and commercial entities are generally secured, while credit card facilities are generally unsecured. The Business bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Business bank since the acquisition date.

A portion of the Business bank's financial assets originated by the mortgage business has sufficiently low loan-to-value ratios. The loss allowance would be reduced as a result of holding collateral.

The Business bank closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Business bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit impaired and related collateral held to mitigate potential losses are detailed in note 9.

33. Financial risk management continued

33.1 Credit risk continued

Measurement of ECL

The key inputs used for measuring ECL are:

- PD
- LGD
- EAD.

PD is an estimate of the likelihood of default over a given time horizon. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact the PD.

The calculation is based on a statistical model that predicts the future repayment performance of clients based on their arrears status, model segment and tenure. Future cash flows and arrears status probabilities are generated from which an ECL provision is calculated. The prediction of future repayment is based on observed roll rates over the last 12 months. Roll rates refer to the rates at which clients transition or roll from a repayment status in a given month to a repayment status in the following month.

LGD is an estimate of the loss arising on default. LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a DCF basis. LGD models for secured business banking products are based on the difference between the contractual cash flows due and those that the group expects to receive, taking into account cash flows from any collateral.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

The EAD is calculated by creating an amortisation structure for each account. This structure includes the expected monthly repayment as well as the projected monthly cumulative repayment status probabilities and the cash flows associated with every repayment status.

The group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The group uses EAD models that reflect the characteristics of the portfolios.

Impairment – measurement of the ECL

The developing and measuring of the group's processes for measuring ECL, including the monitoring of SICR, the incorporation of economic forward-looking information and the methods used to calculate ECL and ensuring that policies and procedures are in place to appropriately maintain and validate models used to measure ECL, are overseen by the group's CCs. The internal audit function performs regular audits to ensure that established controls and procedures are both adequately designed and implemented.

Impairment implementation

Staged approach to the determination of ECL

IFRS 9's ECL model requires the classification and measurement of ECL using the general model for loans and advances measured at amortised cost. In essence, the general model is a 3-stage model. Loans and advances within stage 1 are measured based on a 12-month ECL and a lifetime ECL is determined for loans and advances within stage 2 and stage 3. The 3 stages are disclosed in the accounting policies for the Retail bank and the Business bank.

Significant increase in credit risk

The group considers reasonable and supportable information based on the group's historical experience, credit risk assessment and forward-looking information (including macroeconomic factors) when determining whether the credit risk (i.e. the risk of default) of loans and advances has increased significantly since initial recognition. The assessment of SICR is key in determining when to move from measuring an impairment provision based on a 12-month ECL to one that is based on a lifetime ECL (the move from stage 1 to stage 2). The group's ECL framework aligns with the group's credit granting strategy.

As disclosed in note 9, the group monitors financial debt instruments subject to impairment requirements at each reporting date to determine whether evidence exists that there has been a SICR since initial recognition of the financial instrument. If there has been a SICR, the group will measure the loss allowance based on lifetime rather than 12-month ECL.

In terms of IFRS 9, all loans and advances exposures are assessed at each reporting date (monthly) to determine whether there has been a SICR, in which case an impairment provision equal to the lifetime expected loss is recognised. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the group measures the impairment provision at an amount equal to the 12-month ECL. The group identifies SICR for clients who are up-to-date on their loans, but who have reached certain behaviour risk thresholds or where specific events have occurred that raise a SICR flag. The 12-month ECL is extended to a lifetime ECL for these clients.

The group has set certain behaviour and granting score thresholds for its unsecured Retail bank clients which are used to identify a SICR.

The purpose of the behaviour score in the ECL model is to provide a measure of an existing client's propensity to be in default on a loan after 12 months. The score was built on a client level, utilising Capitec loans and savings account information as well as the credit exposure and repayment behaviour at external credit providers. The behaviour score is updated monthly on all existing loan clients to ensure that Capitec has a consistently updated view of the client.

The updated granting score in the ECL model aims to provide an assessment of SICR on a collective basis for groups of exposure that share similar credit characteristics in order to account for forward-looking information that may not be identified at an individual loan level.

The updated granting view is simply a reinterpretation of the information available at granting date and is not an updated view on the client. Updated client information is incorporated in the behaviour score.

The SICR thresholds are reviewed on an annual basis to ensure that they are able to identify SICR throughout the lifetime of the loan.

The group considers a financial instrument for its Business bank clients to have experienced a SICR if the borrower is on the watch list and/or meets at least one of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value which is expected to increase the risk of default
- Early signs of cash flow or liquidity problems such as delay in servicing of trade creditors and loans.

A backstop is applied and the financial instrument is considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments.

33. Financial risk management continued

33.1 Credit risk continued

Incorporation of forward-looking information

It is a fundamental principle of IFRS 9 that the ECL impairment provision that the group holds against potential future credit losses should not only depend on the health of the economy presently, but should take into account changes to the economic environment in the future.

To capture the effects of changes to the economic environment in the future, the forward-looking model for the Retail bank considers economic variables specific to South Africa that directly impact the group's clients. The group utilises the BER macroeconomic outlook for the country over a planning horizon of at least 4 years. The outlook is provided to the ALCO for review and approval. Refer to note 3.

The current risk assessment framework for the Business bank includes stringent credit risk assessments that are performed during the lifetime of the exposures and it is believed that these will incorporate sufficient forward-looking assessment. Additional ECLs are recognised by way of a management overlay after significant expert consultation with executive management and seasoned credit professionals.

Write-off policy

Under IFRS 9, loans can only be written off when there is no reasonable expectation of recovery. The group therefore applies write-off for retail loans when the present value of projected future recoveries is less than 5% of the gross balance before write-off. Refer to note 2.5.1.2.3.

All recoveries after write-off are recognised as bad debts recovered.

Loans and debt securities for Business bank clients are written off when the group has no reasonable expectation of recovering the financial asset (either in its entirety or a portion of it). This is the case when the group determines that the borrower does not have assets or sources of income that could generate enough cash flows to repay the amounts subject to the write-off. The group may apply enforcement activities to financial assets written off.

The group only invests centrally managed cash surpluses and liquidity buffers in cash and liquid assets with the SARB, NT, South African registered banking entities and money market funds of high credit standing. Potential exposure to concentration credit risk exists principally in cash and cash equivalents and interest-bearing instruments (notes 5 to 8). Concentrations are controlled using ALCO recommended limits which are monitored and enforced by the CC, and monitored and approved by the RCMC. This ensures that the financial assets that the group may place with any one counterparty are limited, by reference to the long-term and short-term credit ratings assigned for that counterparty by Moody's Investors Services Inc. (Moody's).

Credit quality of investments

At the statement of financial position date, the international long-term credit ratings, using Moody's ratings, were as follows:

R'000	Note	GROUP Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	Not rated	Adjust-ment[4]	Total carrying amount
2021								
Cash on hand	5	–	–	–	**2 956 685**	–	–	**2 956 685**
Bank balances – local and foreign[1]	5	**1 035 894**	**292 461**	**412 765**	**15 242 467**	–	**(1 371)**	**16 982 276**
Resale agreements[1]	5	**3 528 326**	–	–	**23 728 172**	–	**(1 067)**	**27 255 431**
Central bank balances[3]	5	–	–	–	**2 098 573**	–	–	**2 098 573**
Money market unit trusts[2]	5	–	–	–	–	**11 511**	–	**11 511**
Government bonds	7	–	–	–	**4 951 239**	–	**(15 596)**	**4 935 643**
Treasury bills (>3 months)	7	–	–	–	**30 110 029**	–	**(52 144)**	**30 057 885**
Collective investment schemes	6	–	–	–	–	**2 969 740**	–	**2 969 740**
Financial investments	8	–	**312 859**	–	–	–	–	**312 859**
SARB settlement and other receivables	10	–	–	–	**396 892**	**552 970**	–	**949 862**
Assets held for sale	11	–	–	–	**987 116**	**524 732**	–	**987 116**
Derivative assets	44	–	–	–	**10 937**	**17 074**	–	**28 011**
		3 820 787	**1 348 753**	**412 765**	**80 482 170**	**4 076 027**	**(70 178)**	**89 545 592**
2020								
Cash on hand	5	–	–	3 132 156	–	–	–	3 132 156
Bank balances – local and foreign[1]	5	740 979	142 181	12 225 527	–	110	(2 031)	13 106 766
Resale agreements[1]	5	–	–	23 482 481	–	607 186	–	24 089 667
Central bank balances[3]	5	–	–	1 863 408	–	–	–	1 863 408
Money market unit trusts[2]	5	–	–	–	–	25 374	–	25 374
Collective investment schemes	6	–	–	–	–	1 529 636	–	1 529 636
Treasury bills (>3 months)	7	–	–	17 215 500	–	–	(8 406)	17 207 094
SARB settlement and other receivables	10	–	–	817 689	–	682 023	–	1 499 712
Net insurance receivable	11	–	–	217 423	–	–	–	217 423
Derivative assets	44	–	–	37 440	–	–	–	37 440
		740 979	142 181	58 991 624	–	2 844 329	(10 437)	62 708 676

[1] *The bank balances and resale agreements were with 27 institutions (2020: 26), with the maximum exposure to 1 institution being R17.2 billion (2020: R14 billion). Balances are rand and foreign currency-denominated.*

[2] *Money market funds consist of money market unit trusts. The placements were with 5 institutions (2020: 4).*

[3] *All central bank balances are with the SARB and include the mandatory reserve deposit requirement.*

[4] *The adjustment relates to ECL. The credit ratings determine the ECL raised.*

33. Financial risk management continued

33.1 Credit risk continued

Credit quality of investments continued

COMPANY

R'000	Note	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	Not rated	Adjust-ment[4]	Total carrying amount
2021*								
Cash on hand	5	–	–	–	2 956 685	–	–	2 956 685
Bank balances – local and foreign[1]	5	1 035 894	292 461	412 797	15 242 467	–	(1 371)	16 982 248
Resale agreements[1]	5	3 528 326	–	–	23 728 172	–	(1 067)	27 255 431
Central bank balances[3]	5	–	–	–	2 098 573	–	–	2 098 573
Money market unit trusts[2]	5	–	–	–	–	11 511	–	11 511
Government bonds	7	–	–	–	4 951 239	–	(15 596)	4 935 643
Treasury bills (>3 months)	7	–	–	–	30 110 029	–	(52 144)	30 057 885
Collective investment schemes	6	–	–	–	–	2 969 740	–	2 969 740
Financial investments	8	–	312 859	–	–	–	–	312 859
SARB settlement and other receivables	10	–	–	–	396 892	492 363	–	889 255
Assets held for sale	11	–	–	–	987 116	524 732	–	987 116
Derivative assets	44	–	–	–	10 937	17 074	–	28 011
		3 820 787	1 348 753	412 797	80 482 110	4 015 420	(70 178)	89 484 957
2020								
Cash on hand	5	–	–	3 107 346	–	–	–	3 107 346
Bank balances – local and foreign[1]	5	–	–	11 309 866	–	110	(1 870)	11 308 106
Resale agreements[1]	5	–	–	23 482 481	–	607 186	–	24 089 667
Central bank balances[3]	5	–	–	1 616 827	–	–	–	1 616 827
Money market unit trusts[2]	5	–	–	–	–	25 374	–	25 374
Collective investment schemes	6	–	–	–	–	1 529 636	–	1 529 636
Treasury bills (>3 months)	7	–	–	16 338 092	–	–	(8 382)	16 329 710
SARB settlement and other receivables	10	–	–	641 044	–	440 671	–	1 081 715
Net insurance receivable	11	–	–	217 423	–	–	–	217 423
Derivative assets	44	–	–	5 713	–	–	–	5 713
		–	–	56 718 792	–	2 602 977	(10 252)	59 311 517

[1] *The bank balances and resale agreements were with 27 institutions (2020: 26), with the maximum exposure to 1 institution being R17.2 billion (2020: R14 billion). Balances are rand and foreign currency-denominated.*
[2] *Money market funds consist of money market unit trusts. The placements were with 5 institutions (2020: 4).*
[3] *All central bank balances are with the SARB and include the mandatory reserve deposit requirement.*
[4] *The adjustment relates to ECL. The credit ratings determine the ECL raised.*
* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

33.2 Interest rate risk

The exposure to interest rate risk is managed within board-approved tolerances. These tolerances are monitored by the RCMC and ALCO and escalated according to tolerance bands. The current group interest rate profile is monitored by the ALCO, which meets monthly and considers the results of management's analysis of the impact of interest rates on the group, including, *inter alia*, the results of various models. The risk arising from volatility in interest rates is lower on a relative basis when compared to other risks in the business due to the higher net interest income margin earned on the retail unsecured lending portfolio.

ALCO only allows derivatives for the hedging of interest rate risk in the funding book. Interest rate swaps are used to convert floating-rate funding to fixed-rate funding with the objective of matching certain fixed-rate assets with fixed-rate liabilities and floating-rate assets with floating-rate liabilities. The nominal amounts and the payment dates of the hedging instrument match the hedged item exactly from the date of the hedge and, as a consequence, there is 100% hedge effectiveness.

To measure interest rate risk, the group aggregates interest rate-sensitive assets and liabilities into defined time bands, in accordance with the respective interest repricing dates. The group uses both dynamic maturity gap and duration analysis, which measures the mismatch level between the average time over which the cash inflows are generated and cash outflows are required. Various reports are prepared taking alternative strategies and interest rate forecasts into consideration. These reports are presented to the ALCO and RCMC on a regular basis.

Cash flow interest rate risk

The group actively manages interest rate risk by minimising its exposure to fixed-rate financial assets, by in part, cash flow hedging elements of its variable rate funding book to a fixed rate. An amount of R1.0 billion (2020: R2.1 billion) is hedged. Interest rate swaps have the economic effect of converting floating-rate debt to fixed-rate debt. The net unmatched position, resulting from the group's exposure to variable rate funding from its retail deposits, exposes the group to cash flow interest rate risk. Fixed rate contractual financial assets, gross of ECL, amount to R110.37 billion (2020: R100.12 billion) and fixed rate financial liabilities amount to R37.84 billion (2020: R35.30 billion).

Sensitivity analysis

The ALCO meets monthly and considers the results of management's analysis of the impact of interest rates on the bank which includes, *inter alia*, the results of various models and the impact of interest rate strategy on the gross margin. The sensitivity analysis below is a run-off analysis and reflects the interest rate repricing impact on the static balances of the statement of financial position of a 200 basis points increase or decrease in the South African interest rate environment. Variable rate sensitive items would be impacted immediately by the interest rate shock and fixed rate items would not be impacted. Funds received from maturing items are assumed to be re-invested at variable market interest rates.

	Impact on income statement	
200 basis points	**2021**	**2020**
R'000	**Pre-tax**	**Pre-tax**
Increase	**(18 535)**	(156 000)
Decrease	**(23 694)**	156 000

* *The current year figures in the above table reflect both Retail and Business bank, whereas the comparative figures reflect Retail bank only. With reference to the comparative figures for Business bank, in the prior year a 50 basis point change in the prevailing interest rates was applied as a sensitivity analysis to determine the impact on earnings as a result of a change in interest rates. If interest rates had increased/decreased by 50 basis points, and all other variables remained constant, the Business bank profit at year-end would have increased by R12.2 million or decreased by R19.4 million, respectively.*

Collective investment scheme investments	Impact on income	
200 basis points	**2021**	**2020**
R'000	**Pre-tax**	**Pre-tax**
Increase	**(16 793)**	(13 387)
Decrease	**15 056**	13 387

The investments at FVTPL were stressed by calculating the impact of a change in market interest rates on the fair value.

33. Financial risk management continued

33.2 Interest rate risk continued

Compliance with the prescribed maximum interest rates

The NCA prescribes the ceilings for the maximum interest rates that may be charged for retail lending. The group operates within the ambit of the NCA ceilings when pricing its retail loans and advances to clients.

33.3 Currency risk

Business bank

The Business bank, in terms of approved limits, manages short-term foreign currency exposures relating to trade imports, exports and interest flows on foreign liabilities.

The group has conservative net open foreign currency position limits that are well below the limits allowed by the SARB. For the year under review, the highest net open position recorded, for any single day, was R43.0 million (2020: R20.6 million).

Sensitivity analysis on post-tax profit with all other variables held constant:

R'000	US dollar	Euro	Pound sterling	Other	Total
2021					
Rand weakens by 10%	**(1 266)**	**(987)**	**141**	**(310)**	**2 422**
Rand strengthens by 10%	**1 266**	**987**	**(141)**	**310**	**2 422**
2020					
Rand weakens by 10%	(480)	(337)	163	(227)	(881)
Rand strengthens by 10%	480	337	(163)	227	881

The lower foreign currency exchange rate sensitivity in profit in 2021 compared with 2020 is attributable to a reduction in foreign currency-denominated debt.

The transaction exposures and foreign exchange contracts at the reporting date are summarised as follows:

R'000	US dollar	Euro	Pound sterling	Other	Total
2021					
Total foreign exchange assets	**1 135**	**305**	**169**	**77**	**1 686**
Total foreign exchange liabilities	**(866)**	**(175)**	**(146)**	**(56)**	**(1 243)**
Commitments to purchase foreign currency	**736**	**285**	**95**	**25**	**1 141**
Commitments to sell foreign currency	**(987)**	**(402)**	**(120)**	**(41)**	**(1 550)**
Year-end effective net open foreign currency positions	**18**	**13**	**(2)**	**5**	**34**
2020					
Total foreign exchange assets	784	151	98	47	1 080
Total foreign exchange liabilities	(696)	(98)	(57)	(33)	(884)
Commitments to purchase foreign currency	354	256	64	22	696
Commitments to sell foreign currency	(435)	(305)	(107)	(33)	(880)
Year-end effective net open foreign currency positions	7	4	(2)	3	12

33.4 Other market risk

Market prices and rates typically include equity, bond and commodity prices, currency exchange and interest rates.

The board determines market risk limits, which are reviewed at least annually or depending on prevailing market conditions.

