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

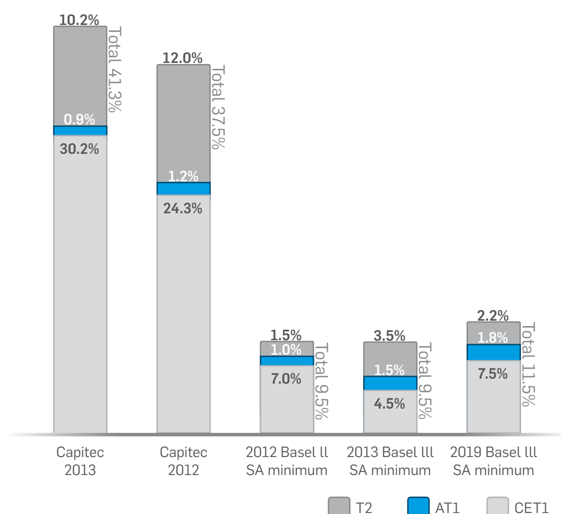
This report covers the six months ended 28 February 2013. Comparative information is presented for the previous six month period ended 31 August 2012.

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 rules at a consolidated level.*
- *Globally, the Basel III minimum capital adequacy percentage is 8%.*
- *The 2012 Basel II and 2013 Basel III SA minima – include 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 include 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 cannot 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.*
  - *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	28 Feb 2013	31 Aug 2012
Composition of qualifying regulatory capital		
Ordinary share capital	5 330 710	3 164 676
Accumulated profit	2 939 240	2 229 920
	8 269 950	5 394 596
Regulatory adjustments		
– Intangible assets in terms of IFRS	(136 380)	(122 179)
– Specified advances	(137)	(3 310)
– Unappropriated profit	(128 561)	(90 290)
Common Equity Tier 1 capital (CET1)	8 004 872	5 178 817
Issued preference share capital	258 969	258 969
Phase out – non-loss absorbent[1]	(25 897)	–
Additional Tier 1 capital (AT1)	233 072	258 969
Tier 1 capital (T1)	8 237 944	5 437 786
Issued subordinated debt	2 891 000	2 319 000
Phase out – non-loss absorbent[1]	(289 100)	–
Third-party capital issued by bank subsidiary[2]	(179 585)	–
Total subordinated debt	2 422 315	2 319 000
Unidentified impairments	295 582	240 860
Tier 2 capital (T2)	2 717 897	2 559 860
Qualifying regulatory capital	10 955 841	7 997 646
CET1%	30.2	24.3
AT1%	0.9	1.2
T1%	31.1	25.5
T2%	10.2	12.0
Total capital adequacy %[3]	41.3	37.5
Composition of required regulatory capital		
On balance sheet	2 243 438	1 827 717
Off balance sheet	177	–
Credit risk	2 243 615	1 827 717
Operational risk	131 194	119 418
Equity risk in the banking book	–	–
Other assets	142 365	76 777
Total regulatory capital requirement[4]	2 517 174	2 023 912
Composition of risk-weighted assets[5]		
On balance sheet	23 615 138	19 239 127
Off balance sheet	1 858	–
Credit risk	23 616 996	19 239 127
Operational risk	1 380 989	1 257 034
Equity risk in the banking book	–	–
Other assets	1 498 575	808 174
Total risk-weighted assets	26 496 560	21 304 335
Total assets based on IFRS	38 346 724	32 040 889
Total risk-weighted assets – adjustments[6]	(11 850 164)	(10 736 554)
Total risk-weighted assets – regulatory	26 496 560	21 304 335

(1) *For 2013, the non-loss absorbent AT1 and T2 capital is subject to a 10% phase-out in terms of Basel III.*
(2) *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.*
(3) *The total capital adequacy ratio percentage is determined by dividing the total qualifying regulatory capital by total risk-weighted assets.*
(4) *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.*
(5) *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.*
(6) *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.

