Resilience, growth and future focus

unaudited financial results

Headline earnings
+9%
to R4.697 billion

Return on equity
24%

Interim dividend per share
1 530
cents

for the 6 months ended 31 August 2023

Key performance indicators		6 months ended August 2023	2022 restated[2]	August 2023/2022 restated[1][2] %	Year ended February 2023 restated[2]
Profitability					
Interest income on lending	R'm	**8 985**	7 432	21	15 799
Interest income on investments and other financial instruments	R'm	**3 552**	2 502	42	5 400
Interest expense	R'm	**(4 519)**	(3 071)	47	(6 993)
Net interest income	R'm	**8 018**	6 863	17	14 206
Net loan fee income	R'm	**594**	522	14	1 079
Net transaction and commission income	R'm	**6 913**	5 559	24	11 461
Net foreign currency income	R'm	**82**	78	5	162
Funeral plan	R'm	**636**	401	59	1 018
Credit life	R'm	**912**	760	20	1 667
Net insurance result	R'm	**1 548**	1 161	33	2 685
Other income	R'm	**77**	52	48	158
Net non-interest income	R'm	**9 214**	7 372	25	15 545
Income from operations	R'm	**17 232**	14 235	21	29 751
Credit impairments	R'm	**(4 761)**	(2 939)	62	(6 329)
Net income	R'm	**12 471**	11 296	10	23 422
Operating expenses	R'm	**(6 607)**	(5 777)	14	(11 877)
Share of net profit of associates and joint ventures	R'm	**29**	32	(9)	98
Operating profit before tax	R'm	**5 893**	5 551	6	11 643
Income tax expense	R'm	**(1 197)**	(1 226)	(2)	(2 492)
Profit after tax	R'm	**4 696**	4 325	9	9 151
Preference dividend	R'm	**(2)**	(2)		(4)
Discount on repurchase of preference shares	R'm	**(1)**	—		—
Earnings attributable to ordinary shareholders[3]					
Basic	R'm	**4 693**	4 323	9	9 147
Headline	R'm	**4 697**	4 322	9	9 153
Net transaction and commission, net foreign currency and funeral plan income to income from operations	%	**44**	42		42
Net transaction and commission, net foreign currency and funeral plan income to operating expenses	%	**115**	105		106
Cost-to-income ratio	%	**38**	41		40
Return on ordinary shareholders' equity	%	**24**	25		25
Earnings per share					
Attributable	cents	**4 068**	3 739	9	7 933
Headline	cents	**4 072**	3 738	9	7 938
Number of shares for calculation	'000	**115 352**	115 627		115 309
Diluted attributable	cents	**4 062**	3 729	9	7 911
Diluted headline	cents	**4 066**	3 728	9	7 917
Number of shares for calculation	'000	**115 526**	115 934		115 617
Dividends per ordinary share					
Interim	cents	**1 530**	1 400	9	1 400
Final	cents				2 800
Total	cents	**1 530**	1 400	9	4 200
Number of shares for calculation	'000	**116 100**	116 100		116 100
Dividend cover	times	**2.6**	2.7		1.9
Assets					
Net loans and advances	R'm	**78 965**	72 887	8	78 168
Cash and financial investments[4]	R'm	**102 005**	94 031	8	95 965
Other	R'm	**19 533**	14 841	32	16 503
Total assets	R'm	**200 503**	181 759	10	190 636
Liabilities					
Deposits and wholesale funding	R'm	**154 201**	140 723	10	146 498
Other	R'm	**6 949**	6 223	12	6 218
Total liabilities	R'm	**161 150**	146 946	10	152 716
Equity					
Shareholders' funds (total equity)	R'm	**39 353**	34 813	13	37 920
Capital adequacy ratio (CAR)	%	**37**	35		34
Net asset value per ordinary share	cents	**33 995**	30 064	13	32 753
Number of shares for calculation	'000	**115 627**	115 627		115 627
Share price	cents	**158 470**	204 355	(22)	175 451
Market capitalisation	R'm	**183 984**	237 256	(22)	203 699
Number of shares in issue per the shareholders' register	'000	**116 100**	116 100		116 100
Operations					
Branches		**866**	856	1	860
Employees		**15 425**	15 295	1	15 451
Active clients (including POS merchants)[5]	'000	**21 096**	19 029	11	20 105
ATMs, DNRs and CNRs[6]		**8 044**	7 436	8	7 898
Capital expenditure	R'm	**567**	582	(3)	1 163
Credit sales					
Retail bank – value of total loans advanced	R'm	**24 225**	26 528	(9)	52 928
Value of credit card disbursements/drawdowns	R'm	**7 963**	6 299	26	13 484
Value of access facility disbursements/drawdowns	R'm	**7 325**	9 852	(26)	19 779
Value of term loans advanced (net of loan consolidations)	R'm	**8 937**	10 377	(14)	19 665
Business bank – value of total loans advanced	R'm	**37 353**	32 293	16	65 484
Value of mortgage loans advanced	R'm	**1 283**	1 281		2 585
Value of business loans advanced	R'm	**1 903**	1 376	38	3 043
Value of overdraft disbursements/drawdowns[7]	R'm	**34 167**	29 636	15	59 856
Value of total loans advanced	R'm	**61 578**	58 821	5	118 412
Credit book					
Gross loans and advances	R'm	**100 877**	91 935	10	97 815
Retail bank	R'm	**83 775**	77 905	8	82 297
Stage 1	R'm	**48 486**	49 450	(2)	50 320
Stage 2	R'm	**13 954**	12 380	13	13 518
Stage 3	R'm	**21 335**	16 075	33	18 459
Business bank	R'm	**17 102**	14 030	22	15 518
Stage 1	R'm	**14 443**	11 935	21	13 177
Stage 2	R'm	**1 326**	1 132	17	1 213
Stage 3	R'm	**1 333**	963	38	1 128
Provision for credit impairments (expected credit losses (ECL))	R'm	**(21 912)**	(19 048)	15	(19 647)
Retail bank	R'm	**(20 882)**	(18 299)	14	(18 806)
Business bank	R'm	**(1 030)**	(749)	38	(841)
Net loans and advances	R'm	**78 965**	72 887	8	78 168
Retail bank	R'm	**62 893**	59 606	6	63 491
Business bank	R'm	**16 072**	13 281	21	14 677
Gross credit impairment charge on loans and advances	R'm	**5 097**	3 302	54	7 041
Bad debts recovered	R'm	**331**	368	(10)	707
Net credit impairment charge on loans and advances[8]	R'm	**4 766**	2 934	62	6 334
Net credit impairment charge on loans and advances to average gross loans and advances (credit loss ratio)	%	**4.8**	3.3		7.0
Total lending and credit life insurance income[9]	R'm	**10 491**	8 714	20	18 545
Net credit impairment charge on loans and advances to total lending and credit life insurance income[9]	%	**45.4**	33.7		34.2
Deposits and wholesale funding					
Wholesale funding	R'm	**2 369**	1 817	30	2 439
Call savings	R'm	**100 512**	91 653	10	96 252
Fixed savings	R'm	**49 735**	46 080	8	46 533
Foreign currency deposits	R'm	**1 585**	1 173	35	1 274

