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# Capitec Bank Ltd.

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# Capitec Bank Ltd.

## Ratings Score Snapshot

| Issuer Credit Rating |
|---|
| BB-/Stable/B |
| *South Africa National Scale* |
| zaAA/--/zaA-1+ |

**SACP: bb** → **Support: 0** → **Additional factors: -1**

| SACP: bb | | |
|---|---|---|
| Anchor | bb+ | |
| Business position | Moderate | -1 |
| Capital and earnings | Strong | +1 |
| Risk position | Moderate | -1 |
| Funding | Adequate | 0 |
| Liquidity | Strong | |
| CRA adjustment | | 0 |

| Support: 0 | |
|---|---|
| ALAC support | 0 |
| GRE support | 0 |
| Group support | 0 |
| Sovereign support | 0 |

| Additional factors: -1 |
|---|
| Issuer credit rating |
| BB-/Stable/B |

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

## Credit Highlights

| Overview | |
|---|---|
| **Key strengths** | **Key risks** |
| Strong capitalization and significant capital buffers. | Higher interest rates and inflation will add pressure to household budgets. |
| Strong liquidity metrics. | Comparatively weaker business diversification than top-tier domestic banks and higher cost of funding. |
| Conservative provisioning policy. | Focus on unsecured lending, leading to high credit losses. |

***Capitec Bank Ltd.'s (Capitec's) earnings will be supported by higher net interest margins despite elevated impairments charges.*** S&P Global Ratings forecasts the bank's earnings will remain strong with a return on equity (ROE) ratio of 23% for financial year 2024 (FY2024: year ending Feb. 29, 2024) supported by higher net interest margins and growth in non-funded income. We expect loan impairments will remain elevated, but broadly in line with historical levels on the back of high food prices. We expect the cost of risk to remain elevated at about 7% in FY2024 while nonperforming loans (NPLs) will increase to 23% from 22% in FY2023.

***Capitec's strong capital and earnings continue to support the rating.*** Its risk position, meanwhile, reflects relatively high credit losses. We expect the risk-adjusted capital (RAC) ratio to remain a credit strength and forecast that it will improve to 11.3% in FY2024 from 10.5% in FY2023. We also think Capitec will continue to display considerably higher credit losses than its top South African banking peers, which is a relative credit weakness.

***The bank continues to improve its business profile through product offerings and client selection.*** The group has seen increasing product diversification, balancing its mix of lending and transactional income by moving into higher-income earners and away from unsecured retail lending. This has been further supported by the widening of product offerings and target markets via a new business banking division (following the Mercantile Bank Ltd. acquisition) and retail insurance, buoyed by strong credit life insurance income following the normalization of claims to pre-pandemic levels.

## Outlook

The stable outlook on Capitec Bank mirrors that on the sovereign.

### Downside scenario

We would lower the ratings if we took a similar action on the sovereign.

### Upside scenario

We would raise the ratings on the bank if we took a similar action on the sovereign.

## Key Metrics

**Capitec Bank Ltd. Key Ratios And Forecasts**

| | --Fiscal year ended Feb. 28 -- | | | | |
|---|---|---|---|---|---|
| (%) | 2021a | 2022a | 2023a | 2024f | 2025f |
| Growth in operating revenue | 8.8 | 17.4 | 12.6 | 6.7-8.2 | 6.3-7.7 |
| Growth in customer loans | -1.0 | 12.1 | 16.3 | 4.5-5.5 | 9.0-11.0 |
| Net interest income/average earning assets (NIM) | 7.6 | 7.3 | 7.6 | 7.4-8.1 | 7.1-7.9 |
| Cost to income ratio | 40.0 | 46.0 | 39.0 | 39.7-41.7 | 40.8-42.9 |
| Return on average common equity | 16.1 | 26.0 | 26.0 | 22.1-24.5 | 22.0-24.4 |
| New loan loss provisions/average customer loans | 10.5 | 4.4 | 7.0 | 6.6-7.3 | 5.7-6.3 |
| Gross nonperforming assets/customer loans | 23.0 | 19.2 | 21.8 | 21.7-24.0 | 21.0-23.2 |
| Risk-adjusted capital ratio | 11.8 | 11.0 | 10.5 | 11.0-11.6 | 11.4-12.0 |

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

## Anchor: 'bb+' For Banks Concentrated In South Africa

Our 'bb+' anchor is derived from our Banking Industry Country Risk Assessment (BICRA) South Africa, where the bank operates.

***The acute energy crisis in South Africa is undermining production capacity and the economy's long-term growth prospects.*** We expect GDP to be marginally positive in 2023 at 0.7%. Decayed infrastructure, as well as entrenched corruption and organized crime in public enterprises, undermined South Africa's export capacity in 2022 amid positive terms of trade. Supply-side constraints led the SARB to hike rates to 8.25% in May 2023 amid elevated food prices. As a result, we expect pressure to build on households and SMEs, while credit demand from the private sector will be subdued but still stronger than GDP growth, averaging 5% over the next two years.