The group does not currently take proprietary trading positions and, therefore, has minimal exposure to market risk. Should the group consider entering into a proprietary trading position, the trading committee and RCMC will have to evaluate and approve such action. The trading committee will ensure that the group is sensibly positioned, taking into account agreed limits, policies, prevailing market conditions, available liquidity and the risk reward trade-off, mainly in respect of changes in foreign currency exchange rates and interest rates.

Market risk reports are produced on a daily basis, which allows for monitoring against prescribed prudential and regulatory limits. In the event of a limit violation, the assets and liability management (ALM) forum records this and it is immediately corrected and reported to the ALCO. Controls are in place to monitor foreign exchange exposures on a realtime basis through the bank's treasury system. Various conservative prudential risk limits are in place and associated exposures relating thereto are reported to the ALCO, RCMC and the board on a regular basis.

33.5 Liquidity risk

The group manages liquidity cautiously with a low appetite for liquidity risk and operates a conservative maturity profile which is monitored by the ALCO in terms of an approved ALM policy. The maturity profile reflects the deliberate strategy of funding longer-term assets with a significant portion of long-term funding with limited use of core call deposit funding. Our conservative approach at times results in the holding of cash in excess of immediate operational requirements. Funding that is surplus to operational requirements is managed in terms of the liquidity philosophy to ensure that obligations can be met as they become due without incurring unacceptable losses.

The following table analyses the group's assets and liabilities into maturity groupings based on the remaining period, at the statement of financial position date, to the contractual maturity date. The table was prepared on the following basis:

- Asset and liability cash flows are presented on an undiscounted basis with an adjustment to reflect the total discounted result
- The cash flows of floating-rate financial instruments are calculated using published forward market rates at the statement of financial position date
- The cash flows of the derivative financial instruments are included on a gross basis
- Contractual cash flows with respect to items which have not yet been recorded on the statement of financial position are excluded. Refer to note 39
- Adjustments to loans and advances to clients relate to initiation fee income
- Non-cash liabilities, representing leave pay and the straight-lining of operating leases, are disclosed as adjustments to trade and other payables
- Non-contractual loans comprise discounted stage 3 loans and advances that are more than 3 months in arrears, have legal statuses (including debt review), but excluding loans where debt review was applied for less than 6 months ago. It is shown as non-contractual because it is subject to legal collection processes.

Refer to pages 111 to 116 of the integrated annual report for more on management's objectives, policies and processes for managing liquidity risk.

33. Financial risk management continued

33.5 Liquidity risk continued

Maturities of assets and liabilities[(1)(7)]

		GROUP						
R'000	Note	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Non-contractual	Adjustment[(4)]	Total
2021								
Undiscounted assets								
Cash and cash equivalents – sovereigns[(3)]	5	2 098 573	–	–	–	–	–	2 098 573
Cash and cash equivalents – banks[(3)]	5	44 149 054	3 092 811	–	–	–	(2 438)	47 239 427
Financial assets at FVTPL	6	2 969 740	–	–	–	–	–	2 969 740
Assets held for sale	45	1 511 848	–	–	–	–	–	1 511 848
Money market unit trusts – corporate other	5	11 511	–	–	–	–	–	11 511
Financial investments at amortised cost	7	1 961 960	4 700 310	24 657 186	9 049 608	–	(67 740)	40 301 324
Term deposit investments	8	–	315 707	–	–	–	–	315 707
Financial assets – equity instruments at FVOCI	12	–	–	–	69 340	–	–	69 340
Loans and advances – Retail	9	3 286 270	5 442 927	21 599 762	58 474 079	8 528 505	(322 618)	97 008 925
Loans and advances – Business	9	1 699 882	229 933	952 660	2 880 169	359 525	–	6 122 169
Loans and advances – Mortgages	9	90 071	179 173	669 122	6 733 504	399 718	–	8 071 588
Other receivables	10	852 179	–	73 415	38 197	20 000	–	983 791
Derivative assets	44	8 946	10 169	8 896	–	–	–	28 011
Group loan receivable	13	80 864	–	–	–	–	–	80 864
Current income tax asset		–	–	–	–	–	–	–
Undiscounted assets		58 720 898	13 971 030	47 961 041	77 244 897	9 307 748	(392 796)	206 812 818
Adjustments for undiscounted assets		(1 094 711)	(2 086 399)	(8 924 037)	(29 430 222)	–	–	(41 535 369)
Discounted assets								
Loan impairment provision		(1 332 163)	(541 674)	(2 229 974)	(6 236 809)	(7 496 981)	–	(17 837 601)
Total discounted assets		56 294 024	11 342 957	36 807 030	41 577 866	1 810 767	(392 796)	147 439 848
Undiscounted liabilities								
Deposits	19	82 059 400	5 140 685	16 883 049	18 148 115	–	–	122 231 249
Wholesale funding	19	46 527	1 059 877	148 696	1 327 904	–	–	2 583 004
Lease liability	21	42 340	89 627	395 852	3 047 518	–	–	3 575 337
Current income tax liabilities		–	159 520	–	–	–	–	159 520
Trade and other payables	20	1 873 236	269 779	463 585	392 443	–	–	2 999 043
Derivative liability	44	10 567	14 489	20 639	22 108	–	–	67 803
Group loans payable	24	2 918	–	–	–	–	–	2 918
Employee benefit liabilities	23	–	–	38 479	100 947	–	–	139 426
Undiscounted liabilities		84 034 988	6 733 977	17 950 300	23 039 035	–	–	131 758 300
Adjustments for undiscounted liabilities		(31 596)	(188 277)	(976 601)	(3 763 531)	–	–	(4 960 005)
Total discounted liabilities		84 003 392	6 545 700	16 973 699	19 275 504	–	–	126 798 295
Net liquidity excess/(shortfall)[(5)(6)]		(26 646 253)	6 695 379	27 780 767	47 969 053	1 810 767	(392 796)	57 216 917
Cumulative liquidity excess/(shortfall)[(2)(6)]		(26 646 253)	(19 950 874)	7 829 893	55 798 946	57 609 713	57 216 917	57 216 917

					GROUP			
R'000	Note	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Non-contractual	Adjust-ment[4]	Total
2020								
Undiscounted assets								
Cash and cash equivalents – sovereigns[3]	5	1 888 217	–	–	–	–	–	1 888 217
Cash and cash equivalents – banks[3]	5	32 466 117	7 952 820	–	–	–	(2 031)	40 416 906
Financial assets at FVTPL	6	1 504 262	–	–	–	–	–	1 504 262
Money market unit trusts – corporate other	5	25 374	–	–	–	–	–	25 374
Financial investments at amortised cost	7	1 524 950	3 305 000	12 917 250	–	–	(8 406)	17 738 794
Financial assets – equity instruments at FVOCI	12	–	–	–	101 139	–	–	101 139
Loans and advances – Retail	9	3 614 359	5 793 821	23 033 552	62 047 547	7 280 001	(500 502)	101 268 778
Loans and advances – Business	9	1 704 903	225 190	911 908	2 605 084	268 710	–	5 715 795
Loans and advances – Mortgages	9	95 312	189 920	741 683	7 710 254	311 822	–	9 048 991
Other receivables	10	1 310 799	144 013	315 253	37 259	–	–	1 807 324
Net insurance receivables		–	–	217 423	–	–	–	217 423
Derivative assets	44	16 894	9 736	7 940	2 870	–	–	37 440
Group loan receivable	13	15 257	–	–	–	–	–	15 257
Current income tax asset		–	–	4 554	–	–	–	4 554
Undiscounted assets		44 166 444	17 620 500	38 149 563	72 504 153	7 860 533	(510 939)	179 790 254
Adjustments for undiscounted assets		(1 200 603)	(2 434 247)	(9 437 411)	(27 824 391)	–	–	(40 896 652)
Discounted assets								
Loan impairment provision		(575 772)	(413 147)	(1 728 497)	(4 635 711)	(6 387 052)	–	(13 740 179)
Total discounted assets		42 390 069	14 773 106	26 983 655	40 044 051	1 473 481	(510 939)	125 153 423
Undiscounted liabilities								
Deposits	19	65 978 611	4 627 016	15 794 182	17 187 494	–	–	103 587 303
Wholesale funding	19	50 113	1 044 589	985 133	2 029 294	–	–	4 109 129
Lease liability	21	45 898	88 979	400 514	3 592 629	–	–	4 128 020
Current income tax liabilities		–	14 345	–	–	–	–	14 345
Trade and other payables	20	1 667 077	600 547	21 207	258 026	–	85 261	2 632 118
Derivative liability	44	11 655	16 973	21 024	13 673	–	–	63 325
Group loan payable	24	70 251	–	–	–	–	–	70 251
Employee benefit liabilities	23	17 234	44 175	–	109 801	–	–	171 210
Undiscounted liabilities		67 840 839	6 436 624	17 222 060	23 190 917	–	85 261	114 775 701
Adjustments for undiscounted liabilities		(35 827)	(233 542)	(1 208 567)	(4 211 428)	–	–	(5 689 364)
Total discounted liabilities		67 805 012	6 203 082	16 013 493	18 979 489	–	85 261	109 086 337
Net liquidity excess/(shortfall)[5][6]		(24 250 167)	10 770 729	19 199 006	44 677 525	1 473 481	(596 200)	51 274 374
Cumulative liquidity excess/ (shortfall)[2][6]		(24 250 167)	(13 479 438)	5 719 568	50 397 093	51 870 574	51 274 374	51 274 374

33. Financial risk management continued

33.5 Liquidity risk continued

Maturities of assets and liabilities[1][7] continued

R'000	Note	COMPANY Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Non-contractual	Adjustment[4]	Total
2021								
Undiscounted assets								
Cash and cash equivalents – sovereigns[3]	5	2 098 573	–	–	–	–	–	2 098 573
Cash and cash equivalents – banks[3]	5	44 149 026	3 092 811	–	–	–	(2 438)	47 239 399
Financial assets at FVTPL	6	2 969 740	–	–	–	–	–	2 969 740
Assets held for sale	45	1 511 848						1 511 848
Money market unit trusts – corporate other	5	11 511	–	–	–	–	–	11 511
Financial investments at amortised cost	7	1 961 960	4 700 310	24 657 186	9 049 608	–	(67 740)	40 301 324
Term deposit investments	8	–	315 707	–	–	–	–	315 707
Financial assets – equity instruments at FVOCI	12	–	–	–	69 340	–	–	69 340
Loans and advances – Retail	9	3 286 270	5 442 927	21 599 762	58 474 079	8 528 505	(322 618)	97 008 925
Loans and advances – Business	9	1 653 020	137 699	571 283	2 019 772	298 274	–	4 680 048
Loans and advances – Mortgages	9	90 071	179 173	669 122	6 733 504	399 718	–	8 071 588
Other receivables	10	791 572	–	73 415	38 197	20 000	–	923 184
Derivative assets	44	8 946	10 169	8 896	–	–	–	28 011
Group loan receivable	13	1 100 001						1 100 001
Current income tax asset		–	–	–	–	–	–	–
Undiscounted assets		59 632 538	13 878 796	47 579 664	76 384 500	9 246 497	(392 796)	206 329 199
Adjustments for undiscounted assets		(1 085 836)	(2 065 916)	(8 846 029)	(29 320 551)	–	–	(41 318 332)
Discounted assets								
Loan impairment provision		(1 330 969)	(539 273)	(2 219 374)	(6 208 634)	(7 444 539)	–	(17 742 789)
Total discounted assets		57 215 733	11 273 607	36 514 261	40 855 315	1 801 958	(392 796)	147 268 078
Undiscounted liabilities								
Deposits	19	82 200 260	5 140 685	16 883 049	18 148 115	–	–	122 372 109
Wholesale funding	19	46 527	1 059 877	148 696	1 327 904	–	–	2 583 004
Lease liability	21	42 217	89 381	394 725	3 047 245	–	–	3 573 568
Current income tax liabilities		–	159 214	–	–	–	–	159 214
Trade and other payables	20	1 810 078	269 779	463 585	392 443	–	–	2 935 885
Derivative liability	44	10 566	14 489	20 640	22 108	–	–	67 803
Group loans payable	24	4 230						4 230
Employee benefit liabilities	23	–	–	36 639	100 947	–	–	137 586
Undiscounted liabilities		84 113 878	6 733 425	17 947 334	23 038 762	–	–	131 833 399
Adjustments for undiscounted liabilities		(31 595)	(188 277)	(976 601)	(3 763 326)	–	–	(4 959 799)
Total discounted liabilities		84 082 283	6 545 148	16 970 733	19 275 436	–	–	126 873 600
Net liquidity excess/(shortfall)[5][6]		(25 812 309)	6 606 098	27 412 956	47 137 104	1 801 958	(392 796)	56 753 011
Cumulative liquidity excess/(shortfall)[2][6]		(25 812 309)	(19 206 211)	8 206 745	55 343 849	57 145 807	56 753 011	56 753 011

R'000	Note	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Non-contractual	Adjust-ment[4]	Total
					COMPANY			
2020								
Undiscounted assets								
Cash and cash equivalents – sovereigns[3]	5	1 616 827	–	–	–	–	–	1 616 827
Cash and cash equivalents – banks[3]	5	30 667 295	7 952 820	–	–	–	(1 870)	38 618 245
Financial assets at FVTPL	6	1 504 262	–	–	–	–	–	1 504 262
Money market unit trusts – corporate other	5	25 374	–	–	–	–	–	25 374
Financial investments at amortised cost	7	1 434 950	3 155 000	12 249 110	–	–	(8 382)	16 830 678
Financial assets – equity instruments at FVOCI	12	–	–	–	100 000	–	–	100 000
Loans and advances – Retail	9	3 614 359	5 793 821	23 033 552	62 047 547	7 280 001	(500 502)	101 268 778
Other receivables	10	892 807	144 013	315 253	37 259			1 389 332
Net insurance receivables		–	–	217 423	–	–	–	217 423
Derivative assets	44	2 843	–	–	2 870	–	–	5 713
Group loan receivable	13	215 257	–	–	–	–	–	215 257
Undiscounted assets		39 973 974	17 045 654	35 815 338	62 187 676	7 280 001	(510 754)	161 791 889
Adjustments for undiscounted assets		(1 127 624)	(2 289 802)	(8 825 270)	(24 203 782)	–	–	(36 446 478)
Discounted assets								
Loan impairment provision		(546 957)	(408 692)	(1 710 212)	(4 560 360)	(6 198 490)	–	(13 424 711)
Total discounted assets		38 299 393	14 347 160	25 279 856	33 423 534	1 081 511	(510 754)	111 920 700
Undiscounted liabilities								
Deposits	19	56 798 966	3 523 822	15 464 503	15 495 150	–	–	91 282 441
Wholesale funding	19	42 210	1 044 589	732 158	1 909 339	–	–	3 728 296
Lease liability	21	45 090	87 558	394 960	3 586 390	–	–	4 113 998
Current income tax liabilities		–	14 345	–	–	–	–	14 345
Trade and other payables	20	1 291 369	600 547	21 207	258 026	–	85 261	2 256 410
Derivative liability	44	–	5 328	14 319	13 673	–	–	33 320
Group loans payable	24	2 182 864	–	–	–	–	–	2 182 864
Employee benefit liabilities	23	–	–	–	109 801	–	–	109 801
Undiscounted liabilities		60 360 499	5 276 189	16 627 147	21 372 379	–	85 261	103 721 475
Adjustments for undiscounted liabilities		(34 794)	(225 911)	(1 183 282)	(4 067 935)	–	–	(5 511 922)
Total discounted liabilities		60 325 705	5 050 278	15 443 865	17 304 444	–	85 261	98 209 553
Net liquidity excess/(shortfall)[5][6]		(20 933 482)	11 360 773	17 477 979	36 254 937	1 081 511	(596 015)	44 645 703
Cumulative liquidity excess/(shortfall)[2][6]		(20 933 482)	(9 572 709)	7 905 270	44 160 207	45 241 718	44 645 703	44 645 703

33. Financial risk management continued

33.5 Liquidity risk continued

Maturities of assets and liabilities[(1)(7)] continued

		GROUP						
R'000	Note	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years	Total
2021								
Undiscounted assets								
Financial investments at amortised cost	7	395 680	396 601	395 844	230 308	7 631 175	–	9 049 608
Financial assets – equity instruments at FVOCI	12	–	–	–	69 340	–	–	69 340
Loans and advances – Retail	9	22 313 620	15 640 626	10 339 293	6 739 873	3 440 667	–	58 474 079
Loans and advances – Business	9	1 010 421	770 506	522 539	282 879	209 492	84 332	2 880 169
Loans and advances – Mortgages	9	805 182	777 054	713 741	638 066	2 180 374	1 619 087	6 733 504
Other receivables	10	29 791	6 059	2 347	–	–	–	38 197
Derivative assets	44	–	–	–	–	–	–	–
Undiscounted assets		24 554 694	17 590 846	11 973 764	7 960 466	13 461 708	1 703 419	77 244 897
Adjustments for undiscounted assets		(8 111 463)	(5 850 899)	(4 540 880)	(4 002 174)	(6 526 380)	(398 426)	(29 430 222)
Discounted assets								
Loan impairment provision		(2 489 872)	(1 793 766)	(1 116 398)	(557 224)	(253 774)	(25 775)	(6 236 809)
Total discounted assets		13 953 359	9 946 181	6 316 486	3 401 068	6 681 554	1 279 218	41 577 866
Undiscounted liabilities								
Deposits	19	8 897 166	3 194 580	3 401 341	2 654 336	692	–	18 148 115
Wholesale funding	19	259 720	216 632	697 232	133 793	20 527	–	1 327 904
Lease liability	21	516 452	495 592	452 051	433 127	1 113 869	36 427	3 047 518
Trade and other payables	20	163 926	64 562	36 147	17 094	110 714	–	392 443
Derivative liability	44	13 537	7 730	841	–	–	–	22 108
Employee benefit liabilities	23	3 239	61 737	25 323	7 407	3 241	–	100 947
Undiscounted liabilities		9 854 040	4 040 833	4 612 935	3 245 757	1 249 043	36 427	23 039 035
Adjustments for undiscounted liabilities		(1 074 607)	(733 525)	(733 902)	(585 343)	(611 077)	(25 077)	(3 763 531)
Total discounted liabilities		8 779 433	3 307 308	3 879 033	2 660 414	637 966	11 350	19 275 504
Net liquidity excess/(shortfall)[(5)(6)]		12 210 782	11 756 247	6 244 431	4 157 485	11 958 891	1 641 217	47 969 053
Cumulative liquidity excess/(shortfall)[(2)(6)]		20 040 675	31 796 922	38 041 353	42 198 838	54 157 729	55 798 946	55 798 946

