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

2012

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 II, 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

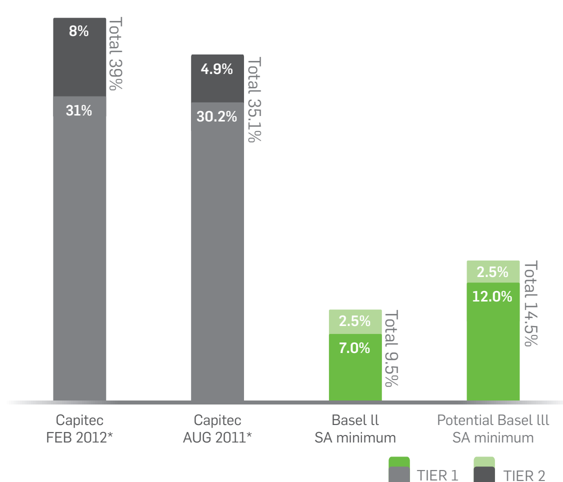
This report covers the six months ended 29 February 2012. Comparative information is presented for the previous six month period ended 31 August 2011.

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



- *The Basel II and Basel III minimums include the South African country risk buffer of 1.5%. The level of this buffer is set at the discretion of the SARB and it is subject to periodic review.*
- *The SA minimums exclude bank-specific (pillar 2b) buffers.*
- *Globally, the Basel III minimum capital adequacy percentage is 8%. Added to this is a 2.5% "capital conservation buffer" that banks must maintain to avoid regulatory restrictions on the payment of dividends and bonuses. In addition to the capital conservation buffer there is a "countercyclical buffer" that can range between 0% and 2.5% at the discretion of the regulator. The countercyclical buffer will be built up during times when growth in credit extention exceeds that of the real economy and is available for use when the general economy performs poorly. The capital conservation buffer must be met with ordinary shareholders' capital and reserves (common equity). The countercyclical buffer must be met with common equity or other fully loss-absorbing capital.*

* *The Banks Act rules in force as at 29 February 2012.*

4. Detailed disclosures

4.1 Regulatory capital adequacy

	29 Feb 2012 R'000	31 Aug 2011 R'000
Primary (Tier 1) capital		
Ordinary share capital	**2 926 435**	2 123 125
Accumulated profit	**2 001 866**	1 450 136
Preference share capital	**258 969**	258 969
Intangible assets in terms of IFRS	**(69 258)**	(54 419)
Specified advances	**(28 063)**	(32 380)
Unappropriated profit	**(275 094)**	(82 516)
Total regulatory adjustments	**(372 415)**	(169 315)
	4 814 855	3 662 915
Secondary (Tier 2) capital		
Capital allowance for unidentified impairments	**175 987**	137 550
Subordinated debt	**1 069 000**	450 000
	1 244 987	587 550
Total qualifying regulatory capital	**6 059 842**	4 250 465
Total capital adequacy % [1] [2]	**39.0**	35.1
Primary %	**31.0**	30.2
Secondary %	**8.0**	4.9
Composition of required regulatory capital		
Credit risk (on balance sheet)	**1 334 286**	1 042 210
Operational risk	**80 615**	48 435
Equity risk in the banking book	**–**	2 133
Other assets	**61 906**	59 061
Total regulatory capital requirement [3]	**1 476 807**	1 151 839
Composition of risk weighted assets [4]		
Credit risk (on balance sheet)	**14 045 118**	10 970 628
Operational risk [2]	**848 574**	509 845
Equity risk in the banking book	**–**	22 449
Other assets	**651 640**	621 695
Total risk-weighted assets	**15 545 332**	12 124 617
Total assets based on IFRS	**23 621 844**	18 224 921
Total risk-weighted assets – adjustments [5]	**(8 076 512)**	(6 100 304)
Total risk-weighted assets – regulatory	**15 545 332**	12 124 617

[1] The total capital adequacy ratio percentage is determined by dividing total qualifying regulatory capital by total risk-weighted assets.

[2] The CAR% incorporates a calculation change required by the South African Reserve Bank. The risk-weighted asset/equivalent for operational risk, included in the divisor, is as per the Alternative Standardised Approach calculation for retail banking. The previous method calculated the risk-weighted asset/equivalent for operational risk as 12% of total risk-weighted assets in alignment with the capital floor for operational risk capital, set at 12% of total required capital. There has been no change by the regulator to the 12% capital floor requirement.

