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

2013

1. Basis of compilation

The following information is compiled in terms of Regulation 43 of the Banks' Act 1990 (as amended) ("the Regulations") which incorporates the Basel, Pillar Three requirements on market discipline. All disclosures presented below are consistent with those disclosed in terms of International Financial Reporting Standards ("IFRS") unless otherwise stated. In the main, differences between IFRS and information disclosed in terms of the Regulations relate to the definition of capital and the calculation and measurement thereof.

2. Period of reporting

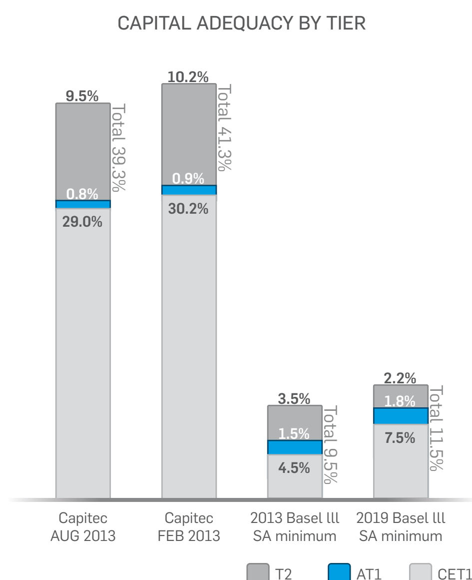
This report covers the six months ended 31 August 2013. Comparative information is presented for the previous six month period ended 28 February 2013.

3. Scope of reporting

This report covers the consolidated results of Capitec Bank Holdings Limited.

All subsidiaries are consolidated, in the same manner, for both accounting and supervisory reporting purposes. All companies are incorporated in the Republic of South Africa. The registered banking subsidiary of the group, Capitec Bank Limited has no subsidiaries.

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 III as they do not meet new loss absorbency standards. They were issued by the holding company.*
- *T2 – tier 2 capital – Capitec's subordinated debt instruments qualify as entry-level T2 capital, and are subject to phasing-out in terms of Basel III as they do not meet new loss absorbency standards. Subordinated debt is issued by the bank subsidiary as the interest cost is offset against revenue. This subordinated debt is regarded as third party capital and is subject to phasing-out rules at a consolidated level.*
- *Globally, the Basel III minimum capital adequacy percentage is 8%.*
- *The 2013 Basel III SA minimum includes the SA country buffer of 1.5% (2019 Basel III SA country buffer: 1%). The level of this buffer is at the discretion of the SARB and it is subject to periodic review.*
- *The 2019 Basel III SA minimum includes the capital conservation buffer of 2.5% which phases in from 2016. All banks must maintain this buffer to avoid regulatory restrictions on the payment of dividends and bonuses.*
- *The SA minima exclude all bank-specific buffers. Bank-specific buffers include the individual capital requirement (ICR) for specific bank risk and the domestically systemically important bank ('D-SIB') buffers. In terms of the Banks Act regulations, banks may not disclose their ICR requirement. The D-SIB requirement will be phased in over three years commencing January 2016. Current regulations state that the South African country risk buffer and the D-SIB on a combined basis will not be more than 3.5%. The SARB is in the process of determining the D-SIB levels for individual banks.*
- *Excluded from the SA minima are the Basel III:*
  - *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. It is expected that this will phase-in from 2016 in line with the Basel timelines.*
  - *haircuts to be applied against minority and third-party capital issued by subsidiaries, which begin phasing in 2013 at 20% per year.*