R'000	Note	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years	Total
				GROUP				
2020								
Undiscounted assets								
Loans and advances – Retail	9	23 820 821	16 803 046	10 840 862	7 002 923	3 579 895	–	62 047 547
Loans and advances – Business	9	987 670	705 617	440 745	187 646	186 190	97 216	2 605 084
Loans and advances – Mortgages	9	872 730	843 034	806 292	747 739	2 525 191	1 915 268	7 710 254
Other receivables	10	22 794	6 059	6 059	2 347	–	–	37 259
Financial assets – equity instruments at FVOCI	12	–	–	–	–	–	101 139	101 139
Derivative assets	44	2 870	–	–	–	–	–	2 870
Undiscounted assets		25 706 885	18 357 756	12 093 958	7 940 655	6 291 276	2 113 623	72 504 153
Adjustments for undiscounted assets		(8 641 707)	(6 005 665)	(4 429 336)	(4 068 487)	(4 035 716)	(643 480)	(27 824 391)
Discounted assets								
Loan impairment provision		(1 923 415)	(1 371 436)	(815 958)	(390 586)	(129 057)	(5 259)	(4 635 711)
Total discounted assets		15 141 763	10 980 655	6 848 664	3 481 582	2 126 503	1 464 884	40 044 051
Undiscounted liabilities								
Deposits	19	8 627 342	3 646 241	2 329 142	2 584 752	17	–	17 187 494
Wholesale funding	19	1 234 886	136 912	92 056	565 440	–	–	2 029 294
Lease liability	21	532 012	523 854	509 770	489 031	1 448 271	89 691	3 592 629
Trade and other payables	20	132 693	71 461	33 892	14 548	5 432	–	258 026
Derivative liability	44	7 753	4 144	1 712	64	–	–	13 673
Employee benefit liabilities	23	65 992	39 113	2 349	2 347	–	–	109 801
Undiscounted liabilities		10 600 678	4 421 725	2 968 921	3 656 182	1 453 720	89 691	23 190 917
Adjustments for undiscounted liabilities		(1 251 003)	(792 919)	(649 656)	(715 108)	(748 328)	(54 414)	(4 211 428)
Total discounted liabilities		9 349 675	3 628 806	2 319 265	2 941 074	705 392	35 277	18 979 489
Net liquidity excess/(shortfall)[(5)(6)]		13 182 792	12 564 595	8 309 079	3 893 887	4 708 499	2 018 673	44 677 525
Cumulative liquidity excess/(shortfall)[(2)(6)]		18 902 360	31 466 955	39 776 034	43 669 921	48 378 420	50 397 093	50 397 093

33. Financial risk management continued

33.5 Liquidity risk continued

Maturities of assets and liabilities[1][7] continued

		COMPANY						
R'000	Note	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years	Total
2021								
Undiscounted assets								
Financial investments at amortised cost	7	395 680	396 601	395 844	230 308	7 631 175	–-	9 049 608
Financial assets – equity instruments at FVOCI	12	–	–	–	69 340	–	–	69 340
Loans and advances – Retail	9	22 313 620	15 640 626	10 339 293	6 739 873	3 440 667	–	58 474 079
Loans and advances – Business	9	603 239	500 475	380 708	241 919	209 099	84 332	2 019 772
Loans and advances – Mortgages	9	805 182	777 054	713 741	638 066	2 180 374	1 619 087	6 733 504
Other receivables	10	29 791	6 059	2 347	–	–	–	38 197
Derivative assets	44	–	–	–	–	–	–	–
Undiscounted assets		24 147 512	17 320 815	11 831 933	7 919 506	13 461 315	1 703 419	76 384 500
Adjustments for undiscounted assets		(8 046 740)	(5 818 927)	(4 529 686)	(4 000 424)	(6 526 348)	(398 426)	(29 320 551)
Discounted assets								
Loan impairment provision		(2 477 510)	(1 784 690)	(1 111 107)	(555 791)	(253 761)	(25 775)	(6 208 634)
Total discounted assets		13 623 262	9 717 198	6 191 140	3 363 291	6 681 206	1 279 218	40 855 315
Undiscounted liabilities								
Deposits	19	8 897 166	3 194 580	3 401 341	2 654 336	692	–	18 148 115
Wholesale funding	19	259 720	216 632	697 232	133 793	20 527	–	1 327 904
Lease liability	21	515 710	493 636	453 870	433 733	1 113 869	36 427	3 047 245
Trade and other payables	20	163 926	64 562	36 147	17 094	110 714	–	392 443
Derivative liability	44	13 537	7 730	841	–	–	–	22 108
Employee benefit liabilities	23	3 239	61 737	25 323	7 407	3 241	–	100 947
Undiscounted liabilities		9 853 298	4 038 877	4 614 754	3 246 363	1 249 043	36 427	23 038 762
Adjustments for undiscounted liabilities		(1 074 401)	(733 525)	(733 902)	(585 344)	(611 077)	(25 077)	(3 763 326)
Total discounted liabilities		8 778 897	3 305 352	3 880 852	2 661 019	637 966	11 350	19 275 436
Net liquidity excess/(shortfall)[5][6]		11 816 704	11 497 248	6 106 072	4 117 352	11 958 511	1 641 217	47 137 104
Cumulative liquidity excess/(shortfall)[2][6]		20 023 449	31 520 697	37 626 769	41 744 121	53 702 632	55 343 849	55 343 849

R'000	Note	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	More than 10 years	Total
					COMPANY			
2020								
Undiscounted assets								
Loans and advances – Retail	9	23 820 821	16 803 046	10 840 862	7 002 923	3 579 895	–	62 047 547
Other receivables	10	22 794	6 059	6 059	2 347	–	–	37 259
Financial assets – equity instruments at FVOCI	12	–	–	–	–	–	100 000	100 000
Derivative assets	44	2 870	–	–	–	–	–	2 870
Undiscounted assets		23 846 485	16 809 105	10 846 921	7 005 270	3 579 895	100 000	62 187 676
Adjustments for undiscounted assets		(7 993 891)	(5 485 651)	(4 013 134)	(3 730 186)	(2 980 920)	–	(24 203 782)
Discounted assets								
Loan impairment provision		(1 901 585)	(1 353 399)	(801 767)	(382 798)	(120 811)	–	(4 560 360)
Total discounted assets		13 951 009	9 970 055	6 032 020	2 892 286	478 164	100 000	33 423 534
Undiscounted liabilities								
Deposits	19	6 942 349	3 638 890	2 329 142	2 584 752	17	–	15 495 150
Wholesale funding	19	1 114 931	136 912	92 056	565 440	–		1 909 339
Lease liability	21	132 693	71 461	33 892	14 548	5 432	–	258 026
Trade and other payables	20	528 892	520 735	509 770	489 031	1 448 271	89 691	3 586 390
Derivative liability	44	7 753	4 144	1 712	64	–	–	13 673
Employee benefit liabilities	23	65 992	39 113	2 349	2 347	–	–	109 801
Undiscounted liabilities		8 792 610	4 411 255	2 968 921	3 656 182	1 453 720	89 691	21 372 379
Adjustments for undiscounted liabilities		(1 108 908)	(791 521)	(649 656)	(715 108)	(748 328)	(54 414)	(4 067 935)
Total discounted liabilities		7 683 702	3 619 734	2 319 265	2 941 074	705 392	35 277	17 304 444
Net liquidity excess/(shortfall)(5)(6)		13 152 290	11 044 451	7 076 233	2 966 290	2 005 364	10 309	36 254 937
Cumulative liquidity excess/(shortfall)(2)(6)		21 057 560	32 102 011	39 178 244	42 144 534	44 149 898	44 160 207	44 160 207

(1) For the company, the contractual maturity of the financial assets and liabilities are all on demand to 1 month.

(2) Much of the liquidity shortfall in the demand to 3-month categories results from the investment of excess cash in treasury bills with maturities in excess of 3 months. These instruments are highly liquid and can be converted to cash should the need arise.

(3) The definitions of sovereign, banks, corporate and retail are aligned with the Banks Act Regulations.

(4) The adjustment includes adjustments to loan origination fees, leave pay provision, deferred income, the straight-lining of lease accruals and ECL.

(5) Calculated as undiscounted assets net of loan impairment provision ECL less undiscounted liabilities (2020: Rnil).

(6) Off-balance sheet guarantees for the Business bank to the value of R582 million (2020: R639 million) and irrevocable loan commitments to the value of R5 139 million (2020: R1 825 million) that have a maturity of demand to 1 month have not been included above.

(7) Assets and liabilities other than financial assets and liabilities are included in the analysis to provide a holistic view of liquidity management.

33. Financial risk management continued

33.6 Gains and losses per category of financial assets and financial liabilities

		GROUP					
		FVTPL		FVOCI	At amortised cost		
R'000	Note	Held for trading	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Total
2021							
Interest income	27	–	–	–	16 543 542	–	16 543 542
Interest income and gains from income funds		–	113 687	–	–	–	113 687
Interest expense	27	–	–	–	–	(4 988 735)	(4 988 735)
Loan fee income	27	–	–	–	968 657	–	968 657
Loan fee expense	27	–	–	–	(71 405)	–	(71 405)
Transaction fee income	27	–	–	–	–	12 039 376	12 039 376
Transaction fee expense		–	–	–	–	(3 331 855)	(3 331 855)
Fair value gains/(losses) on derivatives designated as hedges		–	–	46 517	–	–	46 517
Foreign currency income		409 165	–	–	–	–	409 165
Credit impairment losses	28	–	–	–	(7 824 721)	–	(7 824 721)
2020							
Interest income	27	–	–	–	17 039 818	–	17 039 818
Interest income and gains from income funds		–	9 495	–	–	–	9 495
Interest expense	27	–	–	–	–	(5 679 848)	(5 679 848)
Loan fee income	27	–	–	–	979 624	–	979 624
Loan fee expense	27	–	–	–	(90 186)	–	(90 186)
Transaction fee income	27	–	–	–	–	10 262 549	10 262 549
Transaction fee expense		–	–	–	–	(2 846 923)	(2 846 923)
Fair value gains/(losses) on derivatives		–	5 713	15 377	–	–	21 090
Foreign currency income		38 691	–	–	–	–	38 691
Credit impairment losses	28	–	–	–	(4 473 670)	–	(4 473 670)

R'000	Note	FVTPL Held for trading	FVTPL Financial assets	FVOCI Financial liabilities	At amortised cost Financial assets	At amortised cost Financial liabilities	Total
		COMPANY					
2021*							
Interest income	27	**–**	**–**	**–**	**15 806 868**	**–**	**15 806 868**
Interest income and gains from income funds	6	**–**	**113 687**	**–**	**–**	**–**	**113 687**
Interest expense	27	**–**	**–**	**–**	**–**	**(4 720 119)**	**(4 720 119)**
Loan fee income	27	**–**	**–**	**–**	**967 902**	**–**	**967 902**
Loan fee expense	27	**–**	**–**	**–**	**(71 405)**	**–**	**(71 405)**
Transaction fee income	27	**–**	**–**	**–**	**–**	**11 635 413**	**11 635 413**
Transaction fee expense		**–**	**–**	**–**	**–**	**(3 106 058)**	**(3 106 058)**
Fair value gains/(losses) on derivatives		**–**	**–**	**46 517**	**–**	**–**	**46 517**
Foreign currency income		**128 623**	**–**	**–**	**–**	**–**	**128 623**
Credit impairment losses	28	**–**	**–**	**–**	**(7 566 192)**	**–**	**(7 566 192)**
2020							
Interest income	27	–	–	–	16 579 870	–	16 579 870
Interest income and gains from income funds		–	9 495	–	–	–	9 495
Interest expense	27	–	–	–	–	(5 444 434)	(5 444 434)
Loan fee income	27	–	–	–	975 456	–	975 456
Loan fee expense	27	–	–	–	(90 186)	–	(90 186)
Transaction fee income	27	–	–	–	–	10 094 767	10 094 767
Transaction fee expense		–	–	–	–	(2 735 988)	(2 735 988)
Fair value gains/(losses) on derivatives		–	5 713	15 377	–	–	21 090
Credit impairment losses	28	–	–	–	(4 360 286)		(4 360 286)

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

33.7 Fair value hierarchy and classification of financial assets and financial liabilities

Valuation processes

Determination of fair values and valuation processes

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

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

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

33. Financial risk management continued

33.7 Fair value hierarchy and classification of financial assets and financial liabilities continued

Valuation processes continued

Hierarchy of fair value of financial instruments

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

The fair value hierarchy is applied to both those assets and liabilities measured at FVTPL and those measured using amortised cost. The table below summarises the classification of financial assets and financial liabilities and their fair values.

GROUP

		At FVTPL			At FVOCI	At amortised cost				
R'000	**Note**	Financial assets	Held for trading	As hedging instrument	Financial assets	Financial assets	Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2021										
Financial assets										
Cash, cash equivalents and money market funds	5	–	–	–	–	49 304 476	–	49 304 476	49 304 476	Level 2[(2)]
Financial assets at FVTPL	6	2 969 740	–	–	–	–	–	2 969 740	2 969 740	Level 2
Term deposit investments[(2)]	8	–	–	–	–	312 859	–	312 859	312 859	Level 2
Financial investments at amortised cost	7	–	–	–	–	34 993 528	–	34 993 528	34 814 623	Level 2
Financial assets – equity instruments at FVOCI	12	–	–	–	69 340	–	–	69 340	69 340	Level 3
Net loans and advances – Retail	9	–	–	–	–	46 797 998	–	46 797 998	47 555 300	Level 3
Net loans and advances – Business	9	–	–	–	–	4 972 253	–	4 972 253	4 972 253	Level 3
Net loans and advances – Mortgage	9	–	–	–	–	5 415 140	–	5 415 140	5 415 140	Level 3
Other receivables	10	–	–	–	–	983 791	–	983 791	983 791	Level 2[(2)]
Derivative assets[(1)]	44	–	28 011	–	–	–	–	28 011	28 011	Level 2
Group loans receivable	13	–	–	–	–	80 864	–	80 864	80 864	
Financial liabilities										
Deposits and bonds		–	–	–	–	–	120 908 428	120 908 428	120 833 056	
Listed bonds	19	–	–	–	–	–	1 519 970	1 519 970	1 509 439	Level 2
Unlisted fixed-term institutional deposits	19	–	–	–	–	–	856 076	856 076	868 947	Level 2
Deposits	19	–	–	–	–	–	118 532 382	118 532 382	118 454 670	Level 2
Derivative liabilities[(1)]	44	–	20 710	44 879	–	–	–	65 589	65 589	Level 2
Group loans payable	24	–	–	–	–	–	2 918	2 918	2 918	
Trade and other payables	20	–	–	–	–	–	1 730 917	1 730 917	1 730 917	Level 2[(2)]

[(1)] *Cash flow and economic hedges.*

[(2)] *The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms.*

* *For the company assets and liabilities, their fair values closely approximate their carrying amounts due to their short-term or on-demand repayment terms.*

		GROUP							
		At FVTPL		**At FVOCI**	**At amortised cost**				
R'000	**Note**	**Financial assets**	**As hedging instrument**	**Financial assets**	**Financial assets**	**Financial liabilities**	**Total**	**Fair value**	**Hierarchy of valuation technique**
2020									
Financial assets									
Cash, cash equivalents and money market funds	5	–	–	–	42 217 371	–	42 217 371	42 217 371	Level 2[(2)]
Financial assets at FVTPL	6	1 504 262	–	–	–	–	1 504 262	1 504 262	Level 2
Financial investments at amortised cost	7	–	–	–	17 207 094	–	17 207 094	17 207 094	Level 2
Financial assets – equity instruments at FVOCI	12	–	–	101 139	–	–	101 139	101 139	Level 3
Net loans and advances – Retail	9	–	–	–	52 011 683	–	52 011 683	52 246 075	Level 3
Net loans and advances – Business	9	–	–	–	4 708 370	–	4 708 370	4 708 370	Level 3
Net loans and advances – Mortgage	9	–	–	–	5 321 506	–	5 321 506	5 321 506	Level 3
Other receivables	10	–	–	–	1 807 324	–	1 807 324	1 807 324	Level 2[(2)]
Derivative assets[(1)]	44	–	37 440	–	–	–	37 440	37 440	Level 2
Group loans receivable	13	–	–	–	15 257	–	15 257	15 257	
Financial liabilities									
Deposits and bonds		–	–	–	–	103 342 776	103 342 776	103 762 600	
Listed bonds	19	–	–	–	–	2 989 725	2 989 725	3 020 331	Level 2
Unlisted fixed-term institutional deposits	19	–	–	–	–	703 944	703 944	714 040	Level 2
Deposits	19	–	–	–	–	99 649 107	99 649 107	100 028 229	Level 2
Derivative liabilities[(1)]	44	–	61 034	–	–	–	61 034	61 034	Level 2
Group loan payable	24	–	–	–	–	70 251	70 251	70 251	
Trade and other payables	20	–	–	–	–	1 305 959	1 305 959	1 305 959	Level 2[(2)]

[(1)] *Cash flow and economic hedges.*

[(2)] *The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms.*

* *For the company assets and liabilities, their fair values closely approximate their carrying amounts due to their short-term or on-demand repayment terms.*

