2011

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

1. Basis of compilation

The following information is compiled in terms of Regulation 43 of the 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

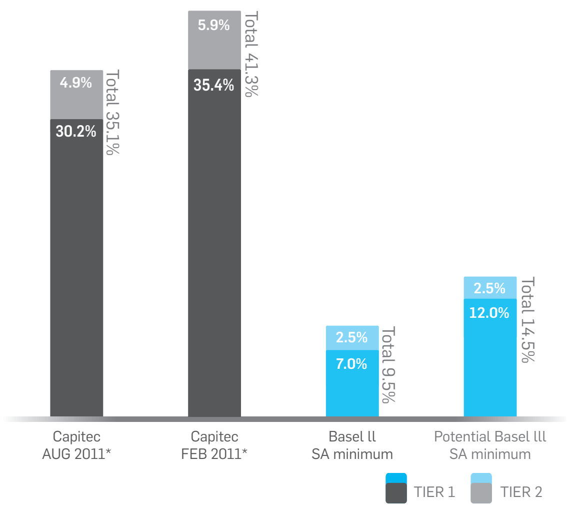
This report covers the six months ended 31 August 2011. Comparative information is presented for the previous six month period ended 28 February 2011.

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 South African Reserve Bank (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 31 August 2011. Restated for the adjustment to the operational risk equivalent. Refer to footnote (2) under 4.1.*

4. Detailed disclosures

4.1 Regulatory capital adequacy

	31 Aug 2011 R'000	28 Feb 2011 R'000
Primary (Tier 1) capital		
Ordinary share capital	**2 123 125**	1 918 677
Accumulated profit	**1 450 136**	1 276 336
Preference share capital	**258 969**	258 969
Intangible assets in terms of IFRS	**(54 419)**	(34 357)
Specified advances	**(32 380)**	(22 153)
Unappropriated profit	**(82 516)**	(47 842)
Total regulatory adjustments	**(169 315)**	(104 352)
	3 662 915	3 349 630
Secondary (Tier 2) capital		
Unidentified impairments	**137 550**	108 441
Subordinated debt	**450 000**	450 000
	587 550	558 441
Total qualifying regulatory capital	**4 250 465**	3 908 071
Total capital adequacy % [(1)] [(2)]	**35.1**	41.3
Primary %	**30.2**	35.4
Secondary %	**4.9**	5.9
Composition of required regulatory capital		
Credit risk (on balance sheet)	**1 042 210**	820 998
Operational risk	**48 435**	28 604
Equity risk in the banking book	**2 133**	1 552
Other assets	**59 061**	47 755
Total regulatory capital requirement [(3)]	**1 151 839**	898 909
Composition of risk weighted assets [(4)]		
Credit risk (on balance sheet)	**10 970 628**	8 642 086
Operational risk [(2)]	**509 845**	301 094
Equity risk in the banking book	**22 449**	16 335
Other assets	**621 695**	502 681
Total risk-weighted assets	**12 124 617**	9 462 196
Total assets based on IFRS	**18 224 921**	14 439 517
Total risk-weighted assets – adjustments [(5)]	**(6 100 304)**	(4 977 321)
Total risk-weighted assets – regulatory	**12 124 617**	9 462 196

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

[(2)] *The CAR% as at 31 August 2011 incorporates a calculation change in line with standard Basel practice. The risk-weighted asset/equivalent for operational risk, included in the divisor, is now as per the Alternative Standardised Approach calculation for retail business banking. The previous method calculated the risk-weighted asset/equivalent for operational risk as the inverse of the operational risk floor. There has been no change by the regulator to the capital requirement. The comparitive has been restated. The value at 28 February 2011 using the previous method was R1.249 billion.*

[(3)] *This value is reported in terms of Banks' Act circular 5/2011, which prevents disclosure of 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 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.

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]
	31 Aug 2011	28 Feb 2011	31 Aug 2011	28 Feb 2011	31 Aug 2011	28 Feb 2011	
Basel II exposure categories	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**%**
On balance sheet							
Corporate [6]	**384 875**	135 251	**92 551**	616 875	**92 551**	616 875	100
Sovereign [7]	**1 204 198**	1 573 073	**1 310 305**	1 210 609	**1 310 305**	1 210 609	0
Banks (claims < 3 months original maturity) [8]	**1 094 132**	904 503	**1 439 152**	670 635	**1 089 571**	208 065	20
Banks (claims > 3 months original maturity)	**840**	-	**5 791**	-	**5 791**	-	50
Retail personal loans							
– performing	**12 205 708**	8 783 166	**13 809 015**	10 253 849	**13 809 015**	10 253 849	75
– impaired	**629 537**	461 227	**649 179**	625 831	**649 179**	625 831	100
	15 519 290	11 857 220	**17 305 993**	13 377 799	**16 956 412**	12 915 229	
Off balance sheet							
Retail personal loans							
– conditionally revocable commitments [9]	**610 653**	520 667	**638 024**	549 200	**638 024**	549 200	0
Total exposure	**16 129 943**	12 377 887	**17 944 017**	13 926 999	**17 594 436**	13 464 429	

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. The comparitive for the Banks (claims<3mths original maturity) was restated to include gross exposure on resales.*

[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 twelve of the respective year-ends. All other items are the balances at period-end.*

[5] *These risk weightings are applied in terms of the Standardised approach to credit risk portfolios (other than retail). They are determined by mapping the exposure's Fitch International grade rating to a risk-weight percentage using the mapping table below.*

[6] *60% (Feb 2011: 96%) of corporate aggregate gross period-end exposure relates to the average investment in money market unit trusts.*

[7] *Sovereign comprises investments in RSA National 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. Most resale agreements are in respect of RSA National Treasury bills and are transacted via STRATE.*