***We expect the credit loss ratio for the sector will trend higher at 1.2%-1.5% in 2023-2024, above the historical average of 0.8% but well below the 2.0% recorded during the pandemic year.*** Although moderating from a strong 2022 performance, banks' earnings will support their strong regulatory buffers. The South African banking sector is inherently exposed to concentrated short- and medium-term wholesale funding from nonbank financial institutions. Still, in a crisis, rand liquidity remains in the country because of resident exchange controls, which mitigate banks' exposure to institutional funding. Major banks are not exposed to large-scale refinancing risk thanks to their limited exposure to international funding. The SARB remains an early adopter of international best practices and has published a road map related to the Basel III reforms for operational and credit risks, which it will roll out starting in 2025.

## Business Position: A Profitable Leading Retail Franchise Despite Its Narrow Business Focus And Small Size

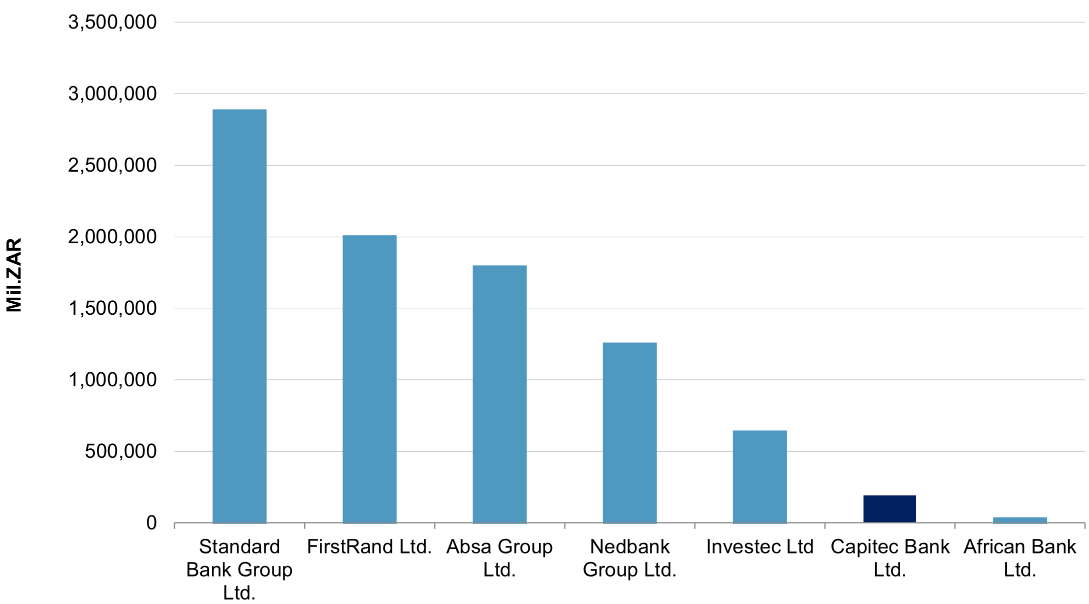
Capitec is a retail-focused bank operating in South Africa's stable banking sector, with total assets of South African rand (ZAR) 192 billion (approximately $11 billion) as of Feb. 28, 2023. Retail banking in South Africa is highly competitive. Capitec positions itself as the leading retail franchise in the country through the delivery of a low-cost alternative to large South African banks. The bank has about 20 million retail clients across all segments, of which 57% use digital channels and its market share of unsecured and short-term credit in 2022 was around 28%, and about 6% for credit cards. Capitec continues to use digital innovation and artificial intelligence to provide its clients with digital banking and payment solutions, including simple savings and loan products with transparent and affordable pricing.

The bank continues to diversify its income streams through different product offerings (such as funeral cover, home and car loans, prepaid airtime through Capitec connect and small and midsize enterprise [SME] offerings), as well as unsecured loans. Non-interest income accounted for 55% of the group's operating revenue in FY2023, in line with peers. Non-interest income mainly comprises fees and commissions (78%) and net insurance income (11%). We expect insurance income to continue to increase as the group attracts additional customers through its insurance subsidiary. In addition, its acquisition of Mercantile Bank in 2019 has accelerated its strategy to offer digital-led banking solutions to SMEs, which aligns with its broader strategy. The acquisition of Mercantile provides revenue opportunities and leverages the value chain to attract higher-income earners. Although we note the gradual improvement of Capitec's business diversification, its core business could expose it to earnings volatility in times of stress.

**Chart 1**

**South African banks by total assets**

Total asset size growing relative to other players




Data as at end December 2022 except for Capitec which is as at Feb-2023 year end, Investec Bank as at March-2023 and African Bank as at September-2022. ZAR--South African Rand Source: Company financials.