33. Financial risk management continued

33.7 Fair value hierarchy and classification of financial assets and financial liabilities continued

Valuation processes continued

Hierarchy of fair value of financial instruments continued

COMPANY*

R'000	Note	At FVTPL Financial assets	At FVTPL Held for trading	At FVTPL As hedging instrument	At FVOCI Financial assets	At amortised cost Financial assets	At amortised cost Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2021*										
Financial assets										
Cash, cash equivalents and money market funds	5	–	–	–	–	49 304 448	–	49 304 448	49 304 448	Level 2[(2)]
Financial assets at FVTPL	6	2 969 740	–	–	–	–	–	2 969 740	2 969 740	Level 2
Term deposit investments[(3)]	8	–	–	–	–	312 859	–	312 859	312 859	Level 2
Financial investments at amortised cost	7	–	–	–	–	34 993 528	–	34 993 528	34 814 623	Level 2
Financial assets – equity instruments at FVOCI	12	–	–	–	69 340	–	–	69 340	69 340	Level 3
Net loans and advances – Retail	9	–	–	–	–	46 797 998	–	46 797 998	47 555 300	Level 3
Net loans and advances – Business	9	–	–	–	–	3 841 999	–	4 214 284	4 214 284	Level 3
Net loans and advances – Mortgage	9	–	–	–	–	5 415 140	–	5 415 140	5 415 140	Level 3
Other receivables	10	–	–	–	–	923 184	–	923 184	923 184	Level 2[(2)]
Derivative assets[(1)]	44	–	28 011	–	–	–	–	28 011	28 011	Level 2
Group loans receivable	13	–	–	–	–	1 100 001	–	1 100 001	1 100 001	
Financial liabilities										
Deposits and bonds		–	–	–	–	–	121 049 408	121 049 408	120 833 056	
Listed bonds	19	–	–	–	–	–	1 519 970	1 519 970	1 509 439	Level 2
Unlisted fixed-term institutional deposits	19	–	–	–	–	–	856 076	856 076	868 947	Level 2
Deposits	19	–	–	–	–	–	118 673 362	118 673 362	118 454 670	Level 2
Derivative liabilities[(1)]	44	–	20 710	44 879	–	–	–	65 589	65 589	Level 2
Group loans payable	24	–	–	–	–	–	4 230	4 230	4 230	
Trade and other payables	20	–	–	–	–	–	1 669 021	1 669 021	1 669 021	Level 2[(2)]

[(1)] *Cash flow and economic hedges.*
[(2)] *The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms.*
* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

COMPANY*

R'000	Note	At FVTPL: Financial assets	At FVTPL: As hedging instrument	At FVOCI: Financial assets	At amortised cost: Financial assets	At amortised cost: Financial liabilities	Total	Fair value	Hierarchy of valuation technique
2020									
Financial assets									
Cash, cash equivalents and money market funds	5	–	–	–	40 147 320	–	40 147 320	40 147 320	Level 2[(2)]
Financial assets at FVTPL	6	1 504 262	–	–	–	–	1 504 262	1 504 262	Level 2
Financial investments at amortised cost	7	–	–	–	16 329 710	–	16 329 710	16 329 710	Level 2
Financial assets – equity instruments at FVOCI	12	–	–	100 000	–	–	100 000	100 000	Level 3
Net loans and advances – Retail	9	–	–	–	52 011 683	–	52 011 683	52 246 075	Level 3
Other receivables	10	–	–	–	1 389 332	–	1 389 332	1 389 332	Level 2[(2)]
Derivative assets[(1)]	44	–	5 713	–		–	5 713	5 713	Level 2
Group loan receivable	13	–	–	–	215 257	–	215 257	215 257	
Financial liabilities									
Deposits and bonds		–	–	–	–	90 833 216	90 833 216	91 253 039	
Listed bonds	19	–	–	–	–	2 989 725	2 989 725	3 020 331	Level 2
Unlisted fixed-term institutional deposits	19	–	–	–	–	346 561	346 561	356 656	Level 2
Deposits	19	–	–	–	–	87 496 930	87 496 930	87 876 052	Level 2
Derivative liabilities[(1)]	44	–	31 029	–	–	–	31 029	31 029	Level 2
Group loan payable	24	–	–	–	–	2 182 864	2 182 864	2 182 864	
Trade and other payables	20	–	–	–	–	946 541	946 541	946 541	Level 2[(2)]

(1) Cash flow and economic hedges.

(2) The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms.

(3) Term deposit investments are short-term.

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

33. Financial risk management continued

33.8 Fair value calculation methods, inputs and techniques

Fair values of assets and liabilities reported in this note were market-based to reflect the perspective of a market participant.

Item and description	Valuation technique
Retail loans and advances	The expected present value technique was applied, discounting probability weighted cash flows at a discount rate that ensures that no day-1 fair value gain or loss arises on new loans. This considers that loans are granted at market-related rates at the time of the initiation. The level 3 fair value disclosed for loans and advances required the use of significant judgement by management in determining what a market-based valuation would be. An income approach was used, which calculated an expected present value in terms of a discount rate for a hypothetical market participant applied to the valuation cash flows. In summary, this approach calculates a discount rate which reflects the cost to the market participant plus that participant's required rate of return on investment. The cash flows used were probability weighted and were generated by the same model that was used to generate the impairments on loans and advances. The key aspects involving the application of estimation of these cash flows are set out in note 3.2.3.
Business loans and advances	The fair value of loans and advances that are carried at amortised cost approximates the fair value reported as they bear variable rates of interest. The fair value is adjusted for deterioration of the credit quality of the book.
Financial assets at FVTPL	Financial assets (income funds) with underlying debt securities are valued using DCF, external valuations and published price quotations on the JSE equity and interest rate market or external valuations that are based on published market inputs with the main assumptions being market input, uplifted with inflation. These instruments are classified as level 2 as the markets that they are quoted on are not considered to be active.
Funeral plan income receivable	The value of the cell captive per the cell captive accounts obtained from Centriq Life Insurance Company Limited.
Term deposits – government resale agreement	The JSE debt market bond pricing model uses the JSE debt market mark-to-market bond yield.
Derivative assets and liabilities	Derivatives, both assets and liabilities, were valued using the income approach. Derivatives comprise interest rate swaps and forward foreign exchange contracts. Interest rate swaps were fair valued on a discounted basis using forward interest rates and foreign currency rates extracted from observable yield and foreign currency market curves. Foreign exchange contracts were valued using applicable forward rates. The fair value of publicly traded derivatives and securities is based on quoted market values at the reporting date.
Deposits and bonds with call features	Deposits and bonds comprise liabilities with specified terms for future repayment as well as retail deposits with a call feature which allows them to be withdrawn on demand. The fair value of the retail call deposits closely approximates their carrying amount due to their demand nature. The fair values for instruments with specified future repayment terms were calculated as described below.
Listed subordinated and senior bonds	A market approach was used. Calculations used the all-in closing bond prices provided by the JSE's Interest Rate and Currency (JSE IRC) market. The pricing method used by the JSE IRC links the bond at issue to a liquid government bond (a companion bond). The companion is chosen so as to best fit the characteristics of the Capitec issue, with the time to maturity being the most important factor. Spread information is obtained from market participants and is used to adjust the price subsequent to issue. Very small and very large trades are excluded due to the inherent discounts associated with large trades as well as the premium often charged for odd-lot trades.
Unlisted fixed-term institutional deposits	These comprise unlisted bonds, unlisted fixed-term negotiable instruments and other unlisted fixed-term wholesale instruments. The income approach was used. Fair values were calculated by discounting the contractual cash flows using publicly quoted closing swap curve rates from a large bank market-maker with a risk premium adjustment to account for non-performance risk. The market rate on the curve was determined with reference to the remaining maturity of the liability.
Retail fixed-term deposits	An income approach was used. Fair values were calculated by discounting the contractual cash flows using publicly quoted, closing Capitec fixed-term deposit rates. The relevant rate used was that which matched the remaining maturity of the fixed deposit.
Secured funding	Are carried at amortised cost and approximate the fair value reported as they bear variable rates of interest.

33.9 Insurance risk

The group has a third-party cell captive agreement where Capitec Bank Limited is the sole owner of a cell captive, which is underwritten by a licensed cell captive insurer. The cell captive agreement transfers significant insurance risk to the group due to the contractual requirement imposed on the group to maintain the solvency of the cell captive.

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

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

The group's ability to arrange credit life policies for its loan clients exposes the group to insurance risks such as death (mortality), permanent and temporary disability (morbidity) and unemployment or the inability to earn an income other than as a result of disability (which includes retrenchment).

As a result of the insurance risk exposure, the group is exposed to catastrophe risk stemming from the possibility of an extreme event linked to any of the above-mentioned risks.

For all of the above risks, the risk is that the decrement rates (e.g. mortality, morbidity, etc.) and associated cash flows are different from those assumed when pricing or reserving. Mortality, morbidity and retrenchment risk can further be broken down into parameter risk, random fluctuations and trend risk, which may result in the parameter value assumed differing from the actual experience.

The credit life policies also expose the group to lapse risk, which is the risk of loss of future profits and expenses risks. Theses risk are classified as business risks but are included in this section as they stem from the insurance products.

The board of directors of the group is ultimately responsible for risk management. To assist the board with the responsibility, the group is managed through a system of internal controls functioning throughout the group. Risk awareness pervades every aspect of the business and is the responsibility of each employee of the group. The RCMC, including 3 independent non-executive directors, that operates in compliance with a formal charter. The committees assist the board in reviewing the processes followed to identify risk and assess its impact on the group.

The RCMC provides oversight over risk management and is responsible for the following in the insurance operations:
- Providing oversight of the product types
- Financial resource management
- Approving new products.

The responsibility of challenging the results of the pricing of the insurance portfolio lies with the ALCO of the group.

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

33. Financial risk management continued

33.9 Insurance risk continued

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

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

General risk management

As the group's insurance portfolio is housed in a third-party cell captive agreement, the group is jointly responsible for the insurance risk which is managed in two separate processes:

- The pricing of the insurance business
- Management of the in-force book.

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

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

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

- Monitoring and reporting of claims experience by considering incidence rates and claims ratios
- The actuarial valuation process involves the long-term projection of in-force policies and the setting up of insurance liabilities. This gives insight into the longer-term evolution of the insurance portfolio. Adequate reserves are set for future and current claims and expenses
- Experience investigations are performed annually to understand the actual experience compared to the basis used in valuations and pricing. These investigations are signed off by the head of actuarial function. Where required, changes are made to pricing and product design
- Reinsurance agreements are in place to mitigate certain insurance liabilities and manage catastrophe risk
- Asset liability management is performed to ensure that asset-backing insurance liabilities are appropriate and liquid
- Stress and scenario analyses are performed and provide insights into the insurance risk and future capital position.

An ORSA process is performed at least annually by the licensed cell captive insurer. The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report on short- and long-term risks the insurer faces or might face, and to determine the own funds necessary to ensure that the overall solvency needs are met at all times.

Detailed risk management per risk type

Mortality risk

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

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

Morbidity risk

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

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

Retrenchment risk

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

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

Catastrophe risk

This is the risk that stems from extreme or irregular events contingent on mortality, morbidity or retrenchment whose effects are not expected.

The risk is managed by quota share reinsurance in respect of mortality and retrenchment. The reinsurance is reviewed annually in May based on the composition of the insurance portfolio and the group's risk appetite.

The COVID-19 pandemic, however, is not covered by the catastrophe reinsurance as the reinsurance covers a defined event, such as a building collapse, from a specific point in time for a set number of hours. The losses which come from a pandemic happen over a much longer period of time and are better covered by a high quota share or stop loss type of arrangement. In practice, stop loss covers are very seldom offered due to the volatility and uncertainty of these arrangements. A high quota share was not considered as this would involve ceding material profits in a non-stress year.

As a result of the above, the group did not renew its reinsurance cover for mortality and retrenchment risk at the end of April 2020 when the previous reinsurance agreements expired.

The group was, however, able to obtain reinsurance cover for mortality risk from 1 August 2020.

As at 28 February 2021, the group still has no reinsurance cover for retrenchment risk due to the uncertainty and volatility of such events. Additional capital is held in the economic capital to cover a retrenchment catastrophe scenario.

Lapse risk

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

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

Expense risk

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

The insurance risk is primarily linked to credit risk which is disclosed in detail in note 34.1.

The table below demonstrates the insurance exposure per risk per sum assured at risk before and after reinsurance.

33. Financial risk management continued

33.9 Insurance risk continued

Total exposure by size of sum assured for all credit products

	Before reinsurance							
	Death		Retrenchment		Permanent disability		Temporary disability	
Retail sums assured at risk	Balance R'000	%	Balance R'000	%	Balance R'000	%	Balance R'000	%
2021								
R0 – R49 999	18 554 439	31.5	19 001 727	33.0	18 554 439	31.4	11 839 326	39.3
R50 000 – R99 999	14 260 064	24.1	14 295 316	24.8	14 260 064	24.2	7 684 966	25.5
R100 000 – R149 999	10 760 940	18.2	10 365 013	18.0	10 760 940	18.2	4 799 392	15.9
R150 000 – R199 999	7 849 491	13.3	7 276 022	12.6	7 849 491	13.3	3 130 905	10.4
R200 000 – R249 999	7 188 112	12.2	6 271 961	10.9	7 188 112	12.2	2 552 521	8.5
>R250 000	412 200	0.7	381 543	0.7	412 200	0.7	127 087	0.5
Total sum assured	59 025 246	100	57 591 582	100	59 025 246	100	30 134 197	100

Insurance exposure per risk:

- **Death:** Full outstanding loan balance on event date
- **Retrenchment:**
  - Loans granted before 10 May 2020: Full outstanding loan balance on event date
  - Loans granted on 10 May 2020 and after: 24 monthly instalments on event date
- **Permanent disability:** Full outstanding loan balance on event date
- **Temporary disability:** 12 monthly instalments from event date.

	After reinsurance							
	Death		Retrenchment		Permanent disability		Temporary disability	
Retail sums assured at risk	Balance R'000	%	Balance R'000	%	Balance R'000	%	Balance R'000	%
2021								
R0 – R49 999	–	–	19 001 727	33.0	18 554 439	31.4	11 839 326	39.3
R50 000 – R99 999	–	–	14 295 316	24.8	14 260 064	24.2	7 684 966	25.5
R100 000 – R149 999	–	–	10 365 013	18.0	10 760 940	18.2	4 799 392	15.9
R150 000 – R199 999	–	–	7 276 022	12.6	7 849 491	13.3	3 130 905	10.4
R200 000 – R249 999	–	–	6 271 961	10.9	7 188 112	12.2	2 552 521	8.5
>R250 000	–	–	381 543	0.7	412 200	0.7	127 087	0.4
Total sum assured	–	–	57 591 582	100	59 025 246	100	30 134 197	100

Retail sums assured at risk	Before reinsurance Death Balance R'000	%	Retrenchment Balance R'000	%	Permanent disability Balance R'000	%	Temporary disability Balance R'000	%
2020								
R0 – R49 999	14 796 527	26.9	14 796 527	26.9	14 796 527	26.9	14 596 135	44.3
R50 000 – R99 999	15 459 684	28.1	15 459 684	28.1	15 459 684	28.1	8 316 718	25.2
R100 000 – R149 999	11 086 013	20.2	11 086 013	20.2	11 086 013	20.2	4 909 925	14.9
R150 000 – R199 999	7 097 466	12.9	7 097 466	12.9	7 097 466	12.9	2 820 330	8.6
R200 000 – R249 999	6 305 272	11.5	6 305 272	11.5	6 305 272	11.5	2 248 329	6.8
>R250 000	219 605	0.4	219 605	0.4	219 605	0.4	70 312	0.2
Total sum assured	54 964 567	100	54 964 567	100	54 964 567	100	32 961 749	100

Insurance exposure per risk:

- **Death:** Full outstanding loan balance on event date
- **Retrenchment:** Full outstanding loan balance on event date
- **Permanent disability:** Full outstanding loan balance on event date
- **Temporary disability:** 12 monthly instalments from event date.

Retail sums assured at risk	After reinsurance Death Balance R'000	%	Retrenchment Balance R'000	%	Permanent disability Balance R'000	%	Temporary disability Balance R'000	%
2020								
R0 – R49 999	–	–	–	–	14 796 527	26.9	14 796 527	26.9
R50 000 – R99 999	–	–	–	–	15 459 684	28.1	15 459 684	28.1
R100 000 – R149 999	–	–	–	–	11 086 013	20.2	11 086 013	20.2
R150 000 – R199 999	–	–	–	–	7 097 466	12.9	7 097 466	12.9
R200 000 – R249 999	–	–	–	–	6 305 272	11.5	6 305 272	11.5
>R250 000	–	–	–	–	219 605	0.4	219 605	0.4
Total sum assured	–	–	–	–	54 964 567	100	54 964 567	100

Assessment and management

The assessment and management of insurance risk is influenced by the frequency and severity of claims, especially to the extent that claims paid are more frequent and/or greater than originally estimated.

The group manages insurance risk through monitoring incidence rates, claims ratios and business mix. Clients are underwritten which allows for limits and risk-based pricing to be applied.

Insurance risk mitigation

The insurance risk is mitigated by diversification across geographical areas, industries and employers. The variability of risks is also improved by reinsurance cover which is reviewed annually.

The group purchases reinsurance through its cell captive facility as part of its risk mitigation programme. Reinsurance transfers risk away from the group. Amounts recoverable from reinsurers are estimated in a manner consistent with the reserving for claims.

33. Financial risk management continued

33.9 Insurance risk continued

Sensitivities

The following table sets out what the IBNR liability would be if the key inputs were changed as set out below:

R'000	2021	2020
Retrenchment	221 887	–
Death	4 061	–
Disability	41 297	46 458
Total IBNR provision	**267 245**	46 458
Retrenchment	255 170	–
Death	4 365	–
Disability	49 333	53 657
Total IBNR provision with added sensitivities*	**308 868**	53 657

* *Sensitivities added reserve:*
- *15% retrenchment*
- *15% morbidity*
- *7.5% mortality*

34. Retirement benefits

	GROUP		COMPANY	
R'000	**2021**	**2020**	**2021**	**2020**
The group contributed on behalf of all employees who elected to be members of the provident fund. The provident fund, a defined contribution fund, is administered independently of the bank and is subject to the Pension Funds Act, Act 24 of 1956. The amount contributed is included in salaries and bonus costs as per note 29.	**383 523**	289 094	**368 335**	289 094

Since 1 July 2001, it is compulsory for all new employees to be members of the provident fund. The bank will continue to contribute to the fund on behalf of all members. The group has no exposure in respect of any post-retirement benefits payable other than those set out in note 23.

