Capitec Bank Holdings Limited Biannual Public Disclosures in terms of the Banks' Act, Regulation 43

1. Basis of compilation

The following information is compiled in terms of Regulation 43 of the Regulations relating to banks which incorporates the Basel Pillar 3 requirements on market discipline. All disclosures presented below are consistent with those disclosed in terms of International Financial Reporting Standards (IFRS) unless otherwise stated. The main differences between IFRS and the information disclosed in terms of the Regulations relate to the definition of capital, the calculation and measurement thereof and adjustments made to risk weighted assets.

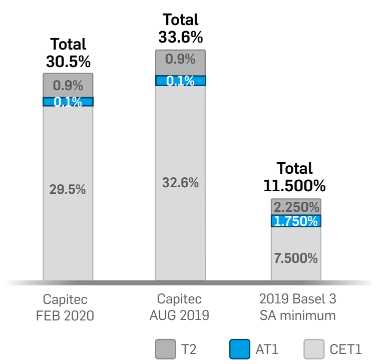
2. Period of reporting

This report covers the 6 months ended 29 February 2020. Comparative information is presented for the previous 6-month period ended 31 August 2019.

3. Scope of reporting

This report covers the consolidated results of Capitec Bank Holdings Limited (Capitec). All subsidiaries are consolidated in the same manner for both accounting and supervisory reporting purposes. All consolidated companies are incorporated in the Republic of South Africa. Capitec Bank Limited (Capitec Bank), the wholly-owned subsidiary of Capitec, acquired 100% of the issued share capital of Mercantile Bank Holdings Limited (Mercantile Holdings) on 7 November 2019, the date on which the final purchase price was paid. On 12 November 2019, the assets and liabilities of Mercantile Holdings were transferred to Capitec Bank. Mercantile Bank Limited (Mercantile) is now the direct, wholly-owned subsidiary of Capitec Bank. Both Capitec and Mercantile apply the standardised approach to calculate capital adequacy. The acquisition of Mercantile has a significant impact on Capitec's capital adequacy ratio, as Capitec's qualifying capital is measured against the combined risk weighted assets of Mercantile and Capitec.

CAPITAL ADEQUACY BY TIER



- *CET1 – Common Equity Tier 1 capital is ordinary share capital and reserves after Basel deductions.*
- *AT1 – Additional Tier 1 capital – Capitec's 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 – Tier 2 capital – Capitec Bank's subordinated debt instruments qualify as entry-level T2 capital, and are subject to phasing-out in terms of Basel 3 as they do not meet new loss absorbency standards. Subordinated debt is issued by Capitec's subsidiary as the interest cost is offset against relative revenue and is regarded as third party capital, subject to additional phasing-out rules, at a consolidated level. No subordinated debt instruments were issued by Capitec during the reporting period.*
- *Globally, the Basel 3 minimum capital adequacy percentage is 8%.*
- *The current Basel 3 SA minimum includes the SA country buffer of 1.00%. The level of this buffer is at the discretion of the SARB and it is subject to periodic review.*
- *The 2019 Basel 3 SA minimum includes the capital conservation buffer of 2.5% which phased in from the beginning of 2016. All banks must maintain this buffer to avoid regulatory restrictions on the payment of dividends and bonuses.*
- *Excluded from the SA minima are the Basel 3:*
  - *Bank-specific buffers. Bank-specific buffers include the Individual Capital Requirement (ICR) and the Domestic Systemically Important Bank (D-SIB) buffer. In terms of the Banks Act regulations, banks may not disclose their ICR requirement and D-SIB requirement. Current regulations state that the South African country risk buffer and the D-SIB buffers on a combined basis cannot be more than 3.5%.*
  - *Countercyclical buffer that 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 and only when credit growth exceeds real economic growth. Implementation commenced in January 2016 with a rate of zero.*

4. Regulatory capital adequacy

R'000	29 Feb 2020	31 Aug 2019
Composition of qualifying regulatory capital		
Ordinary share capital[1]	**5 649 020**	5 649 020
Foreign currency translation reserve	**29 818**	18 435
Other reserves	**(26 307)**	(23 560)
Accumulated profit	**19 855 211**	17 456 776
	25 507 742	**23 100 671**
Regulatory adjustments		
– Intangible assets in terms of IFRS[9]	**(1 347 534)**	(438 986)
– Specified advances	**343 852**	342 187
– Unappropriated profit	**(46 818)**	(440 116)
Common Equity Tier 1 capital (CET1)	**24 457 242**	**22 563 756**
Issued preference share capital[1]	**73 098**	74 370
Phase out – non-loss absorbent[2][8]	**(21 304)**	-
Additional Tier 1 capital (AT1)	**51 794**	**74 370**
Tier 1 capital (T1)	**24 509 036**	**22 638 126**
Issued subordinated debt[1]	**-**	572 000
Phase out – non-loss absorbent[2]	**-**	(572 000)
Deduction for third-party capital issued by bank subsidiary[3]	**-**	-
Total subordinated debt	**-**	**-**
Unidentified impairments	**756 767**	647 418
Tier 2 capital (T2)	**756 767**	**647 418**
Qualifying regulatory capital	**25 265 803**	**23 285 544**
CET1%	**29.5**	32.6
AT1%	**0.1**	0.1
T1%	**29.6**	32.7
T2%	**0.9**	0.9
Total capital adequacy %[4]	**30.5**	**33.6**
Composition of required regulatory capital		
On balance sheet	**6 914 352**	5 880 092
Off balance sheet	**50 702**	5 326
Credit risk	**6 965 054**	5 885 418
Operational risk	**1 217 338**	956 405
Market risk	**1 668**	-
Equity risk	**77 108**	56 808
Other assets	**1 264 524**	1 071 411
Total regulatory capital requirement[5]	**9 525 692**	**7 970 042**
Composition of risk-weighted assets[6]		
On balance sheet	**60 124 799**	51 131 235
Off balance sheet	**440 891**	46 315
Credit risk	**60 565 690**	51 177 550
Operational risk	**10 585 544**	8 316 566
Market risk	**14 500**	-
Equity risk	**670 500**	493 984
Other assets [7]	**10 995 861**	9 316 616
Total risk-weighted assets	**82 832 095**	**69 304 716**
Total assets based on IFRS	**134 568 086**	113 594 749
Total risk-weighted assets – adjustments	**(51 735 991)**	(44 290 033)
Total risk-weighted assets – regulatory	**82 832 095**	**69 304 716**