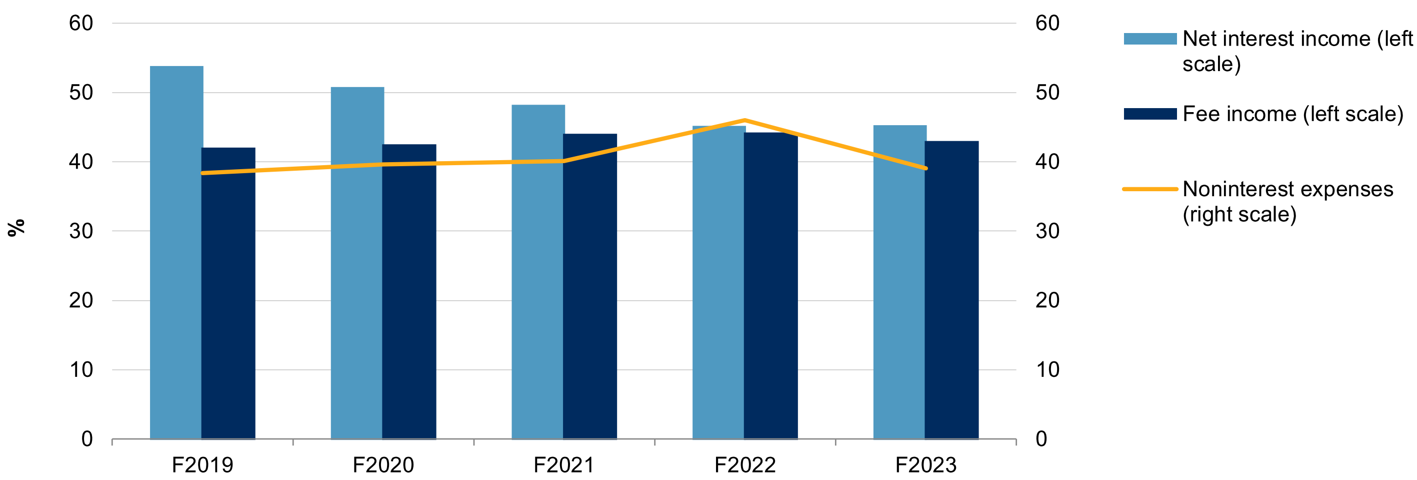


Capitec remains the most efficient among its peers supported by its continued investment in digitization. The bank's cost-to-income ratio decreased to 39% in FY2023 compared to a peer average of 53%, and from 46% in FY2022, mainly driven by a decrease in employee incentives. We expect the cost-to-income ratio to marginally deteriorate to average 42% through 2024, balancing growth in revenues and operating expenses. The bank's cost of funding is, however, a bit higher than peers at 4.9% in FY2023 (peer average 4.4%) mainly because Capitec pays marginally higher rates for its current account deposits compared to top-tier banks.

**Chart 2**

**Interest income versus non-interest income, and non-interest expenses (relative to operating revenues)**

Fee income supports revenue amid sustained shift towards digital revenues




Year end as at 28 February 2023, Source: S&P Global Ratings, Financial Statements.



## Capital And Earnings: Strong Capitalization Backed By Strong Earnings

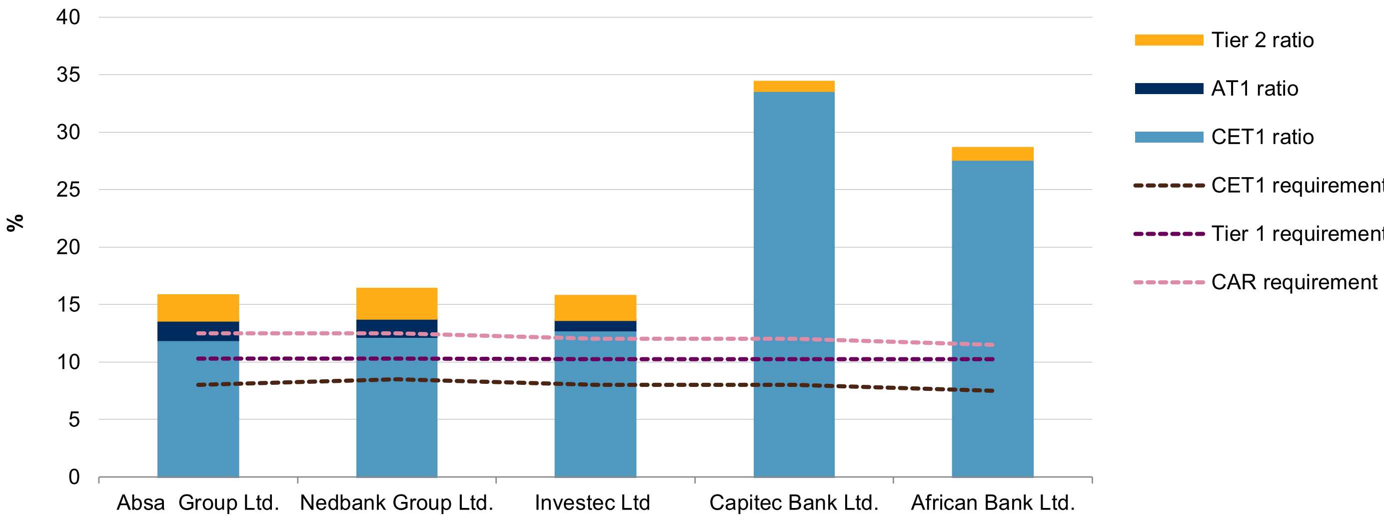
We expect Capitec to maintain its strong capital position despite likely elevated impairment charges. Our RAC ratio for Capitec declined to 10.5% as of Feb. 28, 2023, from 11.0% a year earlier, reflecting increased exposure to government securities and growth in retail exposures. We expect our RAC ratio will improve to 11.0%-11.5% over the next 12-18 months. Our forecast considers the following assumptions:

- Loan growth to moderate to about 5% in FY2024 before rebounding to 10% in the later years of our forecast.
- Net interest margin improving to 7.75% in FY2024 because of the higher interest rates, then starting to decrease in FY2025.
- Operating efficiency to remain fairly stable, averaging 42% over the next two years balanced by the group's effective cost management, ongoing expenses related to digitization, and the expected increase in operating revenues.
- Cost of risk to remain elevated at 7% in FY2024 and normalizing at 6% through 2025.
- NPLs increasing to 23% in FY2024.
- A dividend payout ratio of 50%.