35. Related party transactions

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Subsidiaries				
Dividends				
Ordinary dividend paid	–	2 168 006	–	2 168 006
Preference dividend paid	4 290	6 913	4 290	6 913
Capitec Bank Limited (holding company)	4 290	2 174 919	4 290	2 174 919
Management fees received – Capitec Bank Limited (holding company)	4 164	2 258	4 164	2 258
Interests in subsidiaries are disclosed in note 14.				
Management fees received – Capitec Properties Proprietary Limited	5 290	2 784	5 290	2 784
Joint venture				
Grants paid	10 822	6 750	10 822	5 460
Service fees	408	740	408	599
Imvelo ventures	11 230	7 490	11 230	6 059
Parties with significant shareholding				
Interest paid	4 621	8 466	4 621	8 466
Brokers' fees	176	180	176	180
PSG and subsidiaries[1]	4 797	8 646	4 797	8 646
Statement of financial position balance				
Listed senior bonds	–	61 323	–	61 323
Unlisted negotiable instruments	–	43 267	–	43 267
PSG and subsidiaries[1]	–	104 590	–	104 590

[1] *Transactions requiring the purchase of financial instruments on the open market are conducted through PSG Wealth. PSG Capital is the corporate advisor and sponsor of the group. Since August 2020, PSG is no longer a related party with significant shareholding due to the unbundling of the group.*

35. Related party transactions continued

	GROUP		COMPANY	
R'000	**2021**	**2020**	**2021**	**2020**
Loans due (to)/from:				
Capitec Bank Holdings (holding company)	**16 703**	15 257	**16 703**	15 257
Capitec Bank Holdings Share Trust	**(2 918)**	(4 430)	**(2 918)**	(4 430)
Capitec Bank Properties Proprietary Limited (fellow subsidiary)	**64 161**	(65 821)	**64 161**	(65 821)
Mercantile Bank Limited (subsidiary)	**–**	–	**–**	(1 912 613)
Mercantile Rental Finance (subsidiary)	**–**	–	**1 032 649**	–
Portion 2 of Lot 8 Sandown Proprietary Limited	**–**	–	**(1 312)**	–
Guarantee				
Capitec Bank Properties Proprietary Limited (fellow subsidiary)	**–**	161 000	**–**	161 000
Interest paid				
Mercantile Bank Limited (subsidiary)	**–**	–	**89 455**	14 888
Interest received				
Mercantile Bank Limited (subsidiary)	**–**	–	**23 063**	–
Mercantile Rental Finance (subsidiary)	**–**	–	**9 851**	–
Purchase of assets under construction (land and buildings)				
Capitec Bank Properties Proprietary Limited	**–**	779 962	**–**	779 962
Purchase of building				
Portion 2 of Lot 8 Sandown Proprietary Limited	**–**	–	**191 000**	–
Key management				
Key management employees' remuneration				
Salaries and other short-term benefits	**75 024**	100 921	**75 024**	90 349
Post-employment benefits	**1 148**	2 729	**1 148**	2 729
Share-based payments	**32 517**	126 750	**32 517**	126 750
Key management compensation paid by subsidiaries[1]	**108 689**	230 400	**108 689**	219 828
Retail deposits from directors and other key management employees[2]				
Deposits at the beginning of the year	**17 605**	17 239	**17 605**	17 239
Interest earned during the year	**859**	966	**818**	966
(Withdrawals)/deposits made during the year	**(211)**	(600)	**(173)**	(600)
Deposits at the end of the year	**18 253**	17 605	**18 250**	17 605

[1] *Key management is considered to be the members of the group EXCO, excluding development members. Key management compensation excludes directors' remuneration. The members of the group EXCO are the prescribed officers of the company.*
[2] *Savings and deposits are unsecured, carry variable interest rates and are repayable on demand.*

Directors' interest in agreements

All directors of Capitec Bank Limited have given notice that they did not have a material interest in any significant agreement with the company or any group company, which could have given rise to a conflict of interest during the year.

Directors' interest in share capital

At year-end, the directors did not hold directly or indirectly, beneficially or non-beneficially, any interest in Capitec Bank Limited ordinary or non-redeemable, non-cumulative and non-participating preference shares.

Directors' interest in share incentive scheme – options

				Opening balance	(Options exercised)/options granted			Closing balance
Director	**Maturity date[1]**	**Issue date**	**Strike price R**	**Number of share options**	**Number of share options**	**Market price R**	**Exercise date**	**Number of share options**
2021								
AP du Plessis (direct beneficial)	29 March 2020	1 April 2017	705.93	3 929	(3 929)	903.83	3 June 2020	–
	1 April 2020	1 April 2015	371.88	17 363	(17 363)	903.83	3 June 2020	–
		1 April 2016	473.05	5 605	(5 605)	903.83	3 June 2020	–
	28 March 2021	28 March 2018	881.76	3 781	–	–	–	3 781
	29 March 2021	1 April 2017	705.93	3 929	–	–	–	3 929
	1 April 2021	1 April 2016	473.05	5 605	–	–	–	5 605
	28 March 2022	28 March 2018	881.76	3 780	–	–	–	3 780
	29 March 2022	1 April 2017	705.93	3 928	–	–	–	3 928
		29 March 2019	1 175.01	3 177	–	–	–	3 177
	1 April 2022	1 April 2016	473.05	5 605	–	–	–	5 605
	28 March 2023	28 March 2018	881.76	3 780	–	–	–	3 780
	29 March 2023	1 April 2017	705.93	3 928	–	–	–	3 928
		29 March 2019	1 175.01	3 176	–	–	–	3 176
	8 April 2023	8 April 2020	973.05	–	4 152	–	–	4 152
	28 March 2024	28 March 2018	881.76	3 780	–	–	–	3 780
	29 March 2024	29 March 2019	1 175.01	3 176	–	–	–	3 176
	8 April 2024	8 April 2020	973.05	–	4 152	–	–	4 152
	29 March 2025	29 March 2019	1 175.01	3 176	–	–	–	3 176
	8 April 2025	8 April 2020	973.05	–	4 152	–	–	4 152
	8 April 2026	8 April 2020	973.05	–	4 152	–	–	4 152
Total options				77 718	(10 289)			67 429

[1] *The director has 6 months after maturity to exercise the share options.*

35. Related party transactions continued

Directors' interest in share incentive scheme – options continued

Director	Maturity date[1]	Issue date	Strike price R	Opening balance Number of share options	(Options exercised)/options granted Number of share options	(Options exercised)/options granted Market price R	(Options exercised)/options granted Exercise date	Closing balance Number of share options
2021								
GM Fourie (direct beneficial)	29 March 2020	1 April 2017	705.93	6 377	(6 377)	925.50	17 April 2020	–
	1 April 2020	1 April 2015	371.88	22 871	(22 871)	836.19	21 August 2020	–
		1 April 2016	473.05	9 169	(9 169)	1 040.67	7 October 2020	–
	28 March 2021	28 March 2018	881.76	5 740	–	–	–	5 740
	29 March 2021	1 April 2017	705.93	6 377	–	–	–	6 377
	1 April 2021	1 April 2016	473.05	9 169	–	–	–	9 169
	28 March 2022	28 March 2018	881.76	5 739	–	–	–	5 739
	29 March 2022	1 April 2017	705.93	6 377	–	–	–	6 377
		29 March 2019	1 175.01	5 107	–	–	–	5 107
	1 April 2022	1 April 2016	473.05	9 169	–	–	–	9 169
	28 March 2023	28 March 2018	881.76	5 739	–	–	–	5 739
	29 March 2023	1 April 2017	705.93	6 376	–	–	–	6 376
		29 March 2019	1 175.01	5 107	–	–	–	5 107
	8 April 2023	8 April 2020	973.05	–	6 676	–	–	6 676
	28 March 2024	28 March 2018	881.76	5 739	–	–	–	5 739
	29 March 2024	29 March 2019	1 175.01	5 107	–	–	–	5 107
	8 April 2024	8 April 2020	973.05	–	6 676	–	–	6 676
	29 March 2025	29 March 2019	1 175.01	5 107	–	–	–	5 107
	8 April 2025	8 April 2020	973.05	–	6 676	–	–	6 676
	8 April 2026	8 April 2020	973.05	–	6 675	–	–	6 675
Total options				119 270	(11 714)			107 556

[1] *The director has 6 months after maturity to exercise the share options.*

Director	Maturity date[1]	Issue date	Strike price R	Opening balance Number of share options	(Options exercised)/options granted Number of share options	Market price R	Exercise date	Closing balance Number of share options
2021								
NS Mashiya (direct beneficial)	29 March 2020	1 April 2017	705.93	1 354	(1 354)	1 096.74	13 October 2020	–
	1 April 2020	1 April 2016	473.05	1 948	(1 948)	885.49	23 June 2020	–
	1 November 2020	2 November 2015	539.88	8 875	(8 875)	1 325.08	27 November 2020	–
	28 March 2021	28 March 2018	881.76	1 188	–	–	–	1 188
	29 March 2021	1 April 2017	705.93	1 354	–	–	–	1 354
	1 April 2021	1 April 2016	473.05	1 948	–	–	–	1 948
	28 March 2022	28 March 2018	881.76	1 187	–	–	–	1 187
	29 March 2022	1 April 2017	705.93	1 353	–	–	–	1 353
		29 March 2019	1 175.01	878	–	–	–	878
	1 April 2022	1 April 2016	473.05	1 947	–	–	–	1 947
	28 March 2023	28 March 2018	881.76	1 187	–	–	–	1 187
	29 March 2023	1 April 2017	705.93	1 353	–	–	–	1 353
		29 March 2019	1 175.01	877	–	–	–	877
	8 April 2023	8 April 2020	973.05	–	1 147	–	–	1 147
	1 October 2023	1 October 2020	908.58	–	1 572	–	–	1 572
	28 March 2024	28 March 2018	881.76	1 187	–	–	–	1 187
	29 March 2024	29 March 2019	1 175.01	877	–	–	–	877
	8 April 2024	8 April 2020	973.05	–	1 147	–	–	1 147
	1 October 2024	1 October 2020	908.58	–	1 572	–	–	1 572
	29 March 2025	29 March 2019	1 175.01	877	–	–	–	877
	8 April 2025	8 April 2020	973.05	–	1 147	–	–	1 147
	1 October 2025	1 October 2020	908.58	–	1 572	–	–	1 572
	8 April 2026	8 April 2020	973.05	–	1 146	–	–	1 146
	1 October 2026	1 October 2020	908.58	–	1 571	–	–	1 571
Total options				28 390	(1 303)			27 087
Total options held by directors				225 378	(23 306)			202 072

[1] *The director has 6 months after maturity to exercise the share options.*

35. Related party transactions continued

Directors' interest in share incentive scheme – SARs

				Opening balance	(SARs exercised)/SARs granted			Closing balance
Director	Maturity date[1]	Issue date	SAR exercise price R	Number of SARs	Number of SARs	Market price R	Exercise date	Number of SARs
2021								
AP du Plessis (direct beneficial)	29 March 2020	1 April 2017	705.93	3 929	(3 929)	1 057.75	15 April 2020	–
	1 April 2020	1 April 2015	0.01	5 903	(5 903)	1 057.75	15 April 2020	–
		1 April 2016	473.05	5 605	(5 605)	1 057.75	15 April 2020	–
	28 March 2021	28 March 2018	881.76	3 781	–	–	–	3 781
	29 March 2021	1 April 2017	705.93	3 929	–	–	–	3 929
	1 April 2021	1 April 2016	473.05	5 605	–	–	–	5 605
	28 March 2022	28 March 2018	881.76	3 780	–	–	–	3 780
	29 March 2022	1 April 2017	705.93	3 928	–	–	–	3 928
		29 March 2019	1 175.01	3 177	–	–	–	3 177
	1 April 2022	1 April 2016	473.05	5 605	–	–	–	5 605
	28 March 2023	28 March 2018	881.76	3 780	–	–	–	3 780
	29 March 2023	1 April 2017	705.93	3 928	–	–	–	3 928
		29 March 2019	1 175.01	3 176	–	–	–	3 176
	8 April 2023	8 April 2020	973.05	–	4 152	–	–	4 152
	28 March 2024	28 March 2018	881.76	3 780	–	–	–	3 780
	29 March 2024	29 March 2019	1 175.01	3 176	–	–	–	3 176
	8 April 2024	8 April 2020	973.05	–	4 152	–	–	4 152
	29 March 2025	29 March 2019	1 175.01	3 176	–	–	–	3 176
	8 April 2025	8 April 2020	973.05	–	4 152	–	–	4 152
	8 April 2026	8 April 2020	973.05	–	4 152	–	–	4 152
Total SARs				66 258	1 171			67 429

[1] *The director has 6 months after maturity to exercise the share options.*

Director	Maturity date[1]	Issue date	SAR exercise price R	Opening balance Number of SARs	(SARs exercised)/SARs granted Number of SARs	Market price R	Exercise date	Closing balance Number of SARs
2021								
GM Fourie (direct beneficial)	29 March 2020	1 April 2017	705.93	6 377	(6 377)	1 057.75	15 April 2020	–
	1 April 2020	1 April 2015	0.01	7 776	(7 776)	1 057.75	15 April 2020	–
		1 April 2016	473.05	9 169	(9 169)	1 057.75	15 April 2020	–
	28 March 2021	28 March 2018	881.76	5 740	–	–	–	5 740
	29 March 2021	1 April 2017	705.93	6 377	–	–	–	6 377
	1 April 2021	1 April 2016	473.05	9 169	–	–	–	9 169
	28 March 2022	28 March 2018	881.76	5 739	–	–	–	5 739
	29 March 2022	1 April 2017	705.93	6 377	–	–	–	6 377
		29 March 2019	1 175.01	5 107	–	–	–	5 107
	1 April 2022	1 April 2016	473.05	9 169	–	–	–	9 169
	28 March 2023	28 March 2018	881.76	5 739	–	–	–	5 739
	29 March 2023	1 April 2017	705.93	6 376	–	–	–	6 376
		29 March 2019	1 175.01	5 107	–	–	–	5 107
	8 April 2023	8 April 2020	973.05	–	6 676	–	–	6 676
	28 March 2024	28 March 2018	881.76	5 739	–	–	–	5 739
	29 March 2024	29 March 2019	1 175.01	5 107	–	–	–	5 107
	8 April 2024	8 April 2020	973.05	–	6 676	–	–	6 676
	29 March 2025	29 March 2019	1 175.01	5 107	–	–	–	5 107
	8 April 2025	8 April 2020	973.05	–	6 676	–	–	6 676
	8 April 2026	8 April 2020	973.05	–	6 675	–	–	6 675
Total SARs				104 175	3 381			107 556

[1] *The director has 6 months after maturity to exercise the share options.*

35. Related party transactions continued

Directors' interest in share incentive scheme – SARs continued

Director	Maturity date[1]	Issue date	SAR exercise price R	Opening balance Number of SARs	(SARs exercised)/SARs granted Number of SARs	Market price R	Exercise date	Closing balance Number of SARs
2021								
NS Mashiya								
(direct beneficial)	29 March 2020	1 April 2017	705.93	1 354	(1 354)	1 057.75	15 April 2020	–
	1 April 2020	1 April 2016	473.05	1 948	(1 948)	1 057.75	15 April 2020	–
	1 November 2020	2 November 2015	0.01	3 000	(3 000)	1 309.40	10 November 2020	–
	28 March 2021	28 March 2018	881.76	1 188	–	–	–	1 188
	29 March 2021	1 April 2017	705.93	1 354	–	–	–	1 354
	1 April 2021	1 April 2016	473.05	1 948	–	–	–	1 948
	28 March 2022	28 March 2018	881.76	1 187	–	–	–	1 187
	29 March 2022	1 April 2017	705.93	1 353	–	–	–	1 353
		29 March 2019	1 175.01	878	–	–	–	878
	1 April 2022	1 April 2016	473.05	1 947	–	–	–	1 947
	28 March 2023	28 March 2018	881.76	1 187	–	–	–	1 187
	29 March 2023	1 April 2017	705.93	1 353	–	–	–	1 353
		29 March 2019	1 175.01	877	–	–	–	877
	8 April 2023	8 April 2020	973.05	–	1 147	–	–	1 147
	1 October 2023	1 October 2020	908.58	–	1 572	–	–	1 572
	28 March 2024	28 March 2018	881.76	1 187	–	–	–	1 187
	29 March 2024	29 March 2019	1 175.01	877	–	–	–	877
	8 April 2024	8 April 2020	973.05	–	1 147	–	–	1 147
	1 October 2024	1 October 2020	908.58	–	1 572	–	–	1 572
	29 March 2025	29 March 2019	1 175.01	877	–	–	–	877
	8 April 2025	8 April 2020	973.05	–	1 147	–	–	1 147
	1 October 2025	1 October 2020	908.58	–	1 572	–	–	1 572
	8 April 2026	8 April 2020	973.05	–	1 146	–	–	1 146
	1 October 2026		908.58	–	1 571	–	–	1 571
Total SARs				22 515	4 572			27 087
Total SARs held by directors				192 948	9 124			202 072

[1] *The director has 6 months after maturity to exercise the share options.*

Directors' remuneration

The total share option expense relating to directors amounted to R17 816 777 (2020: R14 339 732) and the SARs expense amounted to R24 427 123 (2020: R32 147 400).