4. Detailed disclosures

4.1 Regulatory capital adequacy

R'000	31 Aug 2013	28 Feb 2013
Composition of qualifying regulatory capital		
Ordinary share capital[1]	**5 512 570**	5 330 710
Accumulated profit	**3 310 347**	2 939 240
	8 822 917	8 269 950
Regulatory adjustments		
– Intangible assets in terms of IFRS	**(200 801)**	(136 380)
– Specified advances	**(4 030)**	(137)
– Unappropriated profit	**(198 056)**	(128 561)
Common Equity Tier 1 capital (CET1)	**8 420 030**	8 004 872
Issued preference share capital[1]	**258 969**	258 969
Phase out – non-loss absorbent[2]	**(25 897)**	(25 897)
Additional Tier 1 capital (AT1)	**233 072**	233 072
Tier 1 capital (T1)	**8 653 102**	8 237 944
Issued subordinated debt[1]	**2 891 000**	2 891 000
Phase out – non-loss absorbent[2]	**(289 100)**	(289 100)
Third-party capital issued by bank subsidiary[3]	**(164 210)**	(179 585)
Total subordinated debt	**2 437 690**	2 422 315
Unidentified impairments	**321 282**	295 582
Tier 2 capital (T2)	**2 758 972**	2 717 897
Qualifying regulatory capital	**11 412 074**	10 955 841
CET1%	**29.0**	30.2
AT1%	**0.8**	0.9
T1%	**29.8**	31.1
T2%	**9.5**	10.2
Total capital adequacy %[4]	**39.3**	41.3
Composition of required regulatory capital		
On balance sheet	**2 438 534**	2 243 438
Off balance sheet	**320**	177
Credit risk	**2 438 854**	2 243 615
Operational risk	**181 055**	131 194
Equity risk in the banking book	**141**	–
Other assets	**141 803**	142 365
Total regulatory capital requirement[5]	**2 761 853**	2 517 174
Composition of risk-weighted assets[6]		
On balance sheet	**25 666 777**	23 615 138
Off balance sheet	**3 369**	1 858
Credit risk	**25 672 146**	23 616 996
Operational risk	**1 905 838**	1 380 989
Equity risk in the banking book	**1 484**	–
Other assets	**1 492 659**	1 498 575
Total risk-weighted assets	**29 072 127**	26 496 560
Total assets based on IFRS	**42 858 138**	38 346 724
Total risk-weighted assets – adjustments[7]	**(13 786 011)**	(11 850 164)
Total risk-weighted assets – regulatory	**29 072 127**	26 496 560

(1) For further details of the main features of these instruments, please refer to the Main Features of Capital Instruments and Transitional Basel III template on the Capitec Bank website.
(2) For 2013, the non-loss absorbent AT1 and T2 capital is subject to a 10% phase-out in terms of Basel III.
(3) For 2013, 20% of the deemed surplus T2 capital of subsidiaries issued to outside third parties, is excluded from group qualifying capital in terms of the accelerated adoption of Basel III rules.
(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 9.5% of risk-weighted assets, being the Basel global minimum requirement of 8% and a South African country-specific buffer of 1.5%. In terms of the regulations the Individual Capital Requirement (ICR) is excluded.
(6) Risk-weighted assets are calculated by using regulatory percentages (regulatory risk adjustments) applied to the balance sheet, in order to establish the base for calculating the required regulatory capital.
(7) The adjustments reflect mainly the impact of the regulatory percentages and the addition of a risk-weighted equivalent for operational risk.

4.2 Credit Risk

4.2.1 Gross credit risk exposures by sector

Gross regulatory credit exposures at balance sheet date are reflected below.