(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) *Starting 2013, a deemed surplus attributable to T2 capital of subsidiaries issued to outside third parties, is excluded from group qualifying capital in terms of the accelerated adoption of Basel 3. This deduction phases in at 20% per annum.*

(4) *The total capital adequacy ratio percentage is determined by dividing the total qualifying regulatory capital by total risk-weighted assets.*

(5) *This value is 11.500% of risk-weighted assets, being the Basel global minimum requirement of 8.000%, the South African country-specific buffer of 1.000% and the Capital Conservation Buffer of 2.500% (disclosable in terms of SARB November 16 directive in order to standardise reporting across banks). In terms of the regulations the Individual Capital Requirement (ICR) is excluded.*

(6) *Risk-weighted assets are calculated by using regulatory percentages applied to the balance sheet, in order to establish the base for calculating the required regulatory capital. The impact of the inclusion of Mercantile's risk weighted assets resulted in a decrease of 5.5% in the group capital adequacy ratio. Of the total risk weighted assets as at 29 February 2020, R12.3 billion is attributable to Mercantile.*

(7) *The adjustments reflect mainly the impact of the regulatory percentages and the addition of a risk-weighted equivalent for operational risk.*

(8) *The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. At 29 February 2020, 71.77% (Aug 2019: 71.28%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.*

(9) *In terms of the regulations relating to banks, goodwill and intangible assets net of the related deferred tax liability, are treated as specified adjustments and are deducted from Common Equity Tier 1 (CET1) capital and reserve funds. The goodwill originating on the acquisition of Mercantile and Mercantile's intangible assets at acquisition therefore reduced the qualifying CET1 capital of Capitec on consolidation and resulted in a further 1.2% decrease in the group capital adequacy ratio. The total decrease in Capitec's capital adequacy ratio attributable to the acquisition amounted to 6.7%.*

5. Leverage ratio

Public disclosure of the leverage ratio (calculated using the prescribed leverage ratio template) and its components was made effective from 1 January 2015. The Basel 3 leverage ratio is defined as the capital measure (Tier 1 capital) divided by the exposure measure (Total exposures), and is expressed as a percentage.

Capitec is conservatively leveraged with a ratio of 18.2% (Aug 2019: 19.8%).

5.1 Summary of leverage ratio

Line #	leverage ratio framework R'000	Capitec Bank Holdings Limited 29 Feb 2020	Capitec Bank Holdings Limited 31 Aug 2019	Capitec Bank Limited 29 Feb 2020	Capitec Bank Limited 31 Aug 2019
	Capital and total exposures				
20	Tier 1 capital[1]	**24 509 036**	22 638 126	**23 839 116**	22 058 353
21	Total exposures [2]	**135 022 285**	114 226 273	**122 937 352**	113 885 293
	Leverage ratio				
22	**Basel 3 leverage ratio%**	**18.2%**	19.8%	**19.4%**	19.4%

(1) *The acquisition of Mercantile has a significant impact on Capitec's Tier 1 capital. In terms of the Regulations relating to banks, goodwill and intangible assets, net of related deferred tax liability, are treated as specified adjustments and are deducted from Common Equity Tier1 ("CET1") capital and reserve funds. The goodwill originating on the acquisition of Mercantile and Mercantile's intangible assets at acquisition therefore also reduce the qualifying CET1 capital of Capitec on consolidation. Mercantile's net asset value acquired amounted to R2.761 billion and the final purchase price amounted to R3.558 billion, which resulted in goodwill of R794.5 million. Intangible assets attributable to Mercantile of R155.5 million (which includes core deposit and client relationship intangibles) have been consolidated into Capitec, further reducing the group's CET1 (and Tier1) capital.*

On a Capitec Bank Limited solo entity basis, the threshold deduction method in terms of regulation (38)(5)(b) relating to Banks is applied to Capitec Bank Limited's investment in Mercantile. This method will apply until the date of transfer of all the assets and liabilities of Mercantile Bank Limited, to Capitec.

(2) *Mercantile is consolidated in the disclosures relating to February 2020. Of the total Basel 3 Leverage ratio exposure measure of R135.0 billion, R14.5 billion is attributable to Mercantile.*

For further details on our Leverage ratio, please refer to the Leverage ratio common disclosure template on the Capitec website under investor relations.

6. Credit risk

6.1 Summary of on Balance Sheet and off Balance Sheet Credit Exposure

The table below summarises the daily average credit exposures for the six month period ending on 29 February 2020 and 31 August 2019 respectively for Capitec Holdings Limited. Mercantile Bank is consolidiated from November 2020.