[3] This value is reported in terms of Banks' Act circular 5/2011. It excludes the required regulatory capital amount relating to the bank specific buffer (Basel pillar 2b add-on). The value disclosed 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%.

[4] Risk-weighted assets are calculated by using regulatory percentages applied to the group's balance sheet, in order to establish the base for calculating the required regulatory capital.

[5] The adjustments reflect, in the main, 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.

ANALYSIS OF REGULATORY CREDIT EXPOSURE

	Average gross exposure[1]		Aggregate gross period-end exposure[2] [4]		Exposure post risk mitigation[2] [3] [4]		Risk weights[5]
	29 Feb 2012	31 Aug 2011	29 Feb 2012	31 Aug 2011	29 Feb 2012	31 Aug 2011	
Basel exposure categories	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**%**
On balance sheet							
Corporate [6]	**275 728**	384 875	**243 078**	92 551	**243 078**	92 551	100
Sovereign [7]	**1 559 247**	1 204 198	**1 646 386**	1 310 305	**1 646 386**	1 310 305	0
Banks (claims < 3 months original maturity) [8]	**1 273 358**	1 094 132	**2 162 873**	1 439 152	**1 601 743**	1 089 571	20
Banks (claims > 3 months original maturity)	**4 229**	840	**2 554**	5 791	**2 554**	5 791	50
Retail personal loans							
– performing	**16 108 461**	12 205 708	**17 438 315**	13 809 015	**17 438 315**	13 809 015	75
– impaired [9]	**723 723**	629 537	**931 742**	649 179	**931 742**	649 179	100
	19 944 746	15 519 290	**22 424 948**	17 305 993	**21 863 818**	16 956 412	
Off balance sheet							
Retail personal loans							
– conditionally revocable commitments [10]	**618 631**	610 653	**603 816**	638 024	**603 816**	638 024	0
Total exposure	**20 563 377**	16 129 943	**23 028 764**	17 944 017	**22 467 634**	17 594 436	

As required by the Banks Act and regulations (which incorporate Basel II):

[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 period-ends. All other items are the balances at period-end.*

[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 Fitch International grade rating to a risk-weight percentage using the mapping table below. The risk weightings for retail exposures are specified directly in the banking regulations.*

[6] *84% (Aug 2011: 60%) of corporate aggregate gross period-end exposure relates to investments in money market unit trusts.*

[7] *Sovereign comprises investments in RSA National Treasury bills, SARB debentures and SA Revenue Service tax assets. These exposures are zero risk weighted.*

[8] *Qualifying collateral in the form of highly liquid securities, arising from resale transactions, is deducted to arrive at post risk mitigation values. All resale agreements are in respect of RSA National Treasury bills and are transacted via STRATE.*

[9] *An ageing of impaired advances is shown in note 6 to the annual financial statements.*

[10] *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 their contractual obligations or where the bank has determined that the client's credit risk profile has changed. 18% 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. For ease of comparison we have presented the corresponding values at 31 August 2011, These commitments are now disclosed on the Banks' Act Return 900, line 293 - other contingent liabilities.*

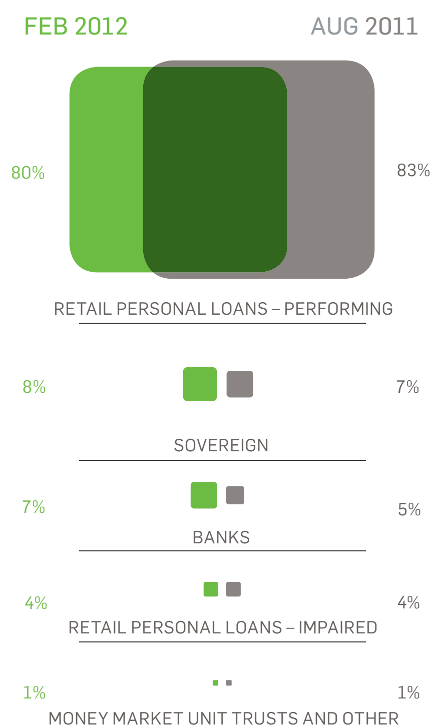
MAPPING RATING GRADES TO RELATED RISK WEIGHTS