Capitec remains well capitalized, with a capital adequacy ratio (CAR) of 34.9% as of May 31, 2023 compared with 34.4% as of Feb. 28, 2023 and a common equity Tier 1 ratio (CET1) of 34.1% (33.6% at Feb. 28, 2023). The bank has significant buffers against its prudential minimum CAR requirement of 12%. The quality of capital is good with common equity accounting for 99.9% of our total adjusted capital.

**Chart 3**

**Capitec operates with very large regulatory capital buffers**



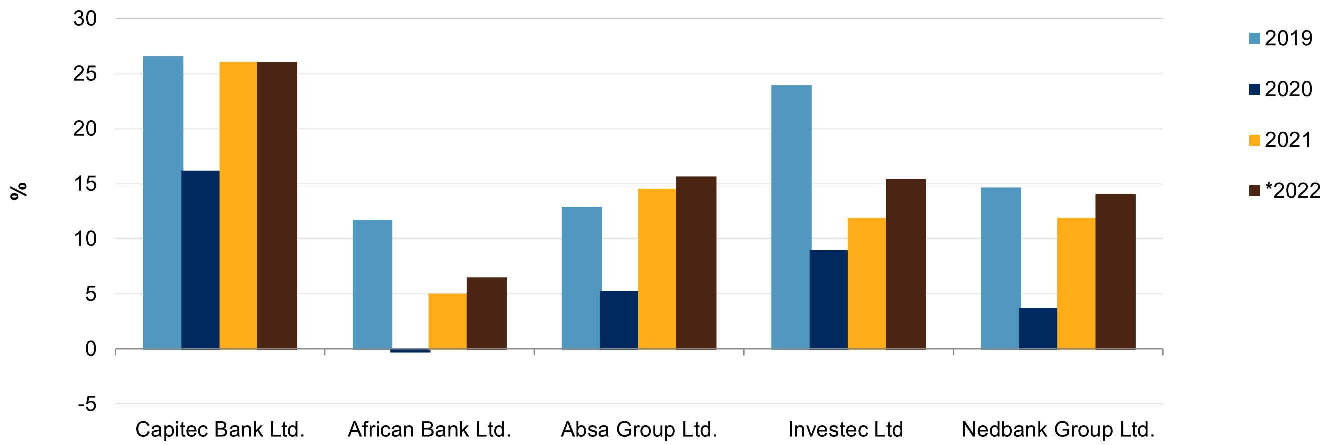

Absa Group Ltd., Nedbank Group Ltd., Investec Ltd and African Bank as at Dec., 2022. Capitec Bank as of Feb 28, 2023. Source: Banks' Pillar III reports.



We expect core earnings will average 5% of adjusted assets while its three-year average earnings buffer is forecast at 4.5%-5.0%, in line with historical levels. This is better than domestic peers' and underpins the bank's strong capacity to absorb normalized losses through the cycle. The bank maintained its strong profitability in FY2023 despite a significant increase in credit losses with a ROE of 26% (the same as the previous period). We expect profitability to moderate slightly but remain higher than peers' with a ROE of 23% in FY2024 balancing the impact of higher interest income, growth in funded income, and elevated credit losses.

**Chart 4**

**Capitec has posted strong earnings compared to top-tier domestic banks through the cycle**
Return On Equity Remains Above Peers




*Capitec as at Feb-2023 year end, Investec Bank as at March-2023 and African Bank as at September-2022.
ZAR--South African Rand Source: Company financials.