Basel III exposure categories R'000	Average gross exposure[1]		Aggregate gross year-end exposure[2] [4]		Exposure post risk mitigation[2] [3] [4]		Risk weights[5]
	31 Aug 2013	28 Feb 2013	31 Aug 2013	28 Feb 2013	31 Aug 2013	28 Feb 2013	%
On balance sheet							
Corporate[6]	**795 296**	479 184	**1 146 591**	643 598	**1 146 591**	643 598	100
Sovereign[7]	**4 645 992**	3 392 818	**4 212 993**	3 877 189	**4 212 993**	3 877 189	0
Banks (claims < 3mths original maturity)	**2 357 801**	2 306 307	**2 689 232**	2 052 756	**2 689 232**	2 052 756	20
Banks Aaa- to Aa3 (Derivatives > 3mths)	**56 263**	9 955	**–**	19 075	**–**	19 075	20
Banks A1- to Baa3 (Derivatives > 3mths)	**38 485**	4 050	**183 208**	2 250	**183 208**	2 250	50
Retail personal loans							
– performing	**30 434 010**	27 201 281	**30 830 143**	28 862 577	**30 830 143**	28 862 577	75
– impaired[8]	**1 862 401**	1 407 480	**1 799 292**	1 777 034	**1 799 292**	1 777 034	100
Subtotal	**40 190 248**	34 801 075	**40 861 459**	37 234 479	**40 861 459**	37 234 479	
Off balance sheet							
Retail personal loans							
– retail guarantees	**214**	500	**–**	1 000	**–**	1 000	75
– committed undrawn facilities	**3 627**	537	**6 739**	2 716	**6 739**	2 716	75
– conditionally revocable commitments[9]	**504 162**	663 422	**471 460**	725 010	**471 460**	725 010	0
Total exposure	**40 698 251**	35 465 534	**41 339 658**	37 963 205	**41 339 658**	37 963 205	

As required by the Banks Act and Regulations (which incorporate Basel requirements):
(1) Average gross exposure is calculated using daily balances for the last six months.
(2) Items represent exposure before the deduction of qualifying impairments on advances.
(3) Represents exposure after taking into account qualifying collateral. Amounts are shown gross of impairments, which are deducted to calculate risk-weighted assets.
(4) 'Corporate' and 'Bank' exposures were calculated based on an average, using daily balances for month six of the respective reporting periods. All other items are the balances at the respective month-ends.
(5) The risk weightings reflected are the standard risk weightings applied to exposures, as required by the Banks Act. 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 4). 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.
(6) 99% (Feb 2013: 97%) of corporate aggregate gross period-end exposure relates to investments in money market unit trusts.
(7) Sovereign comprises investments in RSA treasury bills and SARB debentures. These exposures are zero risk weighted.
(8) An ageing of impaired advances is shown in 4.2.2.
(9) These commitments are a result of undrawn loan amounts. The loans are approved with a contractual repayment period of one month or less. The bank's contractual commitment is revocable should a client not meet his contractual obligations or where the bank has determined that the client's credit risk profile has changed. 20.6% (Feb 2013: 17.8%) is expected to be drawn down within one month. As these commitments are revocable, there is no capital charge in terms of the standardised approach for credit risk.

MAPPING RATING GRADES TO RELATED RISK WEIGHTS

Long-term credit assessment	Aaa to Aa3 %	A1 to A3 %	Baa1 to Baa3 %	Ba1 to B3 %	Below B3 %	Unrated %
Sovereigns	0	20	50	100	150	100
Public sector entities	20	50	50	100	150	50
Banks	20	50	50	100	150	50
Security firms	20	50	50	100	150	50
Banks: short-term claims	20	20	20	50	150	20
Security firms: short-term claims	20	20	20	50	150	20
Long-term credit assessment	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Below B3**		
Corporate entities	20	50	100	150		100
Short-term credit assessment	**P-1**	**P-2**	**P-3**	**Other**		
Banks and corporate entities	20	50	100	150		

Ratings are not applied to retail exposures. 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.

4.2.2 Age analysis of impaired advances

R'000	31 Aug 2013	28 Feb 2013
Ageing		
< 60 days	**1 483 832**	1 568 709
60 – 90 days	**315 460**	208 325
Total impaired advances	**1 799 292**	1 777 034

4.2.3 Write-offs and recoveries reflected in the income statement

R'000	SIX MONTHS 31 Aug 2013	SIX MONTHS 28 Feb 2013
Net impairment charge on loans and advances:		
Bad debts (write-offs)	**1 657 830**	941 512
Movement in impairment allowance	**461 489**	849 556
Bad debts recovered	**(163 940)**	(150 760)
Net impairment charge	**1 955 379**	1 640 308

4.2.4 Analysis of credit impairments

All impairments presented below relate to retail personal loans.