Long-term credit assessment	**AAA to AA- %**	**A+ to A- %**	**BBB+ to BBB- %**	**BB+ to B- %**	**Below B- %**	**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 AA-**	**A+ to A-**	**BBB+ to BB-**	**Below BB-**		
Corporate entities	20	50	100	150		100
Short-term credit assessment	**A-1/P-1**	**A-2/P-2**	**A-3/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

	29 Feb 2012	31 Aug 2011
	R'000	R'000
Ageing		
< 60 days	**828 008**	557 722
60 – 90 days	**103 734**	91 457
Total impaired advances	**931 742**	649 179



4.2.3 Write-offs and recoveries reflected in the income statement

	SIX MONTHS 29 Feb 2012	SIX MONTHS 31 Aug 2011
	R'000	R'000
Net impairment charge on loans and advances:		
Bad debts (write-offs)	**581 879**	497 357
Movement in impairment allowance	**443 071**	257 449
Bad debts recovered	**(99 627)**	(75 940)
Net impairment charge	**925 323**	678 866

4.2.4 Analysis of credit impairments

All impairments presented below relate to retail personal loans.

	SIX MONTHS 29 Feb 2012	SIX MONTHS 31 Aug 2011
	R'000	R'000
Movement in impairments:		
Balance at beginning of period	**1 102 175**	844 726
Unidentified Losses	**753 501**	512 082
Identified Losses	**348 674**	332 644
Movement	**443 071**	257 449
Unidentified Losses	**261 680**	241 419
Identified Losses	**181 391**	16 030
Balance at end of period	**1 545 246**	1 102 175
Unidentified Losses	**1 015 181**	753 501
Identified Losses	**530 065**	348 674

4.3 Liquidity maturity analysis

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. For details relating to the complete extent of the group's exposure to off balance sheet items refer to (a) to (c) on pages 6 and 7 of this report.
- 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 (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 2012						
Undiscounted assets						
Cash and cash equivalents - banks	4 538 222	15 274	–	–	–	4 553 496
Cash and cash equivalents - corporate money markets unit trusts	909	–	–	–	–	909
Investments designated at fair value - sovereigns	48 290	75 000	1 127 060	–	–	1 250 350
Loans and advances to clients - retail personal	1 504 581	2 052 357	7 650 217	17 724 937	(492 071)	28 440 021
Loans and advances to clients - retail other	802	–	–	–	–	802
Loans and advances to clients - corporate other	14 438	–	–	23 781	–	38 219
Other receivables	28 733	–	–	2 156	–	30 889
Current income tax assets	–	–	62 331	–	–	62 331
Undiscounted assets	6 135 975	2 142 631	8 839 608	17 750 874	(492 071)	34 377 017
Adjustments for undiscounted assets	(417 208)	(869 345)	(3 236 192)	(5 602 742)	–	(10 125 487)
Discounted assets						
Loan impairment provision	(130 479)	(237 420)	(493 418)	(683 929)	–	(1 545 246)
Total discounted assets	5 588 288	1 035 866	5 109 998	11 464 203	(492 071)	22 706 284
Undiscounted liabilities						
Loans and deposits at amortised cost	6 916 087	1 015 697	4 350 825	8 264 777	–	20 547 386
Trade and other payables	277 809	116 671	99 259	145 849	78 997	718 585
Current income tax liabilities	–	885	–	–	–	885
Provisions	–	–	–	24 998	–	24 998
Undiscounted liabilities	7 193 896	1 133 253	4 450 084	8 435 624	78 997	21 291 854
Adjustments for undiscounted liabilities to depositors	(4 697)	(82 745)	(418 893)	(2 349 025)	–	(2 855 360)
Total discounted liabilities	7 189 199	1 050 508	4 031 191	6 086 599	78 997	18 436 494
Net liquidity (shortfall)/excess	(1 600 911)	(14 642)	1 078 807	5 377 604	(571 068)	4 269 790
Cumulative liquidity (shortfall)/excess	(1 600 911)	(1 615 553)	(536 746)	4 840 858	4 269 790	4 269 790

The contractual maturity of the financial assets and liabilities of the company are all on demand to one month.