## Risk Position: Inherently Elevated Swings In Cost Of Risk And Concentration In Loan Portfolio

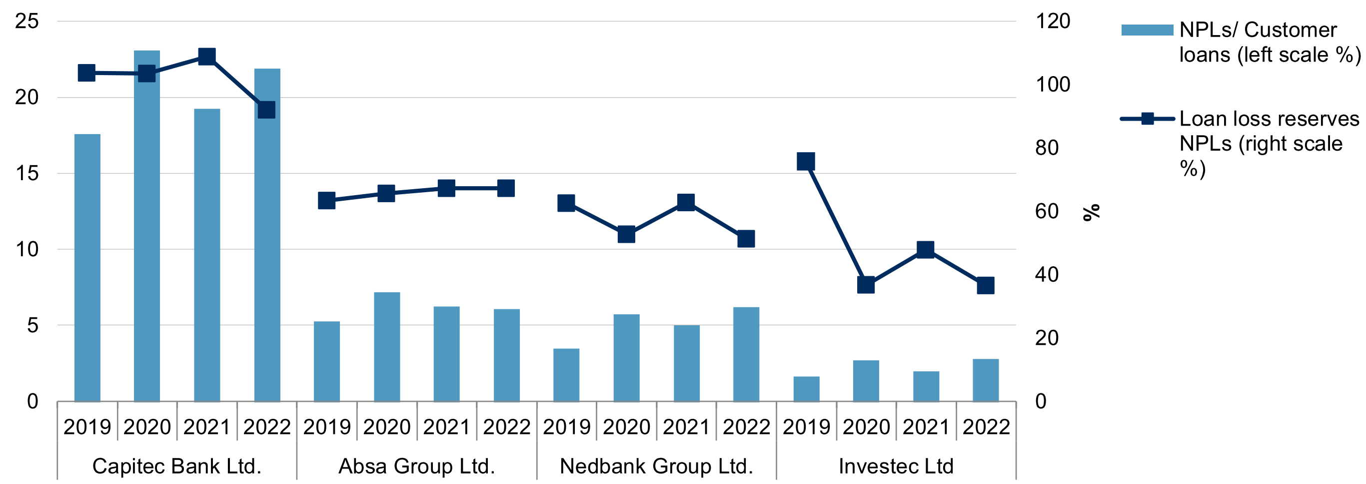
Our assessment of Capitec's risk position incorporates the bank's comparatively higher credit losses, which we do not fully capture in our RAC calculation. The bank's loan losses are considerably higher than those of South African top-tier banks, which operate with more-diversified lower-risk profiles and lower-margin loan products. We also factor in the still-concentrated nature of the loan book.

We expect higher food prices and interest rates, as well as power supply shortages, will lead to higher NPLs and cost of risk. The retail portfolio is particularly vulnerable to food prices increases impacting the affordability of goods, while power supply shortages are increasing costs for SMEs. We therefore expect the NPL ratio to increase to 23% in FY2024 from 22% in FY2023. We also expect the cost of risk to remain elevated at 7%, the same as the previous year. We expect the coverage ratio to decrease in FY2024 to about 86% before increasing to above 90% in the later years of our forecast. NPL coverage decreased to 92% in FY2023 despite the increase in new provisions because of the increase in write-offs and NPLs.

The bank has enhanced its risk profile through tighter credit policies and risk selection, as well as targeting individuals in higher income brackets. Its loan book has grown by above the sector average for the past two years; gross customer loans increased by 16.3% during FY2023 following a 12.1% increase in FY2022. The launch of the Access facility in FY2021 has led to a change in the bank's loan disbursements across products. The increased portion of this facility formed 37% of total retail bank disbursements in FY2023, from 32% in FY2022. The business bank accounted for 55% of total loan disbursements in FY2023 but it only accounts for 16% of gross loans (15% in FY2022).

**Chart 5**

**Capitec's asset quality metrics are elevated relative to South African peers given its retail focus**




*Capitec as at Feb-2023 year end. and Investec Bank as at March-2023. Source: S&P Global Ratings



## Funding And Liquidity: Retail Deposit Funded, But Relatively High Cost Of Funds

The bank is funded predominantly by customer deposits, with core deposits accounting for 96.8% of total funding as of Feb. 28, 2023. Total deposits grew 9% to ZAR147 billion in FY2023 with call savings and fixed savings growing 8% and 12%, respectively.

Unlike top-tier banks in South Africa, Capitec does not rely on short-term wholesale funding. This supports a strong liquidity coverage ratio. As of May 30, 2023, the bank's liquidity coverage ratio stood at 2092% (compared with 2191% at Feb. 28 2023)--far exceeding the sector average and reflecting the bank's funding profile. Most retail deposits are short term but net broad liquid assets covered 50% of short-term customer deposits in FY2023 from 56% in FY2022. The bank's loan-to-deposit ratio was 54% in FY2023, slightly higher than 50% a year earlier. Cost of funds remains elevated and increased to 4.9% in FY2023 from 3.7% in FY2022 because of higher interest rates, which Capitec is passing on to its retail depositors. This remains above the peer average of 4.4%.

## Support: No External Support

We consider government support for the South African banking sector to be uncertain owing to the anticipated resolution regime and the regulator's demonstrated appetite for senior creditor bail-in.

## Additional Rating Factors: The SACP Is Above The Foreign Currency Sovereign Ratings

Although we assess Capitec's SACP at 'bb', the long-term rating on the bank is limited by our foreign currency rating on the sovereign. We do not rate South African banks above the sovereign because of the likely direct and indirect impact of sovereign stress on banks.

## Environmental, Social, And Governance

We consider Capitec's core business focus to have a very limited environmental impact because its lending is not susceptible to transition risk. The bank has a comparatively greater social impact because of its focus on financial literacy and inclusion. Capitec's governance framework is not an outlier compared with peers' and the bank operates with similar standards to the wider South African financial sector.

## Key Statistics

**Table 1**

**Capitec Bank Ltd.--Key figures**

| | --Year-ended Feb. 28-- | | | | |
|---|---|---|---|---|---|
| **(Mil. ZAR)** | **2023** | **2022** | **2021** | **2020** | **2019** |
| Adjusted assets | 188,841.2 | 175,898.5 | 154,016.2 | 132,950.6 | 99,875.1 |
| Customer loans (gross) | 97,814.5 | 84,107.9 | 75,026.4 | 75,783.3 | 55,895.3 |
| Adjusted common equity | 34,331.3 | 29,784.5 | 28,377.9 | 24,118.3 | 19,690.0 |
| Operating revenues | 30,405.2 | 26,997.5 | 22,997.6 | 21,141.8 | 19,020.9 |
| Noninterest expenses | 11,869.6 | 12,419.2 | 9,210.4 | 8,370.4 | 7,297.4 |
| Core earnings | 9,708.7 | 8,629.7 | 4,703.6 | 6,475.4 | 5,483.0 |

ZAR--South African Rand.