Asset Class R'000	Average Gross credit exposure 29-Feb-20	Average Gross credit exposure 31-Aug-19
Liquid assets	**33 337 483**	**24 389 590**
Cash and cash equivalents - Banks	**19 665 516**	16 603 204
Cash and cash equivalents - Sovereign	**1 403 306**	1 207 444
Resale agreements with banks	**10 614 560**	5 954 006
Resale agreements with corporates	**259 707**	123 768
Other balances with central banks	**811 063**	501 168
Negotiable securities	**583 331**	-
Gross loans and advances	**71 318 568**	**57 247 096**
Retail personal term loans	**60 483 655**	53 003 604
Retail credit card loans	**5 341 596**	4 163 173
Mortgage loans	**1 846 835**	-
Instalment sales and leases	**1 329 784**	-
Other advances	**2 316 698**	80 319
Gross other assets	**18 146 230**	**20 807 451**
Term deposit investments - Banks	**1 702 088**	8 421 674
Financial investments - Sovereign	**16 413 155**	12 384 969
Derivative financial assets	**30 987**	808
On-balance sheet exposure	**122 802 281**	**102 444 137**
Guarantees	**495 897**	-
Letters of credit	**3 401**	-
Committed undrawn facilities	**186 936**	-
Conditionally revocable commitments	**1 977 856**	1 015 225
Off Balance sheet exposure	**2 664 090**	**1 015 225**
Total credit exposure	**125 466 371**	**103 459 362**

6.2 Credit Quality of assets

The table below summarises the group's asset classes by IFRS 9 stage and splits the exposures between default and non-default. The table also indicates whether the exposure is calculated on a month-end basis or on a daily average balance method and the total impairment provisions on each asset class.

CR1 29 Feb 2020 R'000	Month Average / Month-end exposure	Credit Exposure Value			
		Defaulted exposures[1]	Non-defaulted exposures	Impairments	Net
Stage 1		-	105 339 049	(3 389 596)	101 949 453
Retail term loans	Month-end	-	43 823 110	(3 011 373)	40 811 737
Retail revolving credit	Monthly Ave	-	4 771 370	(295 417)	4 475 953
Sovereigns and their central banks	Monthly Ave	-	17 234 126	-	17 234 126
Banks	Monthly Ave	-	24 096 686	(161)	24 096 525
Corporate exposures	Both	-	9 156 372	(39 481)	9 116 891
Residential mortgage advances	Month-end	-	2 458 661	(5 036)	2 453 625
SME Secured lending	Month-end	-	3 306 343	(29 095)	3 277 248
Other Exposures (SME Unsecured lending and Public sector Entities)	Both	-	492 381	(9 033)	483 348
Stage 2		-	6 072 958	(1 753 281)	4 319 677
Retail term loans	Month-end	-	5 019 343	(1 377 335)	3 642 008
Retail revolving credit	Monthly Ave	-	621 851	(335 386)	286 465
Sovereigns and their central banks	Monthly Ave	-	-	-	-
Banks	Monthly Ave	-	-	-	-
Corporate exposures	Both	-	242 800	(21 211)	221 589
Residential mortgage advances	Month-end	-	98 666	(3 373)	95 293
SME Secured lending	Month-end	-	61 345	(7 210)	54 135
Other Exposures (SME Unsecured lending and Public sector Entities)	Both	-	28 953	(8 766)	20 187
Stage 3		7 953 027	4 157 704	(8 597 461)	3 513 270
Retail term loans	Month-end	6 893 796	4 070 152	(7 948 964)	3 014 984
Retail revolving credit	Monthly Ave	473 218	87 552	(468 034)	92 736
Sovereigns and their central banks	Monthly Ave	-	-	-	-
Banks	Monthly Ave	-	-	-	-
Corporate exposures	Both	176 283	-	(63 848)	112 435
Residential mortgage advances	Month-end	220 557	-	(36 243)	184 314
SME Secured lending	Month-end	151 597	-	(61 332)	90 265
Other Exposures (SME Unsecured lending and Public sector Entities)	Both	37 576	-	(19 040)	18 536
Debt securities		-	-	-	-
Off balance sheet items		-	3 331 877	-	3 331 877
Total		7 953 027	118 901 588	(13 740 338)	113 114 277

6.2 Credit Quality of assets (Continued)

The table below summarises the group's asset classes by IFRS 9 stage and splits the exposures between default and non-default. The table also indicates whether the exposure is calculated on a month-end basis or on a daily average balance method and the total impairment provisions on each asset class.

CR1 31 Aug 2019 R'000	**Month Average / Month-end exposure**	**Credit Exposure Value**			
		Defaulted exposures[1]	**Non-defaulted exposures**	**Impairments**	**Net**
Stage 1		**-**	**92 726 773**	**(2 917 636)**	**89 809 137**
Retail term loans	Month-end	-	41 675 118	(2 686 083)	38 989 035
Retail revolving credit	Monthly Ave	-	3 636 433	(231 553)	3 404 880
Sovereigns and their central banks	Monthly Ave	-	14 475 605	-	14 475 605
Banks	Monthly Ave	-	25 891 414	-	25 891 414
Corporate exposures	Monthly Ave	-	7 048 203	-	7 048 203
Stage 2		**-**	**4 140 000**	**(1 337 688)**	**2 802 312**
Retail term loans	Month-end	-	3 642 683	(1 051 935)	2 590 748
Retail revolving credit	Monthly Ave	-	497 317	(285 753)	211 564
Stage 3		**6 990 807**	**3 809 709**	**(8 593 880)**	**2 206 636**
Retail term loans	Month-end	6 625 113	3 786 360	(8 267 071)	2 144 402
Retail revolving credit	Monthly Ave	365 694	23 349	(326 809)	62 234
Debt securities		-	-	-	-
Off balance sheet items		-	1 188 457	-	1 188 457
Total		**6 990 807**	**101 864 939**	**(12 849 204)**	**96 006 542**

Stage 1: Includes up-to-date loans and advances, loans rescheduled from arrears and rehabilitated and loans rescheduled from up-to-date and rehabilitated.

Stage 2: Includes up-to-date loans with Significant Increase in Credit Risk (SICR), loans up to 1 month in arrears and clients applying for debt review > 6 months.

Stage 3: Includes loans more than 1 month in arrears, up-to date loans rescheduled from arrears and not rehabilitated, up-to-date loans rescheduled from up-to-date and not rehabilitated, application for debt review < 6months, under debt review clients, clients handed over or with a legal status and loans that are currently one month in arrears that were previously rescheduled but have not rehabilitated.