R'000	SIX MONTHS 31 Aug 2013	SIX MONTHS 28 Feb 2013
Movement in impairments:		
Balance at beginning of period	**2 722 814**	1 873 258
Unidentified Losses	**1 859 324**	1 342 505
Identified Losses	**863 490**	530 753
Movement	**461 489**	849 556
Unidentified Losses	**296 656**	516 819
Identified Losses	**164 833**	332 737
Balance at end of period	**3 184 303**	2 722 814
Unidentified Losses	**2 155 980**	1 859 324
Identified Losses	**1 028 323**	863 490

4.3 Liquidity measurements

4.3.1 Liquidity maturity analysis (mismatch)

The table below 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 the 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 (Refer to page 7 for details of off-balance sheet items).
- Adjustments to loans and advances to clients relate to initiation fee income.
- Non-cash liabilities, representing leave pay and the straight-lining of operating leases, are disclosed as adjustments to trade and other payables.

Maturities of financial assets and financial liabilities	Demand to one month R'000	One to three months R'000	Three months to one year R'000	More than one year R'000	Adjustment R'000	Total R'000
AUG 2013						
Undiscounted assets						
Cash and cash equivalents - sovereigns	1 109 035	–	–	–	–	1 109 035
Cash and cash equivalents - banks	7 541 448	100 560	–	–	–	7 642 008
Cash and cash equivalents - corporate money markets unit trusts	4 978	–	–	–	–	4 978
Investments designated at fair value - sovereigns	440 000	341 000	2 364 510	–	–	3 145 510
Loans and advances to clients - retail personal	2 184 952	2 885 689	12 041 829	39 301 831	(413 780)	56 000 521
Loans and advances to clients - retail other	3 066	–	–	–	–	3 066
Loans and advances to clients - corporate other	14 946	–	–	–	–	14 946
Other receivables	71 951	6 752	30 686	129 691	–	239 080
Current income tax assets	–	–	37 473	–	–	37 473
Undiscounted assets	11 370 376	3 334 001	14 474 498	39 431 522	(413 780)	68 196 617
Discounting adjustment	(949 126)	(1 559 057)	(6 271 211)	(14 677 097)	–	(23 456 491)
Loan impairment provision	(238 395)	(103 782)	(428 375)	(2 413 751)	–	(3 184 303)
Total discounted assets	10 182 855	1 671 162	7 774 912	22 340 674	(413 780)	41 555 823
Undiscounted liabilities						
Loans and deposits at amortised cost	12 851 320	1 667 124	5 209 613	18 365 930	–	38 093 987
Trade and other payables	347 946	20 254	146 874	84 329	118 307	717 710
Provisions	–	–	–	11 711	–	11 711
Undiscounted liabilities	13 199 266	1 687 378	5 356 487	18 461 970	118 307	38 823 408
Discounting adjustment	(6 201)	(157 315)	(768 947)	(4 182 075)	–	(5 114 538)
Total discounted liabilities	13 193 065	1 530 063	4 587 540	14 279 895	118 307	33 708 870
Discounted net liquidity (shortfall)/excess	(3 010 210)	141 099	3 187 372	8 060 779	(532 087)	7 846 953
Discounted cumulative liquidity (shortfall)/excess	(3 010 210)	(2 869 111)	318 261	8 379 040	7 846 953	7 846 953

The investments designated at fair value – sovereigns, can be sold at short notice, with no or minimal loss in value, to meet any unexpected demand for cash. If these investments with maturities greater than three months were reflected in less than three months, the cumulative short-term gap would narrow.

The definitions of sovereign, corporate and retail are aligned with the Banks Act regulations.