Much of the liquidity shortfall in the demand to three-month categories results from the investment of excess cash in treasury bills and SARB debentures with maturities in excess of three months. These instruments are highly liquid and can be converted into cash should the need arise.

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

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 2011						
Undiscounted assets						
Cash and cash equivalents	3 133 218	115 400	–	–	–	3 248 618
Investments designated at fair value	31 249	285 000	610 126	–	–	926 375
Undiscounted assets	3 164 467	400 400	610 126	–	–	4 174 993
Adjustments for undiscounted assets	(64)	(3 691)	(15 656)	–	–	(19 411)
Discounted assets						
Loans and advances to clients	1 044 896	1 103 506	4 054 569	8 725 559	(433 181)	14 495 349
Loan impairment provision	(116 227)	(182 052)	(402 418)	(401 478)	–	(1 102 175)
Other receivables	22 000	–	–	2 158	–	24 158
Total discounted assets	4 115 072	1 318 163	4 246 621	8 326 239	(433 181)	17 572 914
Undiscounted liabilities						
Loans and deposits at amortised cost	5 481 046	888 321	2 747 417	6 799 490	–	15 916 274
Trade and other payables	246 300	10 119	166 673	122 618	70 900	616 610
Current income tax liabilities	34 571	–	54 110	–	–	88 681
Provisions	–	–	–	16 356	–	16 356
Undiscounted liabilities	5 761 917	898 440	2 968 200	6 938 464	70 900	16 637 921
Adjustments for undiscounted liabilities to depositors	(6 602)	(136 606)	(306 127)	(1 789 183)	–	(2 238 518)
Total discounted liabilities	5 755 315	761 834	2 662 073	5 149 281	70 900	14 399 403
Net liquidity (shortfall)/excess	(1 640 243)	556 329	1 584 548	3 176 958	(504 081)	3 173 511
Cumulative liquidity (shortfall)/excess	(1 640 243)	(1 083 914)	500 634	3 677 592	3 173 511	3 173 511

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 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 measure on a straight-lined basis are as follows:

	29 Feb 2012 R'000	31 Aug 2011 R'000
Property operating lease commitments		
The future aggregate minimum lease payments under non-cancellable leases are as follows:		
Within one year	167 995	152 216
From one to five years	470 288	429 237
After five years	99 694	84 173
Total future cash flows	737 977	665 626
Straight lining accrued	(35 749)	(30 088)
Future expenses	702 228	635 538

	29 Feb 2012 R'000	31 Aug 2011 R'000
Other operating lease commitments		
Within one year	2 253	2 140
From one to five years	5 083	5 073
	7 336	7 213

(b) Capital commitments

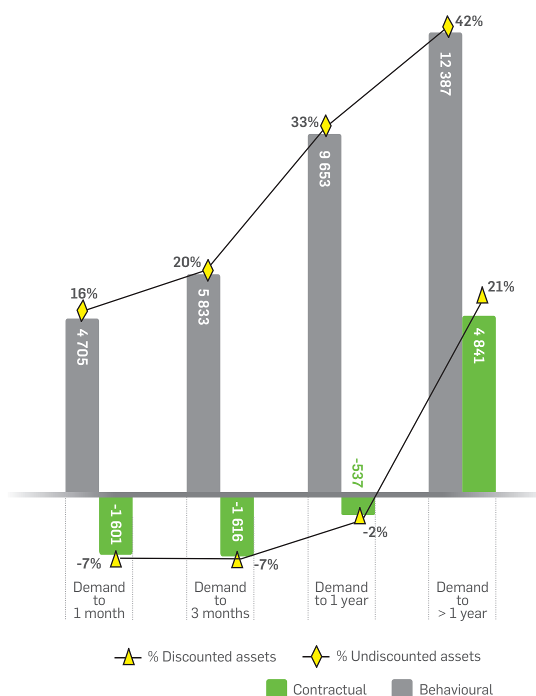
Capital commitments for the acquisition of information technology hardware, improvements to leased premises and support services, expected to result in cash outflows by the end of the current financial year, are as follows:

	29 Feb 2012 R'000	31 Aug 2011 R'000
Capital commitments – approved by the board		
Contracted for:		
Property and equipment	85 195	36 281
Intangible assets	6 744	2 654
Not contracted for:		
Property and equipment	458 247	199 339
Intangible assets	122 329	43 575
	672 515	281 849