Per SARB Directive D5 of 2017, provisions on Stage 1 and Stage 2 exposures are classified as general/portfolio impairment provisions, whereas provisions on Stage 3 exposures are classified as specific impairment provisions.

IFRS 9 requires a minimum 12 month expected credit loss (ECL) for loans and advances for which there has not been a SICR (i.e. Stage 1 exposures). A lifetime ECL applies to exposures with a significant increase in credit risk (Stage 2 exposures) and credit impaired exposures (Stage 3 exposures).

6.3 Analysis of loans in default

The table below reconciles the movement in loans classified as being in default from 31 August 2019 to 29 February 2020:

CR2 R'000	29 Feb 2020	31 Aug 2019
Defaulted loans and debt securities at end of previous reporting period[1]	**6 990 807**	5 718 829
Loans and debt securities that have defaulted since the last reporting period	**2 340 451**	2 207 193
Returned to non-defaulted status	**(220 017)**	(68 280)
Amounts written off	**(1 211 931)**	(866 935)
Other changes	**53 717**	-
Defaulted loans and debt securities at end of reporting period[1]	**7 953 027**	**6 990 807**

(1) *Default on retail loans include the following:*

- *loans on which clients are past due on 2 contractual payments;*
- *loans which clients have applied for debt review less than 6 months ago which are currently performing;*
- *up-to-date loans that rescheduled from up-to-date (not yet rehabilitated);*
- *loans that are currently up to 1 month in arrears that were previously rescheduled but have not rehabilitated or*
- *up-to-date loans that rescheduled from arrears (not yet rehabilitated).*

Default on business loans occurs when one or more of the following criteria is met:

Quantitative criteria
The borrower is more than 90 days past due on its contractual payments (rebuttable presumption).

Qualitative criteria
The borrower meets unlikeliness to pay criteria, which indicates 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 have disappeared because of financial difficulties;*
- *Concessions have been made by the group relating to the borrower's financial difficulty / inability to meet contractual obligations; or*
- *It is becoming probable that the borrower may enter bankruptcy.*

A rebuttable assumption is applied and the financial instrument is considered impaired if the borrower is more than 90 days past due on its contractual payments.

6.4 Standardised approach - credit risk exposure and credit risk mitigation effects

The following table summarises the group's Credit risk exposures, both pre and post Credit Risk Mitigation (CRM) and Credit Conversion Factor (CCF), together with the resulting Credit Risk Weighted Assets and Risk Weighted Asset density.

29-Feb-20	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset Classes R'000	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA[2]**	**RWA density**
Sovereigns and their central banks[3]	17 234 126	-	17 234 126	-	-	0%
Non-central government public sector entities	1 755	-	1 755	-	1 316	75%
Multilateral development banks	-	-	-	-	-	0%
Banks[1]	24 096 686	33 231	12 230 644	40	3 342 150	14%
Securities firms	-	-	-	-	-	0%
Corporates[1]	8 282 802	743 621	8 125 456	208 020	8 288 127	100%
Regulatory retail portfolios	58 164 188	2 274 233	57 046 934	99 724	43 153 008	74%
Secured by residential property	2 557 326	28 265	2 544 236	25 632	945 856	37%
Secured by commercial real estate	2 575 285	252 287	2 574 022	146 264	2 718 786	106%
Equity	-	-	-	-	-	0%
Past-due loans	10 610 570	240	3 093 398	-	2 092 103	20%
Higher-risk categories	-	-	-	-	-	0%
Total	123 522 738	3 331 877	102 850 571	479 680	60 541 346	49%

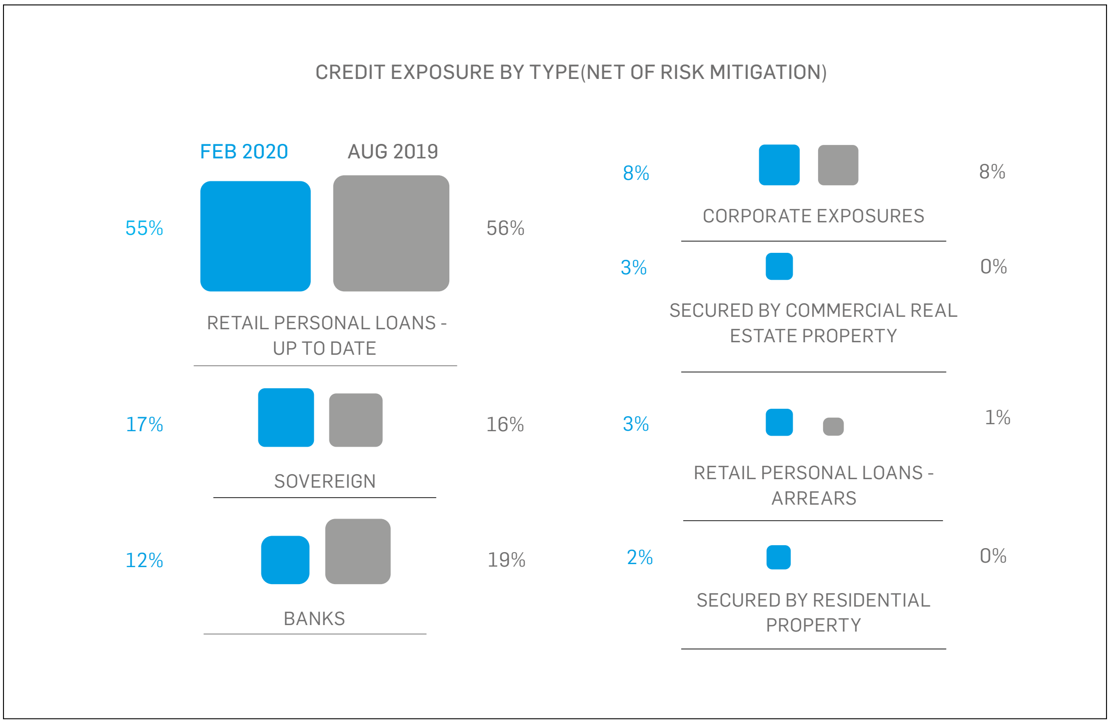
31-Aug-19	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset Classes R'000	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
Sovereigns and their central banks	14 475 605	-	14 475 605	-	-	0%
Non-central government public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
Banks	25 891 414	-	17 023 823	-	5 615 431	22%
Securities firms	-	-	-	-	-	-
Corporates	7 048 203	-	6 930 066	-	6 912 966	98%
Regulatory retail portfolios	51 233 411	1 188 457	50 377 144	-	37 632 538	73%
Secured by residential property	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Past-due loans	9 018 656	-	1 280 744	-	1 009 647	11%
Higher-risk categories	-	-	-	-	-	-
Total	**107 667 289**	**1 188 457**	**90 087 382**	**-**	**51 170 582**	**48%**