**Table 2**

**Capitec Bank Ltd.--Business position**

| | --Year-ended Feb. 28-- | | | | |
|---|---|---|---|---|---|
| **(%)** | **2023** | **2022** | **2021** | **2020** | **2019** |
| Total revenues from business line (currency in millions) | 30,405.2 | 26,997.5 | 22,997.6 | 21,141.8 | 19,020.9 |
| Retail banking and Commercial banking/total revenues from business line | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Return on average common equity | 26.0 | 26.0 | 16.1 | 26.5 | 26.2 |

**Table 3**

**Capitec Bank Ltd.--Capital and earnings**

| | --Year-ended Feb. 28-- | | | | |
|---|---|---|---|---|---|
| **(%)** | **2023** | **2022** | **2021** | **2020** | **2019** |
| Tier 1 capital ratio | 33.6 | 35.4 | 35.9 | 29.6 | 32.8 |
| Net interest income/operating revenues | 45.1 | 45.1 | 48.1 | 50.6 | 53.6 |

**Table 3**

## Capitec Bank Ltd.--Capital and earnings (cont.)

| | --Year-ended Feb. 28-- | | | | |
|---|---|---|---|---|---|
| **(%)** | **2023** | **2022** | **2021** | **2020** | **2019** |
| Fee income/operating revenues | 42.8 | 44.1 | 43.9 | 42.4 | 41.9 |
| Market-sensitive income/operating revenues | 0.5 | 0.5 | 0.5 | 0.2 | 0.0 |
| Cost to income ratio | 39.0 | 46.0 | 40.0 | 39.6 | 38.4 |
| Preprovision operating income/average assets | 10.0 | 8.7 | 9.5 | 10.9 | 12.6 |
| Core earnings/average managed assets | 5.3 | 5.2 | 3.2 | 5.5 | 5.9 |

**Table 4**

## Capitec Bank Ltd.--Risk-adjusted capital framework data

| (Mil. ZAR) | Exposure* | Basel III RWA | Average Basel III RW(%) | S&P Global Ratings RWA | Average S&P Global Ratings RW (%) |
|---|---|---|---|---|---|
| **Credit risk** | | | | | |
| Government & central banks | 70,621.5 | 0.0 | 0.0 | 83,927.2 | 118.8 |
| Of which regional governments and local authorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Institutions and CCPs | 31,814.4 | 3,646.9 | 11.5 | 39,683.0 | 124.7 |
| Corporate | 3,791.7 | 6,810.3 | 179.6 | 5,928.7 | 156.4 |
| Retail | 75,928.0 | 54,629.7 | 71.9 | 107,653.6 | 141.8 |
| Of which mortgage | 4,215.1 | 1,417.3 | 33.6 | 3,154.6 | 74.8 |
| Securitization§ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets† | 14,082.1 | 4,739.6 | 33.7 | 33,959.2 | 241.2 |
| Total credit risk | 196,237.7 | 69,826.5 | 35.6 | 271,151.7 | 138.2 |
| **Credit valuation adjustment** | | | | | |
| Total credit valuation adjustment | -- | 14.4 | -- | 0.0 | -- |
| **Market Risk** | | | | | |
| Equity in the banking book | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trading book market risk | -- | 33.7 | -- | 75.8 | -- |
| Total market risk | -- | 33.7 | -- | 75.8 | -- |
| **Operational risk** | | | | | |
| Total operational risk | -- | 12,525.5 | -- | 57,009.7 | -- |
| | **Exposure** | **Basel III RWA** | **Average Basel II RW (%)** | **S&P Global Ratings RWA** | **% of S&P Global Ratings RWA** |
| **Diversification adjustments** | | | | | |
| RWA before diversification | -- | 104,379.0 | -- | 328,237.2 | 100.0 |
| Total Diversification/ Concentration Adjustments | -- | -- | -- | 68,005.8 | 20.7 |
| RWA after diversification | -- | 104,379.0 | -- | 396,243.0 | 120.7 |
| | | **Tier 1 capital** | **Tier 1 ratio (%)** | **Total adjusted capital** | **S&P Global Ratings RAC ratio (%)** |
| Capital ratio before adjustments | | 35,038.1 | 33.6 | 34,380.3 | 10.5 |
| Capital ratio after adjustments‡ | | 35,038.1 | 33.6 | 34,380.3 | 8.7 |

**Table 4**

## Capitec Bank Ltd.--Risk-adjusted capital framework data (cont.)

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital.ZAR -- South Africa Rand. Sources: Company data as of 'Feb. 28 2023', S&P Global Ratings.