Ordinary shares R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year at the reporting date
2021						
Executive[1]						
AP du Plessis	10 106	85	3 369	–	13 560	4 797
GM Fourie	13 000	90	4 333	–	17 423	7 712
NS Mashiya	5 214	59	2 000	–	7 273	2 236
Non-executive						
MS du Pré le Roux	–	–	–	520	520	–
SL Botha (chairman)[2]	–	–	–	2 500	2 500	–
SA du Plessis[3]	–	–	–	282	282	–
CH Fernandez[4]	–	–	–	282	282	–
V Mahlangu[5]	–	–	–	282	282	–
K Makwane	–	–	–	371	371	–
TE Mashilwane[6]	–	–	–	729	729	–
DP Meintjes	–	–	–	880	880	–
JD McKenzie	–	–	–	1 550	1 550	–
PJ Mouton	–	–	–	720	720	–
CA Otto	–	–	–	870	870	–
JP Verster	–	–	–	1 100	1 100	–
Total directors' remuneration	28 320	234	9 702	10 086	48 342	14 745

35. Related party transactions continued

Directors' remuneration continued

Ordinary shares R'000	Salaries	Fringe benefits	Bonuses	Fees	Total	Fair value of options and rights granted during the year on reporting date
2020						
Executive[1]						
AP du Plessis	9 967	78	3 975	–	14 020	2 240
GM Fourie	12 804	58	5 113	–	17 975	3 601
NS Mashiya	4 605	47	1 830	–	6 482	619
Non-executive						
MS du Pré le Roux	–	–	–	520	520	–
SL Botha (chairman)	–	–	–	1 875	1 875	–
LA Dlamini[7]	–	–	–	293	293	–
K Makwane	–	–	–	850	850	–
DP Meintjes	–	–	–	738	738	–
JD McKenzie	–	–	–	1 550	1 550	–
NS Mjoli-Mncube[8]	–	–	–	113	113	–
PJ Mouton	–	–	–	720	720	–
CA Otto	–	–	–	870	870	–
R Stassen[8]	–	–	–	625	625	–
JP Verster	–	–	–	1 100	1 100	–
Total directors remuneration	27 376	183	10 918	9 254	47 731	6 460

(1) The executive directors are the prescribed officers of the company.
(2) Ms SL Botha was appointed to the board on 1 June 2019 and was appointed as the chairman on the same date.
(3) Professor SA du Plessis was appointed to the board on 25 September 2020 and was appointed as a member of the RCMC.
(4) Ms CH Fernandez was appointed to the board on 25 September 2020 and was appointed as a member of the audit committee.
(5) Mr V Mahlangu was appointed to the board on 25 September 2020 and was appointed as a member of the RCMC.
(6) Ms TE Mashilwane was appointed to the board on 6 March 2020 and was appointed as a member of the audit committee on the same date. Ms Mashilwane was appointed as the chairman of the social and ethics committee (SECO) on 25 September 2020.
(7) Ms LA Dlamini resigned from the board on 30 June 2019.
(8) Ms NS Mjoli-Mncube and Mr R Stassen retired from the board on 31 May 2019.

Prescribed officers' remuneration

R'000	Salaries	Fringe benefits	Bonuses	Total	Fair value of options and rights granted during the year on reporting date
2021					
W de Bruyn	**7 118**	**78**	**2 373**	**9 569**	**2 703**
KR Kumbier	**5 767**	**205**	**1 922**	**7 894**	**4 345**
HAJ Lourens	**7 411**	**51**	**2 500**	**9 962**	**2 848**
NST Motjuwadi	**3 527**	**45**	**1 181**	**4 753**	**1 009**
A Olivier[(1)]	**1 530**	**15**	**–**	**1 545**	**–**
L Venter[(2)]	**445**	**5**	**–**	**450**	**–**
F Viviers	**3 874**	**51**	**1 333**	**5 258**	**1 139**
Total prescribed officer' remuneration	**29 672**	**450**	**9 309**	**39 431**	**12 044**
2020					
JC Carstens[(3)]	5 045	54	2 012	7 111	850
W de Bruyn	7 041	61	2 800	9 902	1 262
KR Kumbier	1 392	280	1 232	2 904	483
HAJ Lourens	5 817	48	2 528	8 393	1 140
NST Motjuwadi	3 401	40	1 353	4 794	458
A Olivier	5 172	66	2 408	7 646	1 085
L Venter	5 286	55	2 101	7 442	947
F Viviers	3 432	192	1 374	4 998	465
Total prescribed officer' remuneration	36 586	796	15 808	53 190	6 690

(1) *Mr A Olivier retired on 30 April 2020.*
(2) *Mr L Venter retired on 31 May 2020.*
(3) *Mr JC Carstens is not a member of the group EXCO for 2021.*

The total share option expense relating to the prescribed officers above amounted to R17 943 146 (2020: R30 911 292) and the SARs expense amounted to R14 563 509 (2020: R32 344 367). This expense includes the movement on all tranches.

Financial assistance amounting to R1 795 440 (2020: R1 290 877) was granted to prescribed officers for the subscription of options. Loans to prescribed officers outstanding at the reporting date amounted to R2 743 646 (2020: R1 312 178).

36. Notes to the statements of cash flows

36.1 Cash flow from operations

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Net profit before tax and equity-accounted earnings	**5 680 981**	8 013 893	**5 697 861**	8 010 692
Deduct interest income	**(16 543 543)**	(17 039 818)	**(15 806 868)**	(16 579 870)
Deduct other income (interest on investments at FVTPL)	**(113 687)**	–	**(113 687)**	–
Add back interest expenses	**4 988 735**	5 679 848	**4 720 119**	5 444 434
Add back interest received	**16 726 564**	16 969 604	**15 974 597**	15 974 459
Deduct interest paid	**(5 008 765)**	(5 675 538)	**(4 740 149)**	(5 442 696)
Adjusted for non-cash items				
Movement in provision for credit impairment(6)	**4 157 314**	2 092 808	**3 950 721**	2 044 084
Bad debts written off	**6 378 670**	5 171 393	**6 324 830**	5 105 697
Lease liability remeasurement	**(6 431)**	–	**(7 275)**	–
ECL – non-loan book(8)	**–**	(5 745)	**–**	(5 615)
Depreciation	**588 173**	511 949	**570 652**	502 672
Unrealised forex (gain)/loss	**(5 012)**	(8 084)	**22 469**	–
Depreciation IFRS 16	**413 919**	420 506	**406 812**	417 461
Amortisation	**241 268**	195 115	**203 524**	171 294
Loss on disposal of assets	**10 745**	46 527	**10 448**	58 635
Financial investments written off	**616**	–	**616**	–
Movements in assets and liabilities				
Loans and advances(1)	**(5 670 536)**	(14 591 884)	**(5 076 405)**	(14 588 598)
Financial investments (Business bank)(4)	**(60 422)**	(77 554)	**–**	–
Other receivables	**605 835**	(30 625)	**753 122**	39 427
Net insurance receivable	**–**	18 968	**–**	18 968
Derivatives	**3 013**	(3 927)	**16 095**	(5 238)
Deposits and other wholesale funding(2)	**19 411 196**	16 368 391	**17 884 750**	15 959 866
Trade and other payables(3)	**424 922**	68 010	**397 219**	89 159
Movements in provisions	**(31 784)**	(24 265)	**(16 730)**	18 796
Share-based employee costs – SARs	**(5 869)**	(145 898)	**(5 869)**	(146 140)
Share-based employee costs – options	**(50 713)**	(81 777)	**(50 471)**	(82 019)
Non cash flow item on right-of-use assets	**(10 039)**	–	**(10 039)**	–
Assets held for sale	**(1 021 176)**	–	**(1 021 176)**	–
Cash flow from operations	**31 103 974**	17 871 897	**30 085 166**	17 540 851

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
[1] *Movement in loans and advances to clients*	(5 670 536)	(14 591 884)	(5 076 405)	(14 588 598)
Gross loans and advances opening balance	75 781 738	55 889 932	65 436 394	55 889 932
Gross loans and advances closing balance	(75 022 992)	(75 781 738)	(73 797 908)	(65 436 394)
Movement in accrued interest	(50 612)	63 561	(50 612)	63 561
Acquisition of subsidiary/divisionalisation	–	10 407 754	9 660 551	–
Bad debts written off	(6 378 670)	(5 171 393)	(6 324 830)	(5 105 697)
[2] *Deposits and wholesale funding*[6]	19 411 196	16 368 391	17 884 750	15 959 866
Movement in deposits	18 901 681	28 260 743	31 194 838	16 108 566
Acquisition of subsidiary/divisionalisation	–	(11 743 652)	(13 819 603)	–
Movement in other wholesale funding	509 515	(148 700)	509 515	(148 700)
[3] *Trade and other payables*	424 922	68 010	397 219	89 159
Movement in trade and other payables	424 922	316 965	737 232	(58 259)
Acquisition of subsidiary/divisionalisation	–	(396 373)	(340 013)	–
Movement in provision for straight-lining of leases	–	147 418	–	147 418
[4] *Financial investments at amortised cost*[7]	(60 422)	(77 554)	–	–
Movement in financial investments/closing balance	(41 020)	(877 384)	–	–
Acquisition of subsidiary/opening balance	–	786 290	–	–
Movement in accrued interest	(19 402)	13 549	–	–
Movement in ECL	–	(9)	–	–
[5] *Other receivables*	1 104 736	2 046 585	1 035 986	1 600 001
Opening balance	2 046 585	1 639 428	1 600 001	1 639 428
Acquisition of subsidiary	–	376 532	525 121	–
Discontinued operations	(273 249)	–	(273 249)	–
Leases	(62 765)	–	(62 765)	–
Cash	(605 835)	30 625	(753 122)	(39 427)

[6] *Relates to deposits and unlisted negotiable instruments and other wholesale funding. Refer to note 19.*

[7] *Relates to financial instruments held by the Business bank. All financial instruments were transferred to Capitec Bank Limited as part of the business reorganisation referred to in note 4.1 and thereafter were treated as investing activities. Refer to note 2.5.1.1.*

[8] *The ECL – non-loan book is included in the movement in provision for credit impairments for 2021.*

36. Notes to the statements of cash flows continued

36.2 Lease liability cash flow

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Lease liability cash flow	**535 066**	501 832	**525 371**	498 579
Lease liability 1 March 2020	**2 794 847**	2 749 924	**2 781 889**	2 749 924
New leases	**215 054**	275 855	**204 550**	274 997
Terminations	**(193 966)**	–	**(193 966)**	–
Acquisition of subsidiary	**–**	14 971	**13 008**	–
IFRS 16 interest	**242 502**	255 929	**241 578**	255 547
Lease liability closing balance	**(2 523 371)**	(2 794 847)	**(2 521 688)**	(2 781 889)
Total cash flow lease liability	**490 761**	501 832	**480 191**	498 579
Portion included in operating activities	**242 502**	255 929	**241 578**	255 547
Portion included in financing activities	**248 259**	245 903	**238 613**	243 032

37. Income tax paid

R'000	GROUP 2021	GROUP 2020	COMPANY 2021*	COMPANY 2020
Balance at the beginning of the year	**9 791**	(286 046)	**14 345**	(286 046)
Acquisition of subsidiary	**–**	34 650	**–**	–
Acquisition through business reorganisation	**–**	–	**(2 987)**	–
Income statement charge	**1 118 829**	1 794 643	**1 107 824**	1 791 510
Movement in deferred tax	**357 064**	247 763	**345 394**	240 934
Balance at the end of the year	**(159 520)**	(9 791)	**(159 214)**	(14 345)
Income tax paid	**1 326 164**	1 781 219	**1 305 362**	1 732 053

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

38. Dividends paid

R'000	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Balance at the beginning of the year	**3 386**	3 786	**3 386**	3 786
Ordinary dividend	**–**	2 168 006	**–**	2 168 006
Preference dividend	**4 290**	6 913	**4 290**	6 913
Balance at the end of the year	**(1 971)**	(3 386)	**(1 971)**	(3 386)
Dividends paid	**5 705**	2 175 319	**5 705**	2 175 319

39. Commitments and contingent liabilities

	GROUP		COMPANY	
R'000	**2021**	**2020**	**2021***	**2020**
Capital commitments – approved by the board				
Contracted for:				
Property and equipment	**263 780**	254 568	**263 780**	254 568
Intangible assets	**133 897**	93 668	**133 897**	93 668
Not contracted for:				
Property and equipment	**676 575**	500 730	**676 314**	463 710
Intangible assets	**256 974**	128 369	**254 865**	128 369
Total capital commitments	**1 331 226**	977 335	**1 328 856**	940 315
Loan commitments	**5 139 006**	1 825 309	**5 139 006**	1 521 927
Retail bank	**4 924 124**	1 521 927	**4 924 124**	1 521 927
Business bank	**214 882**	303 382	**214 882**	–
Guarantees – Business bank (property bonds)	**581 651**	639 292	**581 651**	–
Total loan commitments and guarantees	**5 720 657**	2 464 601	**5 720 657**	1 521 927
Contingent liabilities				
VAT	**26 992**	26 992	**26 992**	26 992

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

40. Borrowing powers

In terms of the Memorandum of Incorporation of Capitec Bank Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation.

These borrowing powers are subject to the limitations of the Banks Act and section 45(3)(a)(ii) of the Companies Act. A special resolution was passed at the AGM on 31 May 2020 authorising the board to approve that the company provides any financial assistance that it deems fit to any related or interrelated company to the company, on the terms and conditions and for the amounts that the board may determine.

The increase in borrowings from the previous year is for the purposes of funding the general banking business, including future expansion of the loan book and capital expenditure.

41. Share incentive scheme

The share incentive scheme is authorised and adopted by the shareholders of Capitec Bank Holdings Limited. The trustees act in terms of the powers bestowed on them by the trust deed and receive instructions from time to time from the boards of Capitec Bank Holdings Limited and the bank. The bank provides the finance required from time to time by the trustees to perform their duties. Service costs of options issued to employees of subsidiaries of Capitec Bank Holdings Limited are financed by the relevant subsidiary.

The group allows its employees to purchase shares in Capitec Bank Holdings Limited up to a value not exceeding 20% (2020: 20%) of their monthly salary.

The purchase price includes a subsidy of 20% (2020: 20%) and the transaction costs are borne by the company.

The shares are held by the trustees on behalf of the participants for as long as required to save the holding expenses of a broker account for participants.

The group offers share options to members of management who are able to make significant contributions to the achievement of the bank's objectives. Options are conditional on the employee completing the vesting period applicable to each group of options issued to that employee.

The share incentive scheme prescribes that options, with durations ranging from 2 to 6 years, should be allocated at the market value, determined as the weighted average price per share over a period of 30 trading days on the JSE prior to the date of allocation.

Number	2021 Weighted average share price R	2021	2020
Options issued to employees of Capitec Bank Limited			
Balance at the beginning of the year	708.89	490 705	639 501
Options granted	930.48	223 747	86 158
Options cancelled and/or lapsed	861.59	(1 072)	–
Options exercised	512.35	(161 610)	(234 954)
Balance at the end of the year	913.95	551 770	490 705
SARs issued to employees of Capitec Bank Limited			
Balance at the beginning of the year	728.50	427 465	470 785
SARs granted	930.48	223 747	86 158
SARs cancelled and/or lapsed	861.59	(1 072)	–
SARs exercised	400.45	(98 370)	(129 478)
Balance at the end of the year	913.95	551 770	427 465

Analysis of outstanding share options by year of maturity	2021 Weighted average strike price R	2021 Number	2020 Weighted average strike price R	2020 Number
Financial year				
2019/2020	–	–	209.83	8 750
2020/2021	–	–	459.69	152 860
2021/2022	689.37	84 421	661.94	84 687
2022/2023	820.67	105 873	770.15	106 218
2023/2024	930.78	126 089	917.73	70 349
2024/2025	956.37	102 105	1 027.67	46 307
2025/2026	965.96	77 383	1 195.46	21 534
2026/2027	930.48	55 899	–	–
Total outstanding share options	913.95	551 770	708.89	490 705

Number	2021	2020
Shares available from previous period	–	–
Shares purchased/issued during the year	161 610	234 954
Shares utilised for settlement of options	(161 610)	(234 954)
Shares available for settlement of options	–	–
Settled in shares	(161 610)	(234 954)
Options exercised	(161 610)	(234 954)

Analysis of outstanding SARs by year of maturity	2021 Weighted average strike price R	2021 Number	2020 Weighted average strike price R	2020 Number
Financial year				
2019/2020	–	–	209.83	6 875
2020/2021	–	–	373.93	91 495
2021/2022	689.37	84 421	661.94	84 687
2022/2023	820.67	105 873	770.15	106 218
2023/2024	930.78	126 089	917.73	70 349
2024/2025	956.37	102 105	1 027.67	46 307
2025/2026	965.96	77 383	1 195.46	21 534
2026/2027	930.48	55 899	–	–
Total outstanding SARs	913.95	551 770	728.50	427 465

42. Share option liability

Data utilised in the valuation of options granted

The table below provides detail regarding the data used in the valuation of the share options to which IFRS 2 has been applied. A Black-Scholes option pricing model was used to value the options.[(1)(5)]