As required by the regulations (which incorporate Basel requirements):

(1) Corporate' and 'Bank' exposures were calculated based on an average, using daily balances for month 6 of the respective reporting periods. All other items are the balances at the respective month-ends.

(2) The risk weightings reflected are the standard risk weightings applied to exposures, as required by the regulations. Risk weights for exposures (other than retail) are determined by mapping the exposure's Moody's International grade rating to a risk-weight percentage using the mapping table (shown on page 5). The risk weightings for retail exposures are specified directly in the banking regulations. A standard risk weight of 75% is applied to performing retail exposures while impaired exposures attract a standard 100% risk weight, net of allowed impairments.

(3) Sovereign comprises investments in RSA treasury bills and SARB debentures. These exposures are zero risk weighted.



6.5 Credit Risk mitigation techniques

29 Feb 20 R'000	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which secured amount
Total Net Loans and Advances	**105 803 614**	**21 051 001**	**13 194 886**
Retail term loans	**59 702 340**	**118 961**	**78 244**
Retail revolving credit	**7 609 290**	-	-
Sovereigns and their central banks	**17 234 126**	-	-
Banks	**11 547 358**	**12 582 559**	**12 612 794**
Corporate exposures	**7 488 313**	**2 981 634**	**276 069**
Residential mortgage advances	**109 631**	**2 696 518**	**18 890**
SME Secured lending	**1 261 517**	**2 671 329**	**208 889**
Other Exposures (SME Unsecured lending)	**851 039**	-	-
Debt Securities	-	-	-
Total	**105 803 614**	**21 051 001**	**13 194 886**
Of which defaulted (Net of credit impairment)	1 187 796	494 102	3 624

6.5 Credit Risk mitigation techniques (Continued)

31 Aug 19 R'000	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which secured amount
Total Net Loans and Advances	**85 217 810**	**9 600 274**	**9 549 672**
Retail term loans	43 724 185	-	-
Retail revolving credit	3 678 678	-	-
Sovereigns and their central banks	14 475 605	-	-
Banks	16 404 349	9 487 064	9 433 973
Corporate exposures	6 934 993	113 210	115 699
Residential mortgage advances	-	-	-
SME Secured lending	-	-	-
Securitisation and securitisation exposure	-	-	-
Debt Securities	-	-	-
Total	**85 217 810**	**9 600 274**	**9 549 672**
Of which defaulted (Net of credit impairment)	540 907		

6.6 Standardised approach - exposure by asset classes and risk weights

The following table summarises the credit risk exposures by risk weighting percentage:

29-Feb-20 Risk weight/ Asset Classes R'000	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure amount post CRM and CCF
Sovereigns and their central banks	17 234 126	-	-	-	-	-	-	-	-	17 234 126
Non-central government public sector entities	-	-	-	-	-	1 755	-	-	-	1 755
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
Banks	-	-	12 197 811	-	15 456	40	17 327	50	-	12 230 684
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	90 696	-	8 242 780	-	-	8 333 476
Regulatory retail portfolios	-	-	-	-	261 673	55 701 865	913 436	269 684	-	57 146 658
Secured by residential property	-	-	-	2 464 478	-	82 408	22 982	-	-	2 569 868
Secured by commercial real estate	-	-	-	-	-	6 000	2 714 286	-	-	2 720 286
Equity	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	1 519 641	1 173 970	295 750	104 037	-	3 093 398
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Total	17 234 126	-	12 197 811	2 464 478	1 887 466	56 966 038	12 206 561	373 771	-	103 330 251

6.6 Standardised approach - exposure by asset classes and risk weights (Continued)

31-Aug-19 Risk weight/ Asset Classes R'000	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure amount post CRM and CCF
Sovereigns and their central banks	14 475 605	-	-	-	-	-	-	-	-	14 475 605
Non-central government public sector entities	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
Banks	-	-	9 654 935	-	7 368 888	-	-	-	-	17 023 823
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	48 054	-	6 882 012	-	-	6 930 066
Regulatory retail portfolios	-	-	-	-	193 248	49 449 898	733 998	-	-	50 377 144
Secured by residential property	-	-	-	-	-		-	-	-	-
Secured by commercial real estate	-	-	-	-	-		-	-	-	-
Equity	-	-	-	-	-			-	-	-
Past-due loans	-	-	-	-	694 004	527 828	58 912	-	-	1 280 744
Higher-risk categories	-	-	-	-	-		-	-	-	-
Total	**14 475 605**	-	**9 654 935**	**-**	**8 304 194**	**49 977 726**	**7 674 922**	**-**	**-**	**90 087 382**

6.7 Write-offs and recoveries reflected in the income statement

The table below compares the net credit impairment charge in the Income Statement for the six month period ending 29 February 2020, with the six month period which ended on 31 August 2019.