Maturities of financial assets and financial liabilities (discounted cash flows)	Demand to one month R'000	One to three months R'000	Three months to one year R'000	More than one year R'000	Adjustment R'000	Total R'000
FEB 2013						
Undiscounted assets						
Cash and cash equivalents - sovereigns	1 854 283	–	–	–	–	1 854 283
Cash and cash equivalents - banks	4 588 013	–	–	–	–	4 588 013
Cash and cash equivalents - corporate money markets unit trusts	702 492	–	–	–	–	702 492
Investments designated at fair value - sovereigns	270 900	211 260	1 584 400	–	–	2 066 560
Loans and advances to clients - retail personal	2 003 556	2 688 862	11 103 896	37 720 055	(458 634)	53 057 735
Loans and advances to clients - retail other	1 027	–	–	–	–	1 027
Loans and advances to clients - corporate other	19 509	–	–	–	–	19 509
Other receivables	79 218	(375)	(1 429)	7 347	–	84 761
Current income tax assets	–	–	–	–	–	–
Undiscounted assets	9 518 998	2 899 747	12 686 867	37 727 402	(458 634)	62 374 380
Discounting adjustment	(852 915)	(1 461 231)	(5 892 875)	(14 258 931)	–	(22 465 952)
Loan impairment provision	(189 472)	(89 537)	(352 590)	(2 091 215)	–	(2 722 814)
Total discounted assets	8 476 611	1 348 979	6 441 402	21 377 256	(458 634)	37 185 614
Undiscounted liabilities						
Loans and deposits at amortised cost	11 062 854	1 078 056	4 927 845	16 875 837	–	33 944 592
Trade and other payables	302 633	193 101	31 562	132 927	98 860	759 083
Current income tax liabilities	–	–	46 007	–	–	46 007
Provisions	–	–	–	28 449	–	28 449
Undiscounted liabilities	11 365 487	1 271 157	5 005 414	17 037 213	98 860	34 778 131
Discounting adjustment	(9 452)	(138 937)	(761 177)	(4 034 835)	–	(4 944 401)
Total discounted liabilities	11 356 035	1 132 220	4 244 237	13 002 378	98 860	29 833 730
Discounted net liquidity (shortfall)/excess	(2 879 424)	216 759	2 197 165	8 374 878	(557 494)	7 351 884
Discounted cumulative liquidity (shortfall)/excess	(2 879 424)	(2 662 665)	(465 500)	7 909 378	7 351 884	7 351 884

Off-balance sheet items

The following off balance sheet items will result in a future outflow of cash, subsequent to reporting date. These cash flows are regarded as transactions relating to future reporting periods and are therefore excluded from the static maturity analysis above. As a going concern, these outflows will be offset by future cash inflows .

(a) Operating lease commitments

Operating lease committments relate mainly to property operating lease commitments. The future minimum lease payments under non-cancellable operating leases, will result in an outflow of cash subsequent to the reporting date. The future obligations measured on a straight-lined basis are as follows:

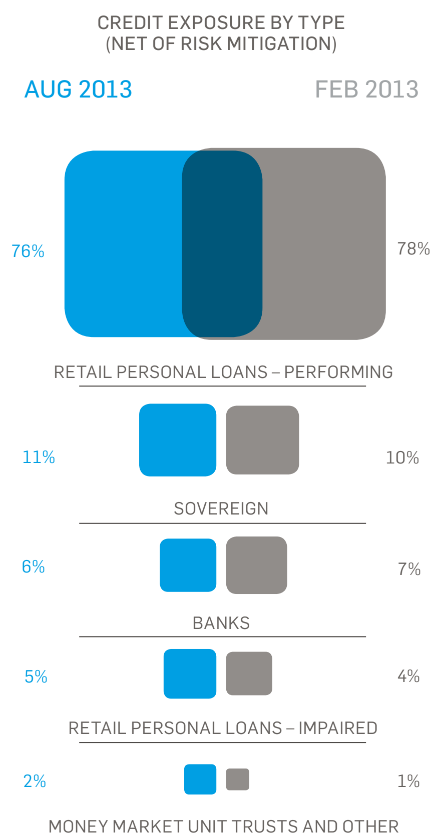
R'000	31 Aug 2013	28 Feb 2013
Property operating lease commitments		
The future aggregate minimum lease payments under non-cancellable leases are as follows:		
Within one year	**235 914**	206 681
From one to five years	**713 354**	591 547
After five years	**220 836**	170 639
Total future cash flows	**1 170 104**	968 867
Straight lining accrued	**(51 198)**	(46 432)
Future expenses	**1 118 906**	922 435