Year granted	Strike price R[(3)]	Year maturing[(4)]	Risk-free rate %	Number of options outstanding	Estimated value R'000	Expected vesting proportion[(2)] %	Fair value R'000	Portion of term expired %	Liability at year-end R'000
2021									
2016/2017	473.05	2021/2022	3.4	33 143	30 770	100.0	30 770	98.1	30 197
2016/2017	–	2022/2023	3.9	33 139	31 382	100.0	31 382	81.8	25 667
2016/2017	576.29	2021/2022	3.7	2 603	2 162	100.0	2 162	93.4	2 019
2016/2017	–	2022/2023	4.0	2 603	2 232	100.0	2 232	77.8	1 737
2017/2018	705.93	2021/2022	3.4	23 969	16 684	100.0	16 684	97.9	16 329
2017/2018	–	2022/2023	3.9	23 965	17 523	100.0	17 523	78.3	13 716
2017/2018	–	2023/2024	4.4	23 959	18 715	100.0	18 715	65.2	12 206
2018/2019	881.76	2021/2022	3.4	24 706	12 863	100.0	12 863	97.3	12 511
2018/2019	–	2022/2023	3.9	24 700	14 391	100.0	14 391	73.0	10 500
2018/2019	–	2023/2024	4.4	24 698	16 176	100.0	16 176	58.4	9 443
2018/2019	–	2024/2025	5.0	24 696	17 857	100.0	17 857	48.6	8 684
2019/2020	1 175.01	2022/2023	3.9	19 258	7 323	100.0	7 323	63.9	4 677
2019/2020	–	2023/2024	4.4	19 254	9 307	100.0	9 307	47.9	4 459
2019/2020	–	2024/2025	5.0	19 253	10 996	100.0	10 996	38.3	4 213
2019/2020	–	2025/2026	5.5	19 248	12 515	100.0	12 515	31.9	3 995
2019/2020	1 374.59	2022/2023	4.2	2 208	769	100.0	769	44.1	339
2019/2020	–	2023/2024	4.7	2 207	992	100.0	992	33.1	328
2019/2020	–	2024/2025	5.3	2 207	1 189	100.0	1 189	26.4	314
2019/2020	–	2025/2026	5.8	2 207	1 369	100.0	1 369	22.0	302
2020/2021	973.05	2023/2024	4.4	29 649	17 746	100.0	17 746	29.6	5 251
2020/2021	–	2024/2025	5.0	29 645	19 966	100.0	19 966	22.2	4 428
2020/2021	–	2025/2026	5.5	29 642	22 018	100.0	22 018	17.7	3 907
2020/2021	–	2026/2027	6.1	29 635	23 925	100.0	23 925	14.8	3 538
2020/2021	908.58	2023/2024	4.7	1 572	1 059	100.0	1 059	13.5	143
2020/2021	–	2024/2025	5.3	1 572	1 166	100.0	1 166	10.1	118
2020/2021	–	2025/2026	5.8	1 572	1 266	100.0	1 266	8.1	103
2020/2021	–	2026/2027	6.4	1 571	1 358	100.0	1 358	6.8	92
2020/2021	911.63	2023/2024	4.7	17 964	12 059	100.0	12 059	13.8	1 663
2020/2021	–	2024/2025	5.3	17 946	13 271	100.0	13 271	10.3	1 372
2020/2021	–	2025/2026	5.8	17 928	14 400	100.0	14 400	8.3	1 191
2020/2021	–	2026/2027	6.4	17 909	15 450	100.0	15 450	6.9	1 065
2020/2021	884.83	2023/2024	4.7	678	464	100.0	464	15.7	73
2020/2021	–	2024/2025	5.3	678	509	100.0	509	11.8	60
2020/2021	–	2025/2026	5.8	678	552	100.0	552	9.4	52
2020/2021	–	2026/2027	6.4	677	590	100.0	590	7.9	46
2020/2021	1 006.83	2023/2024	4.7	4 566	2 831	100.0	2 831	11.8	333
2020/2021	–	2024/2025	5.3	4 566	3 168	100.0	3 168	8.8	280
2020/2021	–	2025/2026	5.8	4 566	3 480	100.0	3 480	7.1	246
2020/2021	–	2026/2027	6.4	4 565	3 769	100.0	3 769	5.9	222
2020/2021	978.76	2023/2024	4.7	1 307	830	100.0	830	12.2	102
2020/2021	–	2024/2025	5.3	1 307	924	100.0	924	9.2	85
2020/2021	–	2025/2026	5.8	1 307	1 012	100.0	1 012	7.3	74
2020/2021	–	2026/2027	6.4	1 307	1 093	100.0	1 093	6.1	67
2020/2021	1 383.62	2023/2024	4.8	235	109	100.0	109	4.2	5
2020/2021	–	2024/2025	5.4	235	130	100.0	130	3.1	4
2020/2021	–	2025/2026	6.0	235	149	100.0	149	2.5	4
2020/2021	–	2026/2027	6.5	235	166	100.0	166	2.1	3
Total				551 770	388 675	100.0	388 675	47.9	186 163

Year granted	Strike price R[3]	Year maturing[4]	Risk-free rate %	Number of options outstanding	Estimated value R'000	Expected vesting proportion[2] %	Fair value R'000	Portion of term expired %	Liability at year-end R'000
2020									
2013/2014	209.83	2019/2020	6.3	8 750	9 539	100.0	9 539	100.0	9 539
2015/2016	371.88	2020/2021	6.3	84 070	78 073	100.0	78 073	98.2	76 662
2015/2016	539.88	2020/2021	6.5	8 875	6 847	100.0	6 847	86.5	5 921
2016/2017	473.05	2020/2021	6.3	33 260	27 541	100.0	27 541	97.7	26 919
2016/2017	–	2021/2022	6.3	33 257	27 923	100.0	27 923	78.2	21 837
2016/2017	–	2022/2023	6.3	33 253	28 254	100.0	28 254	65.2	18 415
2016/2017	576.29	2020/2021	6.7	2 603	1 901	100.0	1 901	91.8	1 745
2016/2017	–	2021/2022	6.3	2 603	1 945	100.0	1 945	73.4	1 428
2016/2017	–	2022/2023	6.3	2 603	1 991	100.0	1 991	61.2	1 219
2017/2018	705.93	2020/2021	6.3	24 052	14 341	100.0	14 341	97.3	13 947
2017/2018	–	2021/2022	6.3	24 050	14 989	100.0	14 989	72.9	10 928
2017/2018	–	2022/2023	6.3	24 046	15 672	100.0	15 672	58.3	9 138
2017/2018	–	2023/2024	6.5	24 040	16 414	100.0	16 414	48.6	7 975
2018/2019	881.76	2021/2022	6.3	24 777	11 599	100.0	11 599	64.1	7 429
2018/2019	–	2022/2023	6.3	24 771	12 783	100.0	12 783	48.0	6 142
2018/2019	–	2023/2024	6.5	24 769	13 920	100.0	13 920	38.4	5 352
2018/2019	–	2024/2025	6.6	24 768	14 878	100.0	14 878	32.0	4 765
2019/2020	1 175.01	2022/2023	6.3	19 337	6 429	100.0	6 429	30.7	1 971
2019/2020	–	2023/2024	6.5	19 333	7 674	100.0	7 674	23.0	1 765
2019/2020	–	2024/2025	6.6	19 332	8 701	100.0	8 701	18.4	1 600
2019/2020	–	2025/2026	6.8	19 327	9 659	100.0	9 659	15.3	1 481
2019/2020	1 374.59	2022/2023	6.4	2 208	624	100.0	624	10.9	68
2019/2020	–	2023/2024	6.6	2 207	763	100.0	763	8.1	62
2019/2020	–	2024/2025	6.7	2 207	885	100.0	885	6.5	58
2019/2020	–	2025/2026	6.9	2 207	998	100.0	998	5.4	54
Total				490 705	334 343	100.0	334 343	70.7	236 420

(1) *All rights were valued using the Black-Scholes model and the following variables:*

Dividend yield	*nil% (2020: 1.3%)*
Volatility[5]	*41.82% (2020: 29.9%)*
Share price	*R1 400.00 (2020: R1 288.90)*

(2) *Executive employee turnover of 0% per annum (2019: 0%) was used to estimated likelihood of vesting conditions realising. This is re-estimate in terms of IFRS 2 on an annual basis.*

(3) *As from the 2016 financial year: SARs are granted at a strike price equal to the 30-day weighted average share price up to and including the day before the resolution granting the respective SARs was passed. There is a fixed ratio between the number of SARs and share options granted.*

(4) *The human resources and remuneration committee (REMCO) approved changes to the performance conditions relating to SARs granted in 2017/2018. These performance conditions are the HEPS growth must exceed the CPI plus the percentage growth in gross domestic product (GDP) plus 4%, and the attained return on equity (ROE) must outperform the average ROE of the 4 traditional banks in South Africa. Each performance condition carries a weighting of 50% and is measured over a cumulative 3-year performance period. The 2021 financial year was not considered when determining whether the performance measures were met.*

(5) *The expected price volatility is based on an unadjusted 5-year annualised volatility.*

43. Share appreciation rights

Data utilised in the valuation of SARs granted

The table below provides detail regarding the data used in the valuation of the SARs to which IFRS 2 has been applied. SARs are expected to vest and are re-estimated on an annual basis.[(1)(5)]

Year granted	Strike price R[(3)]	Year maturing[(4)]	Risk-free rate %	Number of SARs outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[(2)] %	Liability at year-end R'000
2021								
2016/2017	473.05	2021/2022	3.4	33 143	30 770	98.1	100.0	30 197
2016/2017	–	2022/2023	3.9	33 139	31 382	81.8	100.0	25 667
2016/2017	576.29	2021/2022	3.7	2 603	2 162	93.4	100.0	2 019
2016/2017	–	2022/2023	4.0	2 603	2 232	77.8	100.0	1 737
2017/2018	705.93	2021/2022	3.4	23 969	16 684	97.9	100.0	16 329
2017/2018	–	2022/2023	3.9	23 965	17 523	78.3	100.0	13 716
2017/2018	–	2023/2024	4.4	23 959	18 715	65.2	100.0	12 206
2018/2019	881.76	2021/2022	3.4	24 706	12 863	97.3	100.0	12 511
2018/2019	–	2022/2023	3.9	24 700	14 391	73.0	100.0	10 500
2018/2019	–	2023/2024	4.4	24 698	16 176	58.4	100.0	9 443
2018/2019	–	2024/2025	5.0	24 696	17 857	48.6	100.0	8 684
2019/2020	1 175.01	2022/2023	3.9	19 258	7 323	63.9	100.0	4 677
2019/2020	–	2023/2024	4.4	19 254	9 307	47.9	100.0	4 459
2019/2020	–	2024/2025	5.0	19 253	10 996	38.3	100.0	4 213
2019/2020	–	2025/2026	5.5	19 248	12 515	31.9	100.0	3 995
2019/2020	1374.59	2022/2023	4.2	2 208	769	44.1	100.0	339
2019/2020	–	2023/2024	4.7	2 207	992	33.1	100.0	328
2019/2020	–	2024/2025	5.3	2 207	1 189	26.4	100.0	314
2019/2020	–	2025/2026	5.8	2 207	1 369	22.0	100.0	302
2020/2021	973.05	2023/2024	4.4	29 649	17 746	29.6	100.0	5 251
2020/2021	–	2024/2025	5.0	29 645	19 966	22.2	100.0	4 428
2020/2021	–	2025/2026	5.5	29 642	22 018	17.7	100.0	3 907
2020/2021	–	2026/2027	6.1	29 635	23 925	14.8	100.0	3 538
2020/2021	908.58	2023/2024	4.7	1 572	1 059	13.5	100.0	143
2020/2021	–	2024/2025	5.3	1 572	1 166	10.1	100.0	118
2020/2021	–	2025/2026	5.8	1 572	1 266	8.1	100.0	103
2020/2021	–	2026/2027	6.4	1 571	1 358	6.8	100.0	92
2020/2021	911.63	2023/2024	4.7	17 964	12 059	13.8	100.0	1 663
2020/2021	–	2024/2025	5.3	17 946	13 271	10.3	100.0	1 372
2020/2021	–	2025/2026	5.8	17 928	14 400	8.3	100.0	1 191
2020/2021	–	2026/2027	6.4	17 909	15 450	6.9	100.0	1 065
2020/2021	884.83	2023/2024	4.7	678	464	15.7	100.0	73
2020/2021	–	2024/2025	5.3	678	509	11.8	100.0	60
2020/2021	–	2025/2026	5.8	678	552	9.4	100.0	52
2020/2021	–	2026/2027	6.4	677	590	7.9	100.0	46
2020/2021	1 006.83	2023/2024	4.7	4 566	2 831	11.8	100.0	333
2020/2021	–	2024/2025	5.3	4 566	3 168	8.8	100.0	280
2020/2021	–	2025/2026	5.8	4 566	3 480	7.1	100.0	246
2020/2021	–	2026/2027	6.4	4 565	3 769	5.9	100.0	222
2020/2021	978.76	2023/2024	4.7	1 307	830	12.2	100.0	102
2020/2021	–	2024/2025	5.3	1 307	924	9.2	100.0	85
2020/2021	–	2025/2026	5.8	1 307	1 012	7.3	100.0	74
2020/2021	–	2026/2027	6.4	1 307	1 093	6.1	100.0	67
2020/2021	1 383.62	2023/2024	4.8	235	109	4.2	100.0	5
2020/2021	–	2024/2025	5.4	235	130	3.1	100.0	4
2020/2021	–	2025/2026	6.0	235	149	2.5	100.0	4
2020/2021	–	2026/2027	6.5	235	166	2.1	100.0	3
Total				551 770	388 675	47.9	100.0	186 163

Year granted	Strike price R[3]	Year maturing[4]	Risk-free rate %	Number of SARs outstanding	Fair value R'000	Portion of term expired %	Expected vesting proportion[2] %	Liability at year-end R'000
2020								
2013/2014	209.83	2019/2020	6.3	6 875	7 495	100.0	100.0	7 495
2015/2016	0.01	2020/2021	6.3	28 580	37 111	98.2	100.0	36 440
2015/2016	–	2020/2021	6.5	3 000	3 866	86.5	100.0	3 343
2016/2017	473.05	2020/2021	6.3	33 260	27 541	97.7	100.0	26 919
2016/2017	–	2021/2022	6.3	33 257	27 923	78.2	100.0	21 837
2016/2017	–	2022/2023	6.3	33 253	28 254	65.2	100.0	18 415
2016/2017	576.29	2020/2021	6.7	2 603	1 901	91.8	100.0	1 745
2016/2017	–	2021/2022	6.3	2 603	1 945	73.4	100.0	1 428
2016/2017	–	2022/2023	6.3	2 603	1 991	61.2	100.0	1 219
2017/2018	705.93	2020/2021	6.3	24 052	14 341	97.3	100.0	13 947
2017/2018	–	2021/2022	6.3	24 050	14 989	72.9	100.0	10 928
2017/2018	–	2022/2023	6.3	24 046	15 672	58.3	100.0	9 138
2017/2018	–	2023/2024	6.5	24 040	16 414	48.6	100.0	7 975
2018/2019	881.76	2021/2022	6.3	24 777	11 599	64.1	100.0	7 429
2018/2019	–	2022/2023	6.3	24 771	12 783	48.0	100.0	6 142
2018/2019	–	2023/2024	6.5	24 769	13 920	38.4	100.0	5 352
2018/2019	–	2024/2025	6.6	24 768	14 878	32.0	100.0	4 765
2019/2020	1 175.01	2022/2023	6.3	19 337	6 429	30.7	100.0	1 971
2019/2020	–	2023/2024	6.5	19 333	7 674	23.0	100.0	1 765
2019/2020	–	2024/2025	6.6	19 332	8 701	18.4	100.0	1 600
2019/2020	–	2025/2026	6.8	19 327	9 659	15.3	100.0	1 481
2019/2020	1 374.59	2022/2023	6.4	2 208	624	10.9	100.0	68
2019/2020	–	2023/2024	6.6	2 207	763	8.1	100.0	62
2019/2020	–	2024/2025	6.7	2 207	885	6.5	100.0	58
2019/2020	–	2025/2026	6.9	2 207	998	5.4	100.0	54
Total				427 465	288 356	66.4	100.0	191 576

(1) *All rights were valued using the Black-Scholes model and the following variables:*

Dividend yield	*nil% (2020: 1.3%)*
Volatility[5]	*41.82% (2020: 29.9%)*
Share price	*R1 400.00 (2020: R1 288.90)*

(2) *Executive employee turnover of 0% per annum (2019: 0%) was used to estimated likelihood of vesting conditions realising. This is re-estimate in terms of IFRS 2 on an annual basis.*

(3) *As from the 2016 financial year: SARs are granted at a strike price equal to the 30-day weighted average share price up to and including the day before the resolution granting the respective SARs was passed. There is a fixed ratio between the number of SARs and share options granted.*

(4) *The REMCO approved changes to the performance conditions relating to SARs granted in 2017/2018. These performance conditions are the HEPS growth must exceed the CPI plus the percentage growth in GDP plus 4%, and the attained ROE must outperform the average ROE of the 4 traditional banks in South Africa. Each performance condition carries a weighting of 50% and is measured over a cumulative 3-year performance period. The 2021 financial year was not considered when determining whether the performance measures were met.*

(5) *The expected price volatility is based on an unadjusted 5-year annualised volatility.*

44. Derivative financial instruments

Designated as cash flow hedges

	GROUP		
		Fair values	
R'000	Notional	Assets	Liabilities
2021			
Interest rate swaps	**1 000 000**	**–**	**44 879**
Total interest rate swaps	**1 000 000**	**–**	**44 879**
2020			
Interest rate swaps	2 100 000	–	31 029
Total interest rate swaps	2 100 000	–	31 029

R'000	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Grand total
2021					
Discounted swap cash flows	**2 450**	**8 794**	**13 342**	**20 293**	**44 879**
Total interest rate swaps	**2 450**	**8 794**	**13 342**	**20 293**	**44 879**
2020					
Discounted swap cash flows	–	5 262	13 745	12 022	31 029
Total interest rate swaps	–	5 262	13 745	12 022	31 029

	GROUP			
	Notional		Fair values	
R'000	Foreign	R	Assets	Liabilities
2021				
Forward foreign exchange contracts – US dollar	**61 039**	**865 019**	**12 215**	**8 682**
Forward foreign exchange contracts – euro	**21 235**	**382 813**	**5 551**	**3 040**
Forward foreign exchange contracts – pound sterling	**1 656**	**30 267**	**170**	**613**
Forward foreign exchange contracts – other	**4 254**	**23 776**	**112**	**252**
Total forward foreign exchange contracts		**1 301 875**	**18 048**	**12 587**
Foreign currency swap contracts – US dollar	**36 650**	**555 095**	**7 413**	**5 354**
Foreign currency swap contracts – euro	**11 730**	**217 446**	**2 346**	**2 547**
Foreign currency swap contracts – pound sterling	**1 600**	**33 321**	**204**	**222**
Total foreign currency swap contracts		**805 862**	**9 963**	**8 123**
Derivative financial instruments		**2 107 737**	**28 011**	**20 710**
2020				
Forward foreign exchange contracts – US dollar	33 640	527 821	10 131	18 883
Forward foreign exchange contracts – euro	15 823	275 098	2 460	10 371
Forward foreign exchange contracts – pound sterling	2 075	42 185	742	515
Forward foreign exchange contracts – other	2 492	14 805	67	236
Total forward foreign exchange contracts		859 909	13 400	30 005
Foreign currency swap contracts – US dollar	12 662	199 543	14 790	–
Foreign currency swap contracts – euro	9 566	165 891	9 250	–
Total foreign currency swap contracts		365 434	24 040	–
Derivative financial instruments		1 225 343	37 440	30 005