**Table 5**

## Capitec Bank Ltd.--Risk position

| | --Year-ended Feb. 28-- | | | | |
|---|---|---|---|---|---|
| **(%)** | **2023** | **2022** | **2021** | **2020** | **2019** |
| Growth in customer loans | 16.3 | 12.1 | (1.0) | 35.6 | 17.3 |
| Total managed assets/adjusted common equity (x) | 5.6 | 6.0 | 5.5 | 5.6 | 5.1 |
| New loan loss provisions/average customer loans | 7.0 | 4.4 | 10.5 | 6.8 | 8.6 |
| Net charge-offs/average customer loans | 7.0 | 4.4 | 10.4 | 6.8 | 8.6 |
| Gross nonperforming assets/customer loans + other real estate owned | 21.8 | 19.2 | 23.0 | 17.5 | 18.9 |
| Loan loss reserves/gross nonperforming assets | 92.0 | 108.8 | 103.4 | 103.6 | 107.9 |

**Table 6**

## Capitec Bank Ltd.--Funding and liquidity

| | --Year-ended Feb. 28-- | | | | |
|---|---|---|---|---|---|
| **(%)** | **2023** | **2022** | **2021** | **2020** | **2019** |
| Core deposits/funding base | 96.8 | 96.7 | 96.0 | 93.9 | 93.4 |
| Customer loans (net)/customer deposits | 54.3 | 50.3 | 48.2 | 62.3 | 62.4 |
| Long-term funding ratio | 99.5 | 99.2 | 99.1 | 99.3 | 99.5 |
| Stable funding ratio | 145.1 | 151.5 | 167.8 | 154.9 | 155.9 |
| Short-term wholesale funding/funding base | 0.4 | 0.4 | 0.4 | 0.5 | 0.0 |
| Broad liquid assets/short-term wholesale funding (x) | 110.5 | 122.0 | 117.8 | 92.3 | N.M. |
| Net broad liquid assets/short-term customer deposits | 49.6 | 55.7 | 62.2 | 57.4 | 62.7 |
| Short-term wholesale funding/total wholesale funding | 11.7 | 11.6 | 11.1 | 8.2 | 0.0 |
| Narrow liquid assets/3-month wholesale funding (x) | 493.2 | 570.6 | 423.1 | 366.4 | N.M. |

N.M.--Not meaningful.

## Capitec Bank Ltd.--Rating component scores

| | |
|---|---|
| Issuer Credit Rating | BB-/Stable/B |
| SACP | bb |
| Anchor | bb+ |
| Economic risk | 7 |
| Industry risk | 5 |
| Business position | Moderate |
| Capital and earnings | Strong |
| Risk position | Moderate |
| Funding | Adequate |
| Liquidity | Strong |
| Comparable ratings analysis | 0 |
| Support | 0 |

| Capitec Bank Ltd.--Rating component scores (cont.) | |
|---|---|
| ALAC support | 0 |
| GRE support | 0 |
| Group support | 0 |
| Sovereign support | 0 |
| Additional factors | -1 |

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings , June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology , July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions , Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

## Related Research

- Banking industry Country Risk Assessment: South Africa, June 15, 2023.
- Sub-Saharan Africa's Fading Tailwinds And Missed Opportunities, May 30, 2023
- South Africa, May 22, 2023

## Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found at "Outlooks On Five South African Banks Revised To Stable On Similar Sovereign Rating Action; All Bank Ratings Affirmed" published March 13, 2023, on RatingsDirect.

## Glossary

- ALAC: Additional loss-absorbing capacity, which can provide extraordinary external support for banks.
- Adjusted assets: Total assets minus nonservicing intangibles.
- Adjusted common equity: Common shareholders' equity plus minority interest, minus dividends (not yet distributed), minus revaluation reserves, minus nonservicing intangibles, minus interest only strips, minus tax-loss carryforwards, minus postretirement benefit adjustments.
- Anchor: The starting point for assigning a bank a long-term rating, based on economic and industry risk.
- Asset-liability mismatch: Occurs when financial terms of an institution's assets and liabilities do not correspond.
- Asset quality: A key measure of the quality and performance of the assets of a bank.
- Available stable funding: Core deposits, plus deposits due to banks (net of those that mature within one year), plus other borrowings (net of maturities within one year), plus total equity, minus intangibles.
- Business position: A measure of the strength of a bank's business operations.
- Broad liquid assets: cash (net of restricted cash) and reserves at the central bank, plus other cash and money market, plus bank loans and reverse repos that mature in less than one year, plus total liquid assets.
- Capital and earnings: A measure of a bank's ability to absorb losses.
- Core deposits: Total deposits minus noncore deposits (such as deposits due to banks and certificates of deposits).
- Core earnings over average managed assets: Annualized core earnings, over average assets of current period and last fiscal year.
- Core earnings: Net income before minority interest, minus nonrecurring income, plus nonrecurring expenses, plus/minus tax impact on adjustments, plus amortization/impairment of goodwill/intangibles, minus preferred dividends.
- Cost of funds: Interest expense as a percentage of average interest-bearing liabilities.
- Cost of risk: As a percentage of total loans, the charge for bad and doubtful debts.
- Counterparty credit rating: A form of issuer credit rating, which is a forward-looking opinion about an obligor's overall creditworthiness.
- Credit losses: Losses arising from credit risk.
- Credit risk: Risk that a borrower will default on its payment obligations.
- Customer loans (gross): Total customer loans before loan-loss reserves.
- Customer loans (net) over customer deposits: Gross customer loans net of loan loss reserves, over core deposits.
- Date initial rating assigned: The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Ratings last reviewed the credit rating on the entity.
- Earning capacity: The capacity of a bank to generate sufficient earnings against losses and the primary way that a bank builds or maintains its capitalization.