	Average gross exposure[1]		Aggregate gross year-end exposure[2] [4]		Exposure post risk mitigation[2] [3] [4]		Risk weights[5]
Basel III exposure categories R'000	28 Feb 2013	31 Aug 2012	28 Feb 2013	31 Aug 2012	28 Feb 2013	31 Aug 2012	%
On balance sheet							
Corporate[6]	**479 184**	199 548	**643 598**	644 891	**643 598**	644 891	100
Sovereign[7]	**3 392 818**	2 527 136	**3 877 189**	2 985 454	**3 877 189**	2 985 454	0
Banks (claims < 3mths original maturity)[8]	**2 306 307**	2 489 257	**2 052 756**	1 784 205	**2 052 756**	1 716 504	20
Banks AA- to AAA (Derivatives > 3mths)	**9 955**	–	**19 075**	–	**19 075**	–	20
Banks BBB- to A (Derivatives > 3mths)	**4 050**	4 693	**2 250**	6 450	**2 250**	2 250	50
Retail personal loans							
– performing	**27 201 281**	20 218 444	**28 862 577**	23 607 918	**28 862 577**	23 607 918	75
– impaired[9]	**1 407 480**	980 925	**1 777 034**	1 075 465	**1 777 034**	1 075 465	100
Subtotal	**34 801 075**	26 420 003	**37 234 479**	30 104 383	**37 234 479**	30 032 482	
Off balance sheet							
Retail personal loans							
– retail guarantees	**500**	–	**1 000**	–	**1 000**	–	75
– committed undrawn facilities	**537**	–	**2 716**	–	**2 716**	–	75
– conditionally revocable commitments[10]	**663 422**	668 973	**725 010**	781 017	**725 010**	781 017	0
Total exposure	**35 465 534**	27 088 976	**37 963 205**	30 885 400	**37 963 205**	30 813 499	

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 Fitch 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) *97% (Aug 2012: 83%) of corporate aggregate gross year-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) *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 were in respect of RSA treasury bills and were transacted via STRATE.*
(9) *An ageing of impaired advances is shown in 4.2.2.*
(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 his contractual obligations or where the bank has determined that the client's credit risk profile has changed. 17.8% (Aug 2012: 15.3%) 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 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

R'000	28 Feb 2013	31 Aug 2012
Ageing		
< 60 days	**1 568 709**	930 879
60 – 90 days	**208 325**	144 586
Total impaired advances	**1 777 034**	1 075 465

4.2.3 Write-offs and recoveries reflected in the income statement

R'000	SIX MONTHS 28 Feb 2013	SIX MONTHS 31 Aug 2012
Net impairment charge on loans and advances:		
Bad debts (write-offs)	**941 512**	813 017
Movement in impairment allowance	**849 556**	328 012
Bad debts recovered	**(150 760)**	(122 416)
Net impairment charge	**1 640 308**	1 018 613

4.2.4 Analysis of credit impairments

All impairments presented below relate to retail personal loans.

R'000	SIX MONTHS 28 Feb 2013	SIX MONTHS 31 Aug 2012
Movement in impairments:		
Balance at beginning of period	**1 873 258**	1 545 246
Unidentified Losses	**1 342 505**	1 015 181
Identified Losses	**530 753**	530 065
Movement	**849 556**	328 012
Unidentified Losses	**516 819**	327 324
Identified Losses	**332 737**	688
Balance at end of period	**2 722 814**	1 873 258
Unidentified Losses	**1 859 324**	1 342 505
Identified Losses	**863 490**	530 753

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 (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
Adjustments for undiscounted assets	(852 915)	(1 461 231)	(5 892 875)	(14 258 931)	–	(22 465 952)
Discounted assets						
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
Adjustments for undiscounted liabilities to depositors	(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
Net liquidity (shortfall)/excess	(2 879 424)	216 759	2 197 165	8 374 878	(557 494)	7 351 884
Cumulative liquidity (shortfall)/excess	(2 879 424)	(2 662 665)	(465 500)	7 909 378	7 351 884	7 351 884