R'000	31 Aug 2013	28 Feb 2013
Other operating lease commitments		
Within one year	**2 144**	2 207
From one to five years	**2 432**	3 490
	4 576	5 697

(b) Capital commitments

Capital commitments for the acquisition of information technology hardware, improvements to leased premises and support services, expected to result in cash outflows by the end of the current financial year, are as follows:

R'000	31 Aug 2013	28 Feb 2013
Capital commitments – approved by the board		
Contracted for:	**67 090**	55 674
Property and equipment	**52 264**	42 645
Intangible assets	**14 826**	13 119
Non contracted for:	**429 869**	694 409
Property and equipment	**325 475**	524 971
Intangible assets	**104 394**	169 438
	496 959	**750 173**



(c) Conditionally revocable retail loan commitments

Conditionally, revocable, retail loan commitments totalled R471 million (Feb 2013: R725 million). The method to calculate the conditionally, revocable, retail loan commitments was refined during the period under review to include the reduction of the undrawn amount after granting, due to subsequent refreshing of the clients' affordability calculation. These commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less. The bank's contractual commitment is revocable should a client not meet their contractual obligations or where the bank has determined that the client's credit risk profile has changed. 20.6% (Feb 2013: 17.8%) of the value of these commitments is expected to be drawn down within one month. As these are

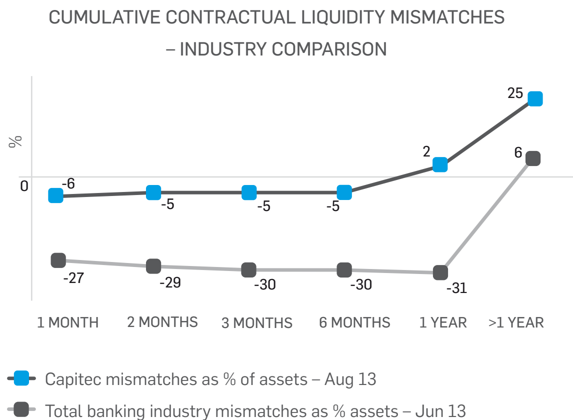
4.3.2 Liquidity mismatches

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. 91% (Feb 2013: 90%) 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.

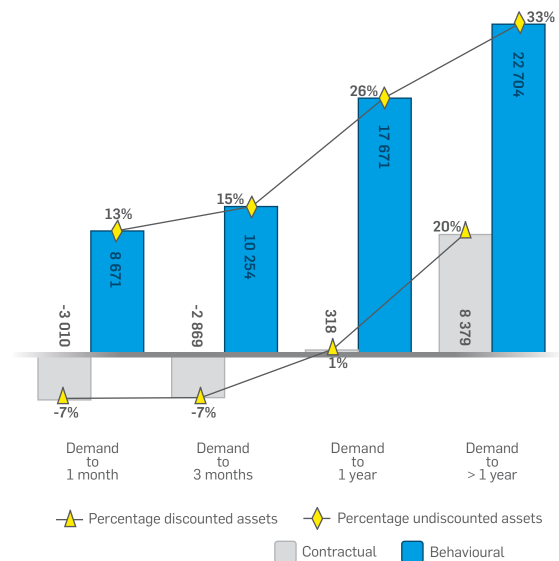
CUMULATIVE CONTRACTUAL LIQUIDITY MISMATCHES – INDUSTRY COMPARISON



Capitec mismatches as % of assets – Aug 13
Total banking industry mismatches as % assets – Jun 13

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

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.