(1) *The percentage changes quoted in the commentary are based on figures denominated in R'million.*
(2) *The financial statements have been restated for the adoption of IFRS 17 Insurance Contracts. Refer to note 2 to the condensed consolidated financial statements.*
(3) *Refer to the reconciliation of attributable earnings to headline earnings in the condensed consolidated financial statements for details regarding the difference between basic and headline earnings.*
(4) *Cash, cash equivalents, money market funds, government bonds, term deposits and other financial investments.*
(5) *Point-of-sale merchants.*
(6) *Automated teller machines, dual note recyclers and coin and note recyclers.*
(7) *Overdraft disbursements/drawdowns are gross of repayments.*
(8) *This charge is for loans and advances only. The income statement charge for the reporting period includes a release of R4.3 million (August 2022: an expense of R5.7 million; February 2023: a release of R4.3 million) related to other financial assets.*
(9) *Interest received on loans, initiation fees, monthly service fees and credit life insurance income.*

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Resilience, growth and future focus

Financial performance overview

Headline earnings grew by 9% to R4.7 billion from the restated headline earnings of R4.3 billion for the comparative period[1]. Tough economic conditions continued to put pressure on South African consumers and businesses. Pre-provision operating profit[2] grew by 26% which was partially offset by an increase in the credit impairment charge.

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

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

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

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

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

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

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

[2] Income from operations less operating expenses.

Resilience

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

Growth

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

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

Our VAS initially allowed clients to send cash and buy airtime and electricity. VAS has since been expanded to include bill payments as well as the purchase of national lottery tickets and vouchers. The new products, which were only launched during the first half of the 2023 financial year, added an additional R274 million to net transaction income and 66 million in transactions to total transaction volumes for the reporting period. Income from VAS makes up 16% of net transaction and commission income (August 2022: 13%). Capitec Connect was launched during September 2022 and as at the end of August 2023, more than 1.3 million SIM cards had been issued.