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 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
AUG 2012						
Undiscounted assets						
Cash and cash equivalents - sovereigns	3 748 993	–	–	–	–	3 748 993
Cash and cash equivalents - banks	3 204 122	145 330	–	–	–-	3 349 452
Cash and cash equivalents - corporate money markets unit trusts	2 858	–	–	–	–	2 858
Investments designated at fair value - sovereigns	15 000	110 230	815 900	–	–	941 130
Loans and advances to clients - retail personal	1 503 847	2 338 943	9 340 678	28 944 203	(467 523)	41 660 148
Loans and advances to clients - retail other	448	–	–	–	–	448
Loans and advances to clients - corporate other	13 346	–	–	–	–	13 346
Other receivables	46 989	–	–	2 107	–	49 096
Current income tax assets	–	–	61 841	–	–	61 841
Undiscounted assets	8 535 603	2 594 503	10 218 419	28 946 310	(467 523)	49 827 312
Adjustments for undiscounted assets	(522 283)	(1 183 675)	(4 615 862)	(10 677 143)	–	(16 998 963)
Discounted assets						
Loan impairment provision	(146 058)	(77 435)	(267 795)	(1 381 970)	–	(1 873 258)
Total discounted assets	7 867 262	1 333 393	5 334 762	16 887 197	(467 523)	30 955 091
Undiscounted liabilities						
Loans and deposits at amortised cost	9 714 542	2 130 618	4 138 682	14 040 890	–	30 024 732
Trade and other payables	347 378	24 398	197 564	122 396	96 539	788 275
Current income tax liabilities	–	–	161	–	–	161
Provisions	–	–	–	16 877	–	16 877
Undiscounted liabilities	10 061 920	2 155 016	4 336 407	14 180 163	96 539	30 830 045
Adjustments for undiscounted liabilities to depositors	(4 653)	(138 109)	(667 530)	(3 608 527)	–	(4 418 819)
Total discounted liabilities	10 057 267	2 016 907	3 668 877	10 571 636	96 539	26 411 226
Net liquidity (shortfall)/excess	(2 190 005)	(683 514)	1 665 885	6 315 561	(564 062)	4 543 865
Cumulative liquidity (shortfall)/excess	(2 190 005)	(2 873 519)	(1 207 634)	5 107 927	4 543 865	4 543 865

Off-balance sheet items

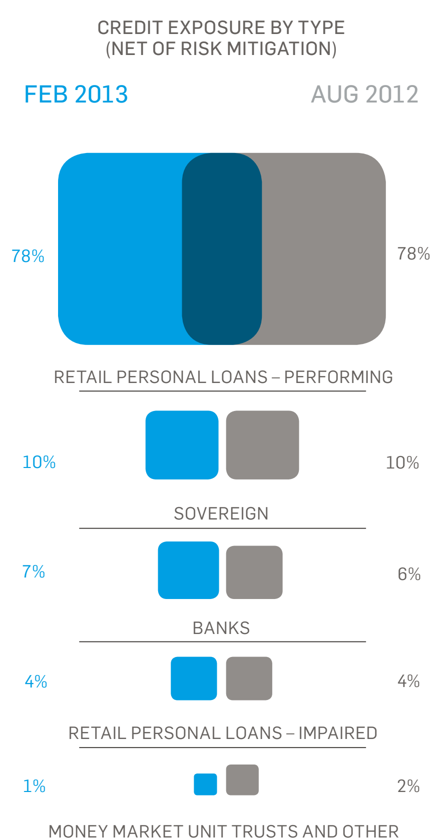
The following off balance sheet items will result in a future outflow of cash, subsequent to reporting date. These cash flows are regarded as transactions relating to future reporting periods and are therefore excluded from the static maturity analysis above. As a going concern, these outflows will be 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 measure on a straight-lined basis are as follows:

	28 Feb 2013 R'000	31 Aug 2012 R'000
Property operating lease commitments		
The future aggregate minimum lease payments under non-cancellable leases are as follows:		
Within one year	**206 681**	190 483
From one to five years	**591 547**	540 211
After five years	**170 639**	124 184
Total future cash flows	**968 867**	854 878
Straight lining accrued	**(46 432)**	(41 461)
Future expenses	**922 435**	813 417

	28 Feb 2013 R'000	31 Aug 2012 R'000
Other operating lease commitments		
Within one year	**2 207**	2 298
From one to five years	**3 490**	4 573
	5 697	6 871



(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:

	28 Feb 2013 R'000	31 Aug 2012 R'000
Capital commitments – approved by the board		
Contracted for:		
Property and equipment	**42 645**	91 437
Intangible assets	**13 119**	9 322
Not contracted for:		
Property and equipment	**524 971**	176 660
Intangible assets	**169 438**	41 325
	750 173	318 744