R'000	6 months 29 Feb 2020	6 months 31 Aug 2019
Net impairment charge on loans and advances:		
Bad debts (write-offs)	**3 073 333**	2 098 060
Net Movement in impairment allowance	**(139 000)**	704 838
Bad debts recovered	**(575 520)**	(688 041)
Net impairment charge	**2 358 813**	**2 114 857**

6.8 Analysis of counterparty credit risk by approach (CCR)

Counterparty Credit Risk (CCR) is calculated on the Current Exposure Method based on the asset values as well as any potential future add-ons as prescribed by the Regulations.

29-Feb-20 R'000	Replacement cost	Potential future exposure	EAD Post - CRM	RWA
SA-CCR for derivatives	37 440	19 555	47 985	60 672
Simple Approach for credit risk mitigation (for SFTs)	12 733 675	12 011 376	722 299	149 085
Total	12 771 115	12 030 931	770 284	209 757

31-Aug-19 R'000	Replacement cost	Potential future exposure	EAD Post - CRM	RWA
SA-CCR for derivatives	4 543	11 562	16 104	8 052
Simple Approach for credit risk mitigation (for SFTs)	9 600 653	8 979 178	621 475	125 895
Total	**9 605 196**	**8 990 740**	**637 579**	**133 947**

7. Liquidity measurements

7.1 Liquidity management

Liquidity risk is managed by the Assets and Liabilities Committee (ALCO) that oversees the activities of the treasury department which operates in terms of an approved Assets and Liabilities Management (ALM) policy and approved limits, managing cash on a centralised basis.

Further information regarding liquidity management is available in the Integrated Annual Report.

This section presents various measurements of the group liquidity position.

7.2 Contractual and behavioural liquidity mismatches

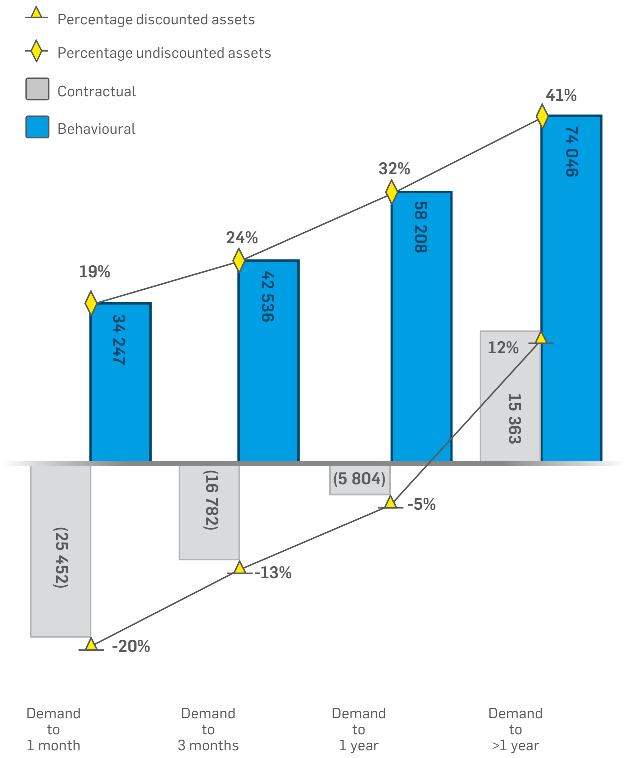
Both the contractual and behavioural mismatches benefit positively from the high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than at banks with lower capital ratios.

The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits.
92.53% (Aug 2019: 92.88%) of retail demand deposits are reflected as stable, based on a one standard deviation measure of volatility, which is considered reasonable for business-as-usual conditions. In the behavioural analysis, retail fixed deposit and retail term loan contractual flows are adjusted for early settlement behaviour. Loan flows are also adjusted for expected credit losses.

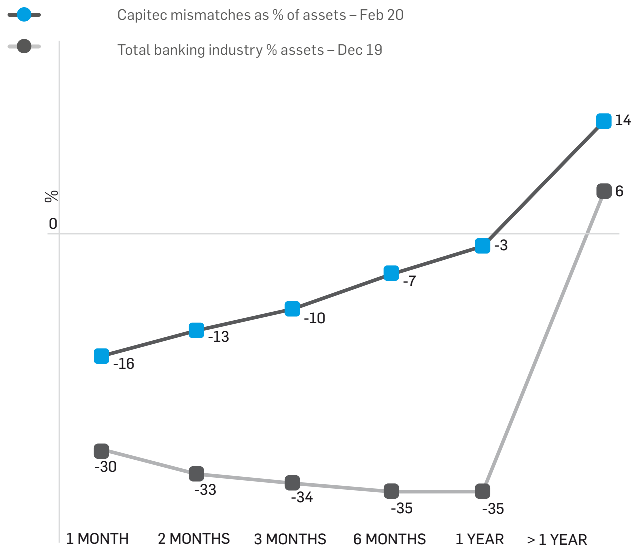
Industry comparison
The industry comparison shows that Capitec's contractual mismatch as a percentage of assets is prudent relative to the total industry mismatch. The source data is as reported on the SARB BA 300 returns, which exclude the impact of loan impairments.

CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES R'm

The contractual mismatch is reported on a discounted basis whereas the behavioural mismatch is reported on an undiscounted basis.