(c) Conditionally revocable retail loan commitments

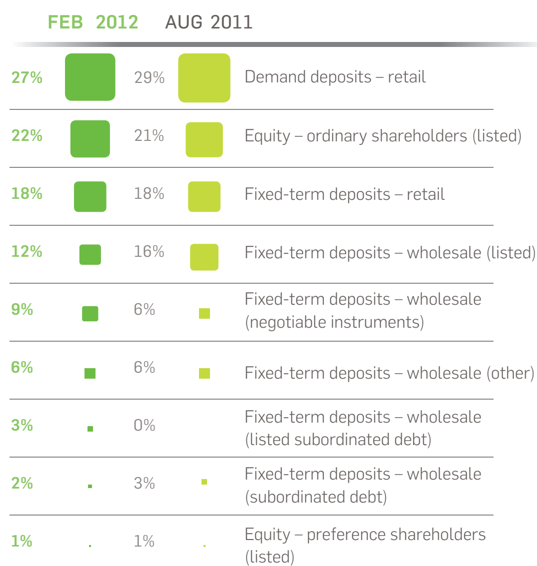
Conditionally, revocable, retail loan commitments totalled R603.8 million (Aug 2011: R638.0 million). These commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less. The bank's contractual commitment is revocable should a client not meet their contractual obligations or where the bank has determined that the client's credit risk profile has changed. 18.3% of the value of these commitments is expected to be drawn down within one month. As these are one month loans, repayment of any future drawn downs must also occur within the month.

CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES R'm



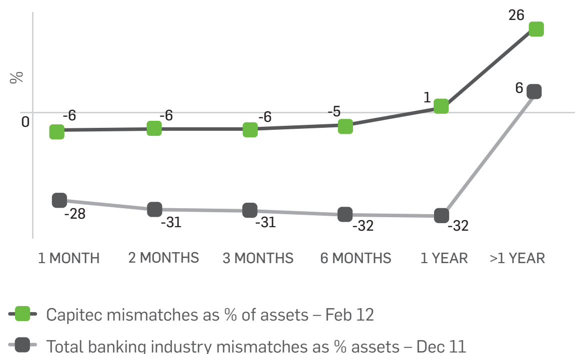
- *Both the contractual and behavioural mismatches benefit positively from the high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than at banks with lower capital ratios.*
- *The main difference between the behavioural and contractual mismatches relates to the treatment of retail demand deposits. 91% 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.*
- *The contractual mismatch is reported on a discounted basis whereas the behavioural mismatch is reported on an undiscounted basis.*

DIVERSIFICATION OF FUNDING SOURCES



- *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.*

CUMULATIVE CONTRACTUAL LIQUIDITY MISMATCHES – INDUSTRY COMPARISON



Capitec mismatches as % of assets – Feb 12

Total banking industry mismatches as % assets – Dec 11

- *This graph 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.*

4.4 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.

	29 Feb 2012		31 Aug 2011	
	Sensitivity of equity		Sensitivity of equity	
	R'000	**%**	**R'000**	**%**
200 basis points shift				
Increase	**(126 619)**	(2.1)	(91 908)	(1.8)
Decrease	**116 378**	2.0	82 954	1.7

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 disposed of its residual unlisted equity investments during the period. The group did not hold any investments in listed equities at 29 February 2012. (31 August 2011: Nil)

	SIX MONTHS 29 Feb 2012 R'000	SIX MONTHS 31 Aug 2011 R'000
Equities in the banking book at fair value through profit or loss		
Unlisted investments at fair value		
Balance at the beginning of the period	**22 449**	**16 335**
Amortised cost	**16**	**33**
Cumulative fair value adjustment - other market risk	**22 433**	**16 302**
(Disposals)/Additions at cost	**(28 944)**	**(17)**
Fair value adjustment	**6 495**	**6 131**
Interest rate risk	–	–
Credit risk	–	–
Exchange rate risk	**3 290**	**392**
Other market risk	**3 205**	**5 739**
Balance at the end of the period	–	**22 449**
Amortised cost	–	**16**
Cumulative fair value adjustment - other market risk	–	**22 433**

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 29 February 2012, 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.