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

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

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

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

Future focus

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

Retail bank and Insurance

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

Net interest income

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

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

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

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

Net transaction and commission income

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

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

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

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

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

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

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

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

Net credit life insurance

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

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

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

Funeral income

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

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

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

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

IFRS 17 restatements

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

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

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

Loans and advances and credit impairment charge

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Stage 1 12-month ECL	Stage 2 Lifetime ECL			Stage 3 Lifetime ECL				
R'm	**Up-to-date**	**Up-to-date loans with SICR and applied for debt review >6 months**	**Forward looking SICR[1]**	**Up to 1 month in arrears**	**2 and 3 months in arrears**	**Rescheduled from up-to-date (not yet rehabilitated)**	**Rescheduled from arrears (not yet rehabilitated)**	**More than 3 months in arrears, legal statuses and applied for debt review <6 months**	**Total**
Balance as at 31 August 2023									
Gross loans and advances	**48 486**	**11 020**	**1 575**	**1 359**	**2 503**	**2 422**	**2 003**	**14 407**	**83 775**
Provision for credit impairments (ECL)[2]	**(3 644)**	**(2 617)**	**(355)**	**(678)**	**(1 740)**	**(766)**	**(554)**	**(10 528)**	**(20 882)**
Net loans and advances	**44 842**	**8 403**	**1 220**	**681**	**763**	**1 656**	**1 449**	**3 879**	**62 893**
ECL coverage (%)	**7.5**	**23.7**	**22.5**	**49.9**	**69.5**	**31.6**	**27.7**	**73.1**	**24.9**
% of gross loan book	**58**	**13**	**2**	**2**	**3**	**3**	**2**	**17**	**100**
Balance as at 28 February 2023									
Gross loans and advances	50 320	9 803	1 951	1 764	2 202	1 917	1 915	12 425	82 297
Provision for credit impairments (ECL)[2]	(3 634)	(2 219)	(468)	(851)	(1 493)	(584)	(527)	(9 030)	(18 806)
Net loans and advances	46 686	7 584	1 483	913	709	1 333	1 388	3 395	63 491
ECL coverage (%)	7.2	22.6	24.0	48.2	67.8	30.5	27.5	72.7	22.9
% of gross loan book	62	12	2	2	3	2	2	15	100
Balance as at 31 August 2022									
Gross loans and advances	49 450	9 165	1 705	1 510	2 026	1 280	1 670	11 099	77 905
Provision for credit impairments (ECL)[2]	(4 884)	(1 929)	(390)	(751)	(1 385)	(362)	(412)	(8 186)	(18 299)
Net loans and advances	44 566	7 236	1 315	759	641	918	1 258	2 913	59 606
ECL coverage (%)	9.9	21.0	22.9	49.7	68.4	28.3	24.7	73.8	23.5
% of gross loan book	63	12	2	2	3	2	2	14	100

[1] Comprises loans where the forward-looking information indicates a SICR trigger.

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

Business bank

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

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

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

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

Net interest income

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

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

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

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

Net transaction and commission income

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

Loans and advances and credit impairment charge

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

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

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

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

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

Operating expenses

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

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

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

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

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

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

Capital and liquidity

As at 31 August 2023, we remain well capitalised with a CAR of 36.8%. We comfortably comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 2 437% and our NSFR is 221%, with the regulatory requirement of 100% for both ratios.

Credit ratings

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

Environmental, social and governance (ESG)

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

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

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

Appointment of new executive: risk management

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

Changes to the board

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

Interim dividend

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

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

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

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

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

This announcement was signed on behalf of the board by

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch : 28 September 2023

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Capitec Bank Holdings Limited Registration number: 1999/025903/06 Registered bank controlling company Incorporated in the Republic of South Africa **JSE ordinary share code**: CPI **ISIN code:** ZAE000035861 **JSE preference share code**: CPIP **ISIN code:** ZAE000083838 ('Capitec' or 'the group' or 'the company') **Company secretary and registered office**: YM Mouton 5 Neutron Road, Techno Park, Stellenbosch 7600; PO Box 12451, Die Boord, Stellenbosch 7613 **Transfer secretary** Computershare Investor Services Proprietary Limited (Registration number: 2004/003647/07) Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg 2196; Private Bag X9000, Saxonwold, 2132 **Sponsor** PSG Capital Proprietary Limited (Registration number: 2006/015817/07) **Directors** SL Botha (chairman), GM Fourie (CEO)[1], NF Bhettay (appointed on 7 September 2023), Z Bulbulia (appointed on 28 March 2023 and resigned effective 24 April 2023), SA du Plessis, CH Fernandez, N Ford-Hoon (appointed on 7 September 2023), GR Hardy (CFO)[1], MS du Pré le Roux, V Mahlangu, TE Mashilwane (resigning effective 30 September 2023), NS Mashiya (executive: risk management)[1] (resigned effective 31 March 2023), DP Meintjes (resigned effective 26 May 2023), PJ Mouton, CA Otto, JP Verster [1] Executive Director

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