INDUSTRY COMPARISON – CUMULATIVE CONTRACTUAL LIQUIDITY MISMATCHES



7.3 Contractual Liquidity maturity analysis (mismatch)

The following table analyses assets and liabilities of the group into relevant maturity groupings based on the remaining period at balance sheet 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 balance sheet date
- The cash flows of derivative financial instruments are included on a gross basis
- Contractual cash flows with respect to off-balance sheet items which have not yet been recorded on the balance sheet, are excluded
- Adjustments to loans and advances to clients relate to deferred loan fee income
- Non-cash liabilities, representing leave pay and the straight-lining of operating leases, are disclosed as adjustments to trade and other payables

Maturities of financial assets and liabilities (tables reflect discounted cash flows) R'000	Demand to one month	One to three months	Three months to one year	More than one year	Non - contractual	Adjustment	Total
FEB 2020							
Undiscounted assets							
Cash and cash equivalents - sovereigns	1 888 217	-	-	-	-	-	1 888 217
Cash and cash equivalents - banks	32 480 607	7 952 820	-	-	-	(2 031)	40 431 396
Financial assets at FVTPL	1 504 262	-	-	-	-		1 504 262
Money markets unit trusts - corporate other	25 374	-	-	-	-	-	25 374
Financial investments - sovereigns & banks	1 524 950	3 305 000	12 917 250	-	-	(8 406)	17 738 794
Term deposit investments	-	-	-	-	-	-	-
Financial assets - equity instruments at FVOCI	-	-	-	101 139	-	-	101 139
Loans and advances - Retail	3 614 359	5 793 821	23 033 645	62 048 967	7 280 001	(500 502)	101 270 291
Loans and advances - Business other	1 704 903	225 190	911 908	2 605 084	268 710	-	5 715 795
Loans and advances - Mortgages	95 312	189 920	741 683	7 710 254	311 822	-	9 048 991
Other receivables	1 310 923	144 021	315 253	37 129	-	-	1 807 326
Net insurance receivable	-	-	217 423	-	-	-	217 423
Derivative assets	16 894	9 736	7 940	2 870	-	-	37 440
Current income tax asset	-	-	4 554	-	-	-	4 554
Undiscounted assets	44 165 801	17 620 508	38 149 656	72 505 443	7 860 533	(510 939)	179 791 002
Adjustments for undiscounted assets	(1 200 605)	(2 434 247)	(9 437 411)	(27 824 391)	-	-	(40 896 654)
Discounted assets							
Loan impairment provision	(575 772)	(413 147)	(1 728 497)	(4 635 711)	(6 387 052)		(13 740 179)
Total discounted assets	42 389 424	14 773 114	26 983 748	40 045 341	1 473 481	(510 939)	125 154 169
Undiscounted liabilities							
Retail deposits	65 978 611	4 627 016	15 794 182	17 187 494	-	-	103 587 303
Wholesale funding	50 113	1 044 589	985 133	2 029 294	-	-	4 109 129
Lease liability	45 898	88 979	400 514	3 592 629	-	-	4 128 020
Current income tax liabilities	-	14 345	-	-	-	-	14 345
Trade and other payables	1 773 693	500 971	13 541	156 582	-	85 261	2 530 048
Derivative liabilities	11 655	16 973	21 024	13 673	-	-	63 325
Provisions	17 234	44 175	-	109 801	-	-	171 210
Undiscounted Liabilities	67 877 204	6 337 048	17 214 394	23 089 473	-	85 261	114 603 380
Adjustments for undiscounted liabilities to depositors	(35 827)	(233 542)	(1 208 567)	(4 211 428)	-		(5 689 364)
Total discounted liabilities	67 841 377	6 103 506	16 005 827	18 878 045	-	85 261	108 914 016
Undiscounted Net liquidity excess /(shortfall)	(24 287 175)	10 870 313	19 206 765	44 780 259	1 473 481	(596 200)	51 447 443
Undiscounted Cumulative liquidity excess/(shortfall)	(24 287 175)	(13 416 862)	5 789 903	50 570 162	52 043 643	51 447 443	51 447 443

Maturities of financial assets and liabilities (tables reflect discounted cash flows) R'000	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment	Total
AUG 2019						
Undiscounted assets						
Cash and cash equivalents - sovereigns	1 276 037	-	-	-	-	1 276 037
Cash and cash equivalents - banks	29 011 559	6 937 439	-	-	(4 315)	35 944 683
Money markets unit trusts - corporate other	43 266	-	-	-	-	43 266
Financial investments - sovereigns & banks	1 098 970	2 910 030	11 026 990	-	(8 663)	15 027 327
Term deposit investments	456 763	1 895 608	3 313 354	-	(2 889)	5 662 836
Financial assets – equity instruments at FVOCI	-	-	-	100 000	-	100 000
Loans and advances to clients - retail personal	6 412 837	5 971 830	23 450 003	61 105 220	(539 606)	96 400 284
Loans and advances to clients - corporate other	20 733	-	-	-	-	20 733
Other receivables	864 248	68 442	183 966	32 182	-	1 148 838
Net insurance receivable	-	-	185 130	-	-	185 130
Derivative assets	-	-	2 299	2 243	-	4 542
Current income tax asset	-	-	-	-	-	-
Undiscounted assets	39 184 413	17 783 349	38 161 742	61 239 645	(555 473)	155 813 676
Adjustments for undiscounted assets	(1 257 198)	(2 438 955)	(9 306 246)	(23 996 557)	-	(36 998 956)
Discounted assets						
Loan impairment provision	(3 877 833)	(639 679)	(2 474 894)	(5 856 798)		(12 849 204)
Total discounted assets	34 049 382	14 704 715	26 380 602	31 386 290	(555 473)	105 965 516
Undiscounted liabilities						
Retail deposits	52 317 936	3 554 125	14 270 580	15 486 529		85 629 170
Wholesale funding	54 999	97 658	1 754 822	2 607 340	-	4 514 819
Lease liability	40 794	82 419	376 500	3 374 094	-	3 873 807
Current income tax liabilities	-	-	26 822	-	-	26 822
Trade and other payables	1 541 719	56 280	396 492	149 325	102 093	2 245 909
Derivative liabilities	406	3 974	16 129	16 386	-	36 895
Provisions	-	-	-	77 506	-	77 506
Undiscounted Liabilities	53 955 854	3 794 456	16 841 345	21 711 180	102 093	96 404 928
Adjustments for undiscounted liabilities to depositors	(41 250)	(273 646)	(1 346 499)	(4 323 82)		(5 985 217)
Total discounted liabilities	53 914 604	3 520 810	15 494 846	17 387 358	102 093	90 419 711
Undiscounted Net liquidity excess /(shortfall)	(18 649 274)	13 349 214	18 845 503	33 671 667	(657 566)	46 559 544
Undiscounted Cumulative liquidity excess/(shortfall)	(18 649 274)	(5 300 060)	13 545 443	47 217 110	46 559 544	46 559 544