4.3.3 Liquidity ratios

The liquidity coverage ratio (LCR)

The LCR is a 30-day stress test that 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.

A ratio of 100% or more represents compliance in terms of Basel III requirements. The requirement to comply is being phased in and a ratio of 60% is required by 2015.

LCR	31 Aug 2013	28 Feb 2013
LCR%	**1400**	1 534
High-quality liquid assets (R'm)	**5 338**	5 118
Net outflow [(1)] (R'm)	**381**	334

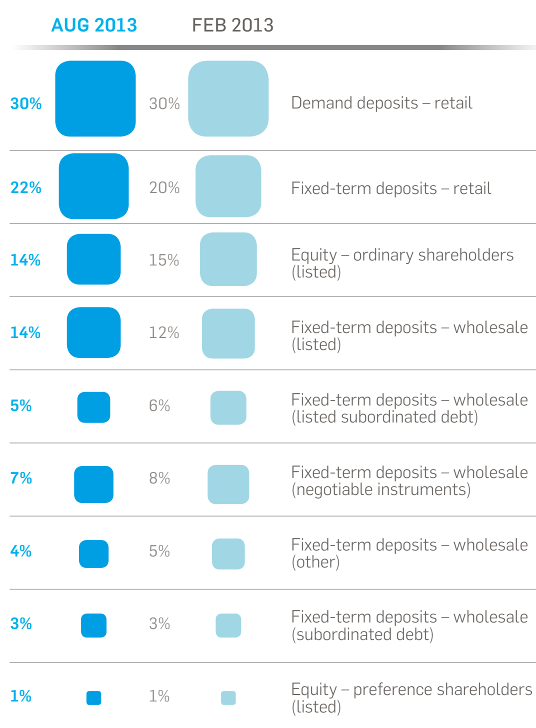
[(1)] *As Capitec has a net cash inflow after applying the run-off factors, outflows for the purpose of the ratio are deemed to be 25% of gross outflows.*

The net stable funding ratio (NSFR)

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 by 2018.

NSFR	31 Aug 2013	28 Feb 2013
NSFR%	**123**	116
Required stable funding (R'm)	**29 277**	27 697
Available stable funding (R'm)	**35 902**	32 236

Early compliance with these two new Basel ratios underscores Capitec's conservative approach to liquidity management.



- Capitec has no exposure to institutional or corporate call accounts.
- Wholesale (listed and subordinated debt listed) comprises domestic medium term notes listed on the JSE Limited. Investors in these bonds comprise: banks, insurance companies, fund managers and pension and provident funds.
- Wholesale (other) comprises deposits negotiated through bilateral agreements, including those with European development finance institutions (DFIs).
- Retail refers to individuals/natural persons.

4.4 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	31 Aug 2013		28 Feb 2013	
	R'000	%	R'000	%
200 basis points shift				
Increase	**318 801**	(3.0)	(377 110)	(3.3)
Decrease	**316 289**	3.0	382 024	3.4

4.5 Equity risk in the banking book

Capitec Bank Holdings Limited is not an investment bank and does not maintain proprietary positions in equity investments. The group has a 28% shareholding in a non listed entity Key Distributors (Pty) Ltd. The equity accounted value of the investment is R1.5 million as at 31 August 2013.

5. Qualitative disclosures and accounting policies

The Regulations require that certain qualitative disclosures and statements on accounting policy be made. These were made in the group annual report for the financial year ended 28 February 2013, 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 Group Annual Report, Main Features of Capital Instruments and Transitional Basel III Template. These disclosures can be found on the Capitec Bank website under Investor relations, Financial results, Banks Act Public Disclosure.