- Earnings buffer: A measure of the capacity for earnings to absorb normalized losses through the credit cycle.
- ESG credit factors: Those environmental, social, and governance (ESG) factors that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis. These credit factors can have a negative or positive impact on creditworthiness, depending on whether they represent a risk or an opportunity.
- Fee income over operating revenues: Net income on fees and commissions over operating revenues.
- Funding and liquidity: A combined assessment of the strength and stability of a bank's funding mix and its ability to manage its liquidity needs in adverse market and economic conditions over an extended period.
- Funding base: Total deposits, plus acceptances, repurchase agreements, and other borrowings (including commercial papers, short- and long-term debt, subordinated debt, and minimal equity content hybrids).
- Group credit profile (GCP): S&P Global Ratings' opinion of a group's creditworthiness as if the group were a single legal entity, and is conceptually equivalent to an issuer credit rating. A GCP does not address any specific obligation.
- Group support: An assessment of the likelihood that a parent or other group member would provide extraordinary support to a bank within that group.
- Gross nonperforming assets over customer loans plus other real estate owned over customer loans: Nonaccrual loans, plus restructured loans, plus repossessed assets plus loans 90-days past due; over gross customer loans plus repossessed assets.
- Loan-loss reserves over gross nonperforming assets: General plus specific reserves, over adjusted nonperforming assets (nonaccrual loans plus restructured loans plus repossessed assets plus 90-day past due loans).
- Long-term funding ratio: Available stable funding, over funding base plus total equity, minus intangibles.
- National scale rating: An opinion of an obligor's creditworthiness or overall capacity to meet specific financial obligations, relative to other issuers and issues in a given country or region.
- Net interest income over operating revenues: Net interest income (including net interest income on loans, securities, and other assets), over operating revenues.
- New loan-loss provisions over average customer loans: Credit loss provisions (including specific loan provisions and general and other provisions) minus recoveries, over average gross customer loans of current period and last fiscal year.
- Noninterest expenses: Salaries and general administrative expenses (including depreciations and amortizations).
- Operating revenues: Net interest income, plus operating noninterest income (mainly includes fees and commissions and trading gains).
- Pre provision operating income over average assets: Operating revenues minus noninterest expenses, over average assets.
- Return on equity: Net income before extraordinary results minus preferred dividends over average common equity (average between current period and last fiscal period).
- Risk position: Our view of the specific risk characteristics of a particular bank.
- Risk-adjusted capital (RAC) ratio before diversification: This is calculated according to S&P Global Ratings' methodology as total adjusted capital over risk-adjusted assets.

- Short-term wholesale funding: Debt securities that mature in less than one year (of commercial papers, debt and senior and subordinated bonds), plus bank deposits that mature in less than one year.
- Sovereign support: An assessment of the likelihood that the government would provide extraordinary support to a bank.
- Short-term wholesale funding: Debt securities that mature in less than one year (of commercial paper, debt, and senior and subordinated bonds), plus bank deposits that mature in less than one year.
- Stable funding needs: Restricted cash and reserves at the central bank, plus interbank deposits, plus loans to banks (net of maturities within one year), plus reverse repurchase agreements, plus gross customer loans net of loan-loss reserves, plus securities, minus total liquid securities, plus equity participations in nonfinancial entities, plus fixed assets, plus other assets (considering foreclosed assets, tax loss carryforwards, and deferred assets).
- Stable funding ratio: Available stable funding over stable funding needs.
- Stand-alone credit profile (SACP): An interim step in assessing a bank's overall creditworthiness. It includes government support, but not extraordinary government support.
- Total adjusted capital: adjusted common equity plus admissible preferred instruments and hybrids.
- Total wholesale funding: Noncore deposits, plus acceptances, repurchase agreements, other borrowings (including commercial papers, debt and senior and subordinated bonds, minimal equity content hybrids), and total equity, minus minority interest and common shareholders' equity.

| Ratings Detail (As Of August 17, 2023)* | | |
|---|---|---|
| **Capitec Bank Ltd.** | | |
| Issuer Credit Rating | | BB-/Stable/B |
| *South Africa National Scale* | | zaAA/--/zaA-1+ |
| **Issuer Credit Ratings History** | | |
| 13-Mar-2023 | | BB-/Stable/B |
| 25-May-2022 | | BB-/Positive/B |
| 07-May-2020 | | BB-/Stable/B |
| 26-Nov-2019 | | BB/Negative/B |
| 02-Jul-2018 | *South Africa National Scale* | zaAA/--/zaA-1+ |
| 29-Nov-2017 | | zaAA-/--/zaA-1+ |
| 07-Aug-2017 | | zaAA/--/zaA-1+ |
| **Sovereign Rating** | | |
| South Africa | | |
| *Foreign Currency* | | BB-/Stable/B |
| *Local Currency* | | BB/Stable/B |
| *South Africa National Scale* | | zaAAA/--/zaA-1+ |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.