R'000	GROUP 2021	2020
Derivative asset		
Current portion	**28 011**	28 883
Non-current portion	**–**	8 557
Total foreign currency exchange and swap contracts	**28 011**	37 440
Derivative liability		
Current portion	**20 710**	30 005
Non-current portion	**–**	–
Total foreign currency exchange and swap contracts	**20 710**	30 005

	COMPANY		
R'000	Notional R	Fair values Assets	Fair values Liabilities
2021			
Interest rate swaps	**1 000 000**	**–**	**44 879**
Total interest rate swaps	**1 000 000**	**–**	**44 879**
2020			
Interest rate swaps	2 100 000	–	31 029
Total interest rate swaps	2 100 000	–	31 029

R'000	Demand to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Grand total
2021					
Discounted swap cash flows	**2 450**	**8 794**	**13 342**	**20 293**	**44 879**
Total interest rate swaps	**2 450**	**8 794**	**13 342**	**20 293**	**44 879**
2020					
Discounted swap cash flows	–	5 262	13 745	12 022	31 029
Total interest rate swaps	–	5 262	13 745	12 022	31 029

44. Derivative financial instruments continued

Designated as cash flow hedges continued

R'000	COMPANY Notional Foreign	R	Fair values Assets	Liabilities
2021*				
Forward foreign exchange contracts – US dollar	61 039	865 019	12 215	8 682
Forward foreign exchange contracts – Euro	21 235	382 813	5 551	3 040
Forward foreign exchange contracts – Pound sterling	1 656	30 267	170	613
Forward foreign exchange contracts – other	4 259	23 776	112	252
Net		1 301 875	18 048	12 587
Foreign currency swap contracts – US dollar	36 650	555 095	7 413	5 354
Foreign currency swap contracts – Euro	11 720	217 446	2 346	2 547
Foreign currency swap contracts – Pound sterling	1 600	33 321	204	222
Total forward foreign exchange contracts		805 862	9 963	8 123
Derivative financial instruments		2 107 737	28 011	20 710
2020				
Forward foreign exchange contracts – US dollar	7 617	116 794	5 713	–
Total forward foreign exchange contracts	–	116 794	5 713	–

R'000	COMPANY 2021	2020
Derivative asset		
Current portion	28 011	2 844
Non-current portion	–	2 869
Total foreign currency exchange and swap contracts	28 011	5 713
Derivative liability		
Current portion	20 710	–
Non-current portion	–	–
Total foreign currency exchange and swap contracts	20 710	–

* *The assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited on 1 December 2020, hence the increase from prior year to current year. Refer to note 4.*

Forward foreign exchange contracts

Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions, and were entered into to match corresponding expected future transactions.

Gains and losses recognised in comprehensive income (note 26) on swap agreements will be continuously released to the income statement in line with the interest expense movement on the underlying hedged items.

The forecast cash flows presented above show how the cash flow hedging reserve will be released to the income statement over time. The swaps have quarterly reset and settlement dates. The forecast cash flows were based on contracted interest and ruling exchange rates. The hedged items comprise variable rate bonds and negotiable instruments detailed in note 19. To ensure hedge effectiveness, the variable rate cash flows on the hedged items are matched with variable rate interest rate swap cash flows (hedging instruments) by entering into swaps where amounts, interest rates and maturities of the swaps exactly match the hedged items.

As at 28 February 2021, the fixed interest rates were between 7.12% and 7.5% (2020: 7.030% and 8.510%) and the floating rates were based on forecast 3-month JIBAR as at 28 February 2021.

The fair value adjustment transferred to the income statement amounted to R47 million (2020: R15 million) and is included in interest expense and other operating expenses. In 2020 and 2021, there were no transactions for which cash flow hedge accounting had to be discontinued due to highly probable cash flow no longer expected to occur.

45. Discontinued operations

Capitec Bank Limited hold shares in insurance cell captives provided by Guardrisk Life Limited and Centriq Life Insurance Company Limited. As Capitec Bank Limited does not have an insurance licence these insurance cell captives are used to provide credit life and funeral insurance products to clients. The profit made in these cells is recognised by the owner of the shares in the cell and the cash flow is effected via the payment of periodic dividends by the cell to its shareholder.

It is considered common place and good governance for the insurance business of a banking group to sit outside of the company within a banking group that holds the banking licence. The SARB requested the shareholding in the insurance cells be transferred out of Capitec Bank Limited. As such, the shares in the insurance cell captives were sold to Capitec Ins Proprietary Limited, a subsidiary of Capitec Bank Holdings Limited, effective 31 March 2021.

The sale is subject to a number suspensive conditions that will only be satisfied at the end of April 2021. This includes confirmation of the valuation, being the fair value of policies on book as at 31 March 2021.

The operation is considered to be a discontinued operation because it is separately distinguishable and it represents a major product line due to the fact that it contributes a significant portion of net profit.

The transfer of the cell captives takes place after year-end so it is a non-adjusting post-balance sheet event with no gain or loss.

45. Discontinued operations continued

Financial information relating to the discontinued operation for the period is set out below.

	GROUP		COMPANY	
R'000	**2021**	**2020**	**2021**	**2020**
Funeral plan income receivable[6]	**524 732**	–	**524 732**	–
Net insurance receivable[1][6]	**987 116**	–	**987 116**	–
Opening balance	**217 423**	–	**217 423**	–
Underwriting profit after tax[2]	**965 234**	–	**965 234**	–
Interest received[5]	**–**	–	**–**	–
Additional investment[3]	**100 000**	–	**100 000**	–
Distribution paid to the group[4]	**(295 541)**	–	**(295 541)**	–
Assets held for sale	**1 511 848**	–	**1 511 848**	–
Current	**1 511 848**	–	**1 511 848**	–

[1] *The amount receivable from the insurer represents the right to a residual interest in the cell captive reduced by the distributions declared by the cell captive insurer.*
[2] *Refer to the note below where a breakdown of the underwriting profit after tax is provided.*
[3] *The group subscribed for an additional ordinary share, at a subscription price of R100 million, on 30 June 2020.*
[4] *No distribution was declared in May 2020 in order to ensure that the cell captive meets the required solvency levels as defined by the solvency assessment management (SAM) regulations.*
[5] *As of 2021, interest received is included in the underwriting profit after tax.*
[6] *In the current year, the funeral plan income receivable as well as the net insurance receivable were classified as assets held for sale. Refer to note 10 and 11 for comparative information.*

	GROUP		COMPANY	
R'000	**2021**	**2020**	**2021**	**2020**
Funeral plan income	**650 249**	413 133	**650 249**	413 133
Net insurance income	**965 234**	980 838	**965 234**	980 838
Premium income received	**2 839 530**	2 413 753	**2 839 530**	2 413 753
Reinsurance premium paid[1]	**(416 458)**	(917 508)	**(416 458)**	(917 508)
Net premium written	**2 423 072**	1 496 245	**2 423 072**	1 496 245
Claims paid – Gross	**(1 442 929)**	(779 305)	**(1 442 929)**	(779 305)
Claims paid – Reinsurance recoveries[1]	**543 125**	715 429	**543 125**	715 429
Incurred but yet reported charge[2]	**(220 587)**	(45 816)	**(220 587)**	(45 816)
Interest received	**37 922**	–	**37 922**	–
Underwriting profit	**1 340 603**	1 386 553	**1 340 603**	1 386 553
Taxation	**(375 369)**	(405 715)	**(375 369)**	(405 715)
Total comprehensive income – discontinued operations	**1 615 483**	1 393 971	**1 615 483**	1 393 971

[1] *Reinsurance premiums paid and recoveries received relate to the period for which the loan book was covered for death and retrenchment risk by a reinsurance agreement*
– Death risk cover: 1 March 2020 – 30 April 2020, from 1 August 2020.
– Retrenchment risk cover: 1 March 2020 – 30 April 2020.
[2] *An IBNR provision is raised for IBNR claims based on historical experience. The cell captive determines the IBNR by applying a percentage to premiums written during the period, in line with SAM regulations. Due to the uncertainty created by COVID-19, the IBNR for retrenchment risk was increased.*

	GROUP		COMPANY	
R'000	**2021**	**2020**	**2021**	**2020**
Cash flow statement				
Cash flow from operating activities	**(1 021 176)**	18 968	**(1 021 176)**	18 968

46. Events past the date of the statement of financial position

Capitec Bank Limited holds shares in insurance cell captives provided by Guardrisk Life Limited and Centriq Life Insurance Company Limited. As Capitec Bank Limited does not have an insurance licence these insurance cell captives are used to provide credit life and funeral insurance products to clients. The profit made in these cells is recognised by the owner of the shares in the cell and the cash flow is effected via the payment of periodic dividends by the cell to its shareholder.

It is considered good governance for the insurance business of a banking group to be held outside of the company within a banking group that holds the banking licence. The SARB requested that the shareholding in the insurance cells be transferred out of Capitec Bank Limited. As such, the shares in the insurance cell captives were sold to Capitec Ins Proprietary Limited, a wholly-owned subsidiary of Capitec Bank Holdings Limited, effective 31 March 2021.

The sale within the group is subject to a number of suspensive conditions that will only be satisfied at the end of April 2021. This includes confirmation of the valuation, being the fair value of policies on book at as 31 March 2021. The sale takes place after year-end, so it is a non-adjusting post-balance sheet event.

Statutory information

Persons holding more than 5% of the company's issued debt securities

Holder	Instrument held	Amount held R'000	Holding %[1]
Nedgroup Investments Flexible Income Fund	Other unlisted negotiable instruments	56 446.60	40
Sanlam Investment Management Proprietary Limited	Other unlisted negotiable instruments	47 026.15	33
PSG Diversified Income Fund	Other unlisted negotiable instruments	18 331.17	13
PSG Wealth Enhanced Interest Fund	Other unlisted negotiable instruments	17 649.32	13
Allan Gray Money Market Fund	Listed senior bond	144 383.07	9
NGI Flexible Income Fund	Listed senior bond	100 394.45	7
Sanlam Developed Markets Guaranteed Plan	Listed senior bond	99 360.39	7
Old Mutual Life Assurance Limited	Listed senior bond	98 097.21	6
Sanlam Life Insurance Limited	Listed senior bond	87 181.96	6
Channel Life Limited	Wholesale	61 621.49	65
Guardrisk Life Limited	Wholesale	33 627.22	35

[1] *Percentage holding is of the respective class of instruments.*

Abbreviations and acronyms

AA	Affirmative action
AC	Authenticated collections
AEDO	Authenticated early debit order
AGM	Annual general meeting
ALCO	Asset and liability committee
ALM	Asset and liability management
AT1	Additional tier 1
ATM	Automated teller machine
Banks Act	Banks Act, Act 94 of 1990
BANKSETA	Banking Sector Education and Training Authority
BASA	Banking Association South Africa
B-BBEE	Broad-based black economic empowerment
BCC	Business bank credit committee
BER	Bureau of Economic Research
Capitec or Capitec Bank	Capitec Bank Limited
Capitec Holdings	Capitec Bank Holdings Limited
CAPM	Capital asset pricing model
CAR	Capital adequacy ratio
CC	Credit committee
CCF	Credit conversion factors
CCMR	Consumer Credit Market Report
CEO	Chief executive officer
CET1	Common equity tier 1
CFO	Chief financial officer
CGU	Cash-generating unit
CIS	Collective investment schemes
CMT	Continuity management team
CNR	Coin and note recyclers
CODM	Chief operating decision-maker
CoFI Bill	Conduct of Financial Institutions Bill
Companies Act	Companies Act of South Africa, Act 71 of 2008
CPI	Consumer Price Index
CRM	Credit risk mitigation
CSI	Corporate social investment
DAC	Directors' affairs committee
Data Steerco	Data steering committee
DCF	Discounted cash flow
DEFRA	UK Department for Environment, Food and Rural Affairs
Deloitte	Deloitte & Touche
DNR	Dual note recycler
D-SIB	Domestic systemically important bank
EAD	Exposure at default
ECL	Expected credit loss
EDC	External debt collector
EE	Employment equity
ERP	Enterprise resource premium
EVP	Employee value proposition
EXCO	Executive management committee
FICA	Financial Intelligence Centre Act, Act 38 of 2001
FMCG	Fast-moving consumer goods
FSC	Financial Sector Code
FSCA	Financial Sector Conduct Authority
FTSE	Financial Times Stock Exchange
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GDP	Gross domestic product
GHG	Greenhouse gas
GIBS	Gordon institute of Business Science
HEPS	Headline earnings per share
HOD	Head of department
HR	Human resources
IBNR	Incurred but not yet reported
IBOR	Interest rate benchmark reform
ICAAP	Internal capital adequacy assessment process
ICR	Individual capital requirement
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IoDSA	Institute of Directors South Africa
IRBA Code	Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors
ISA	International Standards on Auditing
ISF	Information Security Forum
ISMS	Information security management system
ISO	International Organisation for Standardisation
IT	Information technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange Limited
JSE IRC	The Johannesburg Stock Exchange's Interest Rate and Currency market
King IV	King IV Report on Corporate Governance™ for South Africa, 2016
KPI	Key performance indicator

Abbreviations and acronyms continued

KRI	Key risk indicator
LCR	Liquidity coverage ratio
LDT	Last day of trade
LGD	Loss given default
LTI	Long-term incentive
Mercantile	Mercantile Bank Limited (name changed to Mer Pastcomp Limited in January 2021)
MMUT	Money market unit trust
Moody's	Moody's Investors Services Inc.
MOS	Management operating system
MPS	Mercantile Payment Solutions
MRF	Mercantile Rental Finance Proprietary Limited
MSR	Minimum shareholding requirements
MTSC	Modelling technical subcommittee
NACM	Nominal annual compounded monthly
NAEDO	Non-authenticated early debit order
NCA	National Credit Act, Act 34 of 2005
NCR	National Credit Regulator
NSFR	Net stable funding ratio
NT	National Treasury
ORSA	Own risk and solvency assessment
PA	Prudential Authority
PD	Probability of default
POPIA	Protection of Personal Information Act, Act 4 of 2013
Primary banking client	When we refer to primary banking clients, we mean clients who make regular deposits, mainly salaries
PwC	PricewaterhouseCoopers Inc.
Quality client	Quality banking clients are those clients who have stable inflows into their account and stable product usage over a consecutive 3-month period
RCC	Retail bank credit committee
RCDR	Retail call deposit limit ratio
RCMC	Risk and capital management committee
RDARR	Risk data aggregation and risk reporting
REMCO	Human resources and remuneration committee
Remote banking	Remote banking refers to both banking app and USSD transactions
RISCO	Risk committee
ROE	Return on equity
RSP	Restricted share plan
RWA	Risk-weighted assets
S&P	Standard & Poor's
SAICA	South African Institute of Chartered Accountants
SAM	Solvency assessment and management
SAP	Standard of Actuarial Practice
SAR	Share appreciation rights
SARA	South African Reward Association
SARB	South African Reserve Bank
SARS	South African Revenue Service
SASSA	South African Social Security Agency
SECO	Social and ethics committee
SENS	Stock Exchange News Service
SICR	Significant increase in credit risk
SME	Small and medium-sized enterprise (not enterprises)
SPPI	Solely payments of principal and interest
SST	Self-service terminals
STI	Short-term incentive
T1	Tier 1
T2	Tier 2
TCFD	Task Force on Climate-related Financial Disclosures
TGP	Total guaranteed pay
the group	Capitec Bank Holdings Limited and subsidiaries
TR	Total reward
TREC	Thursday Retail bank executive credit meeting
UN	United Nations
UN SDGs	United Nations Sustainable Development Goals
USSD	Unstructured Supplementary Service Data
VAT	Value added tax

Contact information

Capitec Bank Holdings Limited

Registration number	1999/025903/06
JSE code	CPI
ISIN	ZAE000035861

Directors

SL Botha (chairman)
GM Fourie (CEO)*
AP du Plessis (CFO)*
SA du Plessis[(1)]
CH Fernandez[(1)]
MS du Pré le Roux
V Mahlangu[(1)]
TE Mashilwane
NS Mashiya (executive: risk management)*
K Makwane (resigned on 25 September 2020)
JD McKenzie
DP Meintjes
PJ Mouton
CA Otto
JP Verster

* *Executive.*
[(1)] *Appointed on 25 September 2020.*

Company secretary

YM Mouton (Ms)

Registered address

5 Neutron Road, Techno Park, Stellenbosch, 7600

Postal address

PO Box 12451, Die Boord, Stellenbosch, 7613

Website

www.capitecbank.co.za

Shareholders' calendar

Financial year-end	28 February 2021
Profit announcement	13 April 2021
Integrated annual report	13 April 2021
AGM	28 May 2021
Interim report	September 2021

Social media

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

Facebook

Capitec Bank

We have more than **670 000 followers** – the second largest following among South African banks.

Our Facebook page grew by **21.8%** over the past year.

Twitter

Capitec Bank SA

We have more than **236 000 followers** – one of the highest organic engagement rates per post of any South African bank on Twitter.

Our followers increased by **10.5%** in the past year.

Instagram

CapitecBank

Our Instagram account reached our **47 400 followers** – this is the largest following of all the financial service providers in South Africa.

The page grew by over **39.4%** in the past year.

YouTube

Capitec Bank

We have more than **31 000 subscribers** on YouTube. Subscribers increased by **21.6%** in the past year.

In 2020, the videos on the platform achieved 6.5 million views and 57 500 hours total watch time.

LinkedIn

Capitec Bank

Our highly engaged audience on LinkedIn has grown by **44.9%** to more than **322 000** over the past year.