(c) Conditionally revocable retail loan commitments

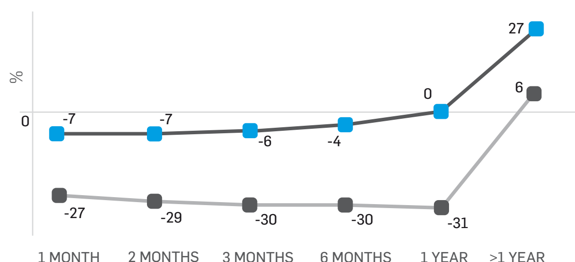
Conditionally, revocable, retail loan commitments totalled R725 million (Aug 2012: R781 million). These commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less. The bank's contractual commitment is revocable should a client not meet their contractual obligations or where the bank has determined that the client's credit risk profile has changed. 17.8% (Aug 2012: 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

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. Ninety percent (Aug 2012: 92%) 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

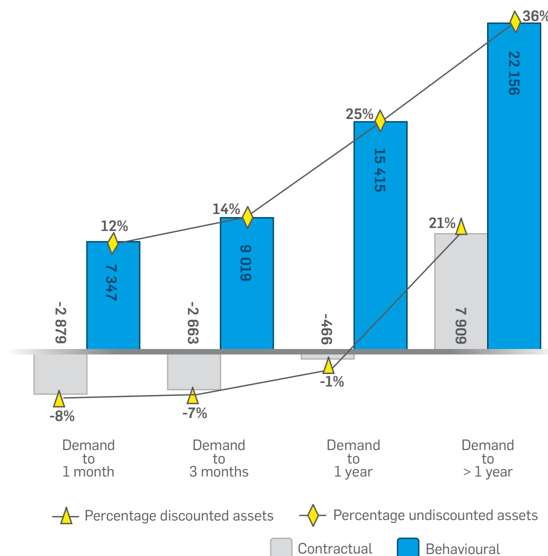


Capitec mismatches as % of assets – Feb 13

Total banking industry mismatches as % assets – Dec 12

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.

4.3.2 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% as at 28 February 2013	Group
LCR%	1 534
High-quality liquid assets (R'm)	5 118
Net outflow [(1)] (R'm)	334

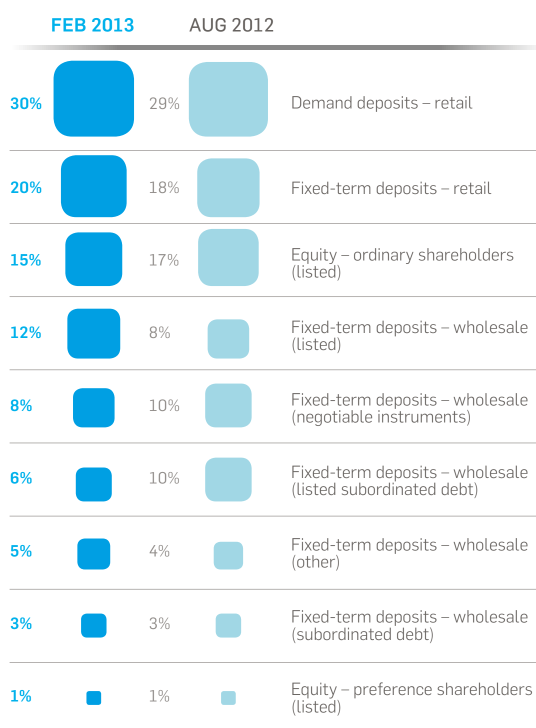
[(1)] *As Capitec has a net cash inflow after applying the run-off factors, outflows for the purpose of the ratio are deemed to be 25% of gross outflows.*

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% as at 28 February 2013	Group
NSFR%	116
Required stable funding (R'm)	27 697
Available stable funding (R'm)	32 236

Compliance with these two new Basel ratios underscores the Capitec's conservative approach to liquidity.



- *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	28 Feb 2013		31 Aug 2012	
	R'000	**%**	**R'000**	**%**
200 basis points shift				
Increase	**(377 110)**	(3.3)	(309 376)	(3.3)
Decrease	**382 024**	3.4	300 172	3.2

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 2012 financial year.

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.