7.5 Liquidity coverage ratio (LCR)

The LCR is a 30-day stress test, using 91 days (actual data points for the quarter) to calculate an average for the quarter, which 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.

The LCR calculation has been revised to include the updated Basel weightings and disclosures made effective January 2015.

Line #	Group R'000	Total Adjusted Value 29 Feb 2020	Total Adjusted Value 31 Aug 2019
21	Total HQLA	**32 989 868**	26 628 505
22	Total Net Cash Outflows[1]	**1 944 872**	1 252 413
23	**Liquidity Coverage Ratio (%)**	**1 696%**	2 126%

For further details on our LCR ratio, please refer to the Liquidity coverage ratio (LCR) common disclosure template on the Capitec website under investor relations.

(1) As Capitec has 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.

7.5.1 Composition of high-quality liquid assets

R'000	29 Feb 2020	31 Aug 2019
Cash	**3 284 463**	3 386 989
Qualifying central bank reserves	**1 734 281**	1 251 191
Specified debt securities issued in Rand by the central government of the RSA or the Reserve Bank	**18 606 596**	13 218 269
Specified marketable securities from sovereigns, central banks, public sector entities, multilateral development banks and development banks	**9 364 528**	8 772 056
Total level one qualifying high-quality liquid assets[1]	**32 989 868**	**26 628 505**

(1) Capitec does not have any investments in level 2 high-quality liquid assets

7.6 Diversification of funding sources

FEB 2020	AUG 2019	
52%	55%	Demand deposits – retail
30%	32%	Fixed-term deposits – retail
6%	0%	Current accounts
5%	7%	Equity – ordinary shareholders (listed)
3%	3%	Fixed-term deposits – wholesale (listed)
3%	0%	Fixed-term and notice deposits
1%	2%	Fixed-term deposits – wholesale (listed subordinated debt)
0%	1%	Fixed-term deposits – wholesale (subordinated debt)

8. The net stable funding ratio (NSFR)

NSFR	29 Feb 2020	31 Aug 2019
NSFR%	**196**	202
Available stable funding (R'm)	**121 041**	103 892
Required stable funding (R'm)	**61 884**	51 547

The NSFR is designed to ensure closer matching of long-term asset cash flows with long-term funding cash flows. A ratio of 100% or more represents compliance. Compliance is required from 2018.

Early compliance with the two recent Basel ratios underscores Capitec's conservative approach to liquidity management. Our NSFR% is calculated as per the SARB rules in force. Basel has proposed adjustments to the calibration of the ratio. The NSFR ratio is based on the latest Basel regulations.

For further details on our NSFR ratio, please refer to the LIQ2: Net Stable Funding Radio (NSFR) common disclosure template on the Capitec website under investor relations.

9. Securitisation exposure in the banking book

The group has exposure to securitised rental assets to the value of R505 million held in Compass Securitisation (RF) Ltd, which is consolidated for group purposes and is reported as part of Loans and Advances in the integrated annual report. The group has adopted the standardised approach to calculate regulatory capital for the securitisation vehicle. The group's securitisation is categorised as a traditional securitisation structure, i.e. assets are sold to Compass Securitisation (RF) Ltd in tranches. The securitisation, in the amount of R240 million, consist of notes of R1 million each that are unsubordinated, secured, compulsorily-redeemable, and asset-backed. These notes are linked to JIBAR with interest repayable quarterly and they mature on 6 June 2020. In December 2018, an additional R110 million in notes were issued. These notes are also linked to JIBAR with interest repayable quarterly and maturing on 6 December 2021.

29-Feb-20	Bank acts as originator			Bank acts as sponsor			Bank acts as investor		
R'000	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
Retail (total)									
of which	521 803	-	521 803	-	-	-	-	-	-
other retail exposures	521 803	-	521 803	-	-	-	-	-	-

10. Market risk under standardised approach

The portfolios that are subject to market risk are foreign exchange and interest rate contracts for which the Bank currently holds R1.7 million in market risk capital in terms of the standardised approach for the calculation of capital (based on a capital requirement of 11.50%).

R'000	RWA
RWA	
- Foreign exchange risk	14 500
Total	14 500

11. Interest rate risk

The equity sensitivity analysis below shows how the value of equity would be impacted by a 200 basis point increase or decrease in interest rates. The resulting values are expressed as a percentage of equity before applying the change in rates. The analysis is performed on a discounted run-off basis in line with the regulations.

Sensitivity of equity

R'000	29 Feb 2020	31 Aug 2019
200 basis points shift		
Increase	(808 959)	(694 656)
Decrease	809 604	702 787

12. Qualitative disclosures and accounting policies

The regulations require that certain qualitative disclosures and statements on accounting policy be made.
These were made in the Integrated Annual Report for the financial period ended 29 February 2020, in the remuneration report, corporate governance and risk management review and statements on group accounting policy. The disclosures in this report should be read together with the Integrated Annual Report, Main Features of Capital Instruments, Key Metrics (KM1) and Transitional Basel 3 Template.

These disclosures can be found on **https://www.capitecbank.co.za/investor-relations**