[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 their contractual obligations or where the bank has determined that the client's credit risk profile has changed. 9% is expected to be drawn down and repaid 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 28 February 2011. These commitments are now disclosed on the Banks' Act Return 900, line 293 - other contingent liabilities, as required by SARB reporting rules.*

MAPPING RATING GRADES TO RELATED RISK WEIGHTS

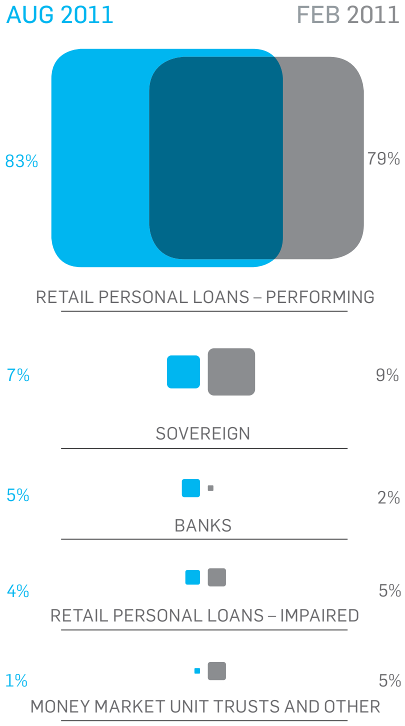
Long-term credit assessment	**AAA to AA- %**	**A+ to A- %**	**BBB+ to BBB- %**	**BB+ to B- %**	**Below B- %**	**Unrated %**
Sovereigns	0	20	50	100	150	100
Public sector entities	20	50	50	100	150	50
Banks	20	50	50	100	150	50
Security firms	20	50	50	100	150	50
Banks: short-term claims	20	20	20	50	150	20
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

	31 Aug 2011	28 Feb 2011
	R'000	R'000
Ageing		
< 60 days	557 722	558 682
60 – 90 days	91 457	67 149
Total impaired advances	649 179	625 831

CREDIT EXPOSURE BY TYPE
(NET OF RISK MITIGATION)



4.2.3 Write-offs and recoveries reflected in the income statement

	SIX MONTHS	SIX MONTHS
	31 Aug 2011	28 Feb 2011
	R'000	R'000
Net impairment charge on loans and advances:		
Bad debts (write-offs)	497 357	347 646
Movement in impairment allowance	257 449	292 856
Bad debts recovered	(75 940)	(56 414)
Net impairment charge	678 866	584 088

4.2.4 Analysis of credit impairments

All impairments presented below relate to retail personal loans.

	SIX MONTHS	SIX MONTHS
	31 Aug 2011	28 Feb 2011
	R'000	R'000
Movement in impairments:		
Balance at beginning of period	844 726	551 870
Unidentified Losses	512 082	351 818
Identified Losses	332 644	200 052
Movement	257 449	292 856
Unidentified Losses	241 419	160 264
Identified Losses	16 030	132 592
Balance at end of period	1 102 175	844 726
Unidentified Losses	753 501	512 082
Identified Losses	348 674	332 644

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.
- 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 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

Maturities of financial assets and financial liabilities	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment	Total
	R'000	R'000	R'000	R'000	R'000	R'000
FEB 2011						
Undiscounted assets						
Cash and cash equivalents	2 841 918	-	-	-	-	2 841 918
Investments at fair value through profit or loss	225 744	248 810	537 500	-	-	1 012 054
Total undiscounted assets	3 067 662	248 810	537 500	-	-	3 853 972
Adjustments for undiscounted assets	(411)	(2 847)	(20 132)	-	-	(23 390)
Discounted assets						
Loans and advances to clients	895 717	953 143	3 419 393	6 017 098	(369 159)	10 916 192
Loan impairment provision	(105 764)	(199 336)	(441 602)	(98 024)	-	(844 726)
Other receivables	14 762	-	4 662	2 136	-	21 560
Total discounted assets	3 871 966	999 770	3 499 821	5 921 210	(369 159)	13 923 608
Undiscounted liabilities						
Loans and deposits at amortised cost from depositors	4 419 413	1 013 657	1 673 440	5 202 138	-	12 308 648
Trade and other payables	214 280	45 838	51 928	119 367	58 333	489 746
Current income tax liabilities	986	-	34 047	-	-	35 033
Provisions	-	-	-	14 403	-	14 403
Total undiscounted liabilities	4 634 679	1 059 495	1 759 415	5 335 908	58 333	12 847 830
Adjustments for undiscounted liabilities to depositors	(4 423)	(58 490)	(304 717)	(1 491 196)	-	(1 858 826)
Total discounted liabilities	4 630 256	1 001 005	1 454 698	3 844 712	58 333	10 989 004
Net liquidity (shortfall) / excess	(758 290)	(1 235)	2 045 123	2 076 498	(427 492)	2 934 604
Cumulative liquidity (shortfall) / excess	(758 290)	(759 525)	1 285 598	3 362 096	2 934 604	2 934 604

The cumulative liquidity shortfall up to three months is mitigated by the investment of excess cash in treasury bills with maturities in excess of three months. These instruments are highly liquid and can be converted to cash should the need arise.

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 relate mainly to property operating lease commitments. The future obligations measured on a straight-lined basis are as follows:

	31 Aug 2011	28 Feb 2011
	R'000	R'000
Property operating lease commitments		
The future aggregate minimum lease payments under non-cancellable leases are as follows:		
Within one year	152 216	129 070
From one to five years	429 237	357 702
After five years	84 173	54 331
Total future cash flows	665 626	541 103
Straight lining accrued	(30 088)	(25 354)
Future expenses	635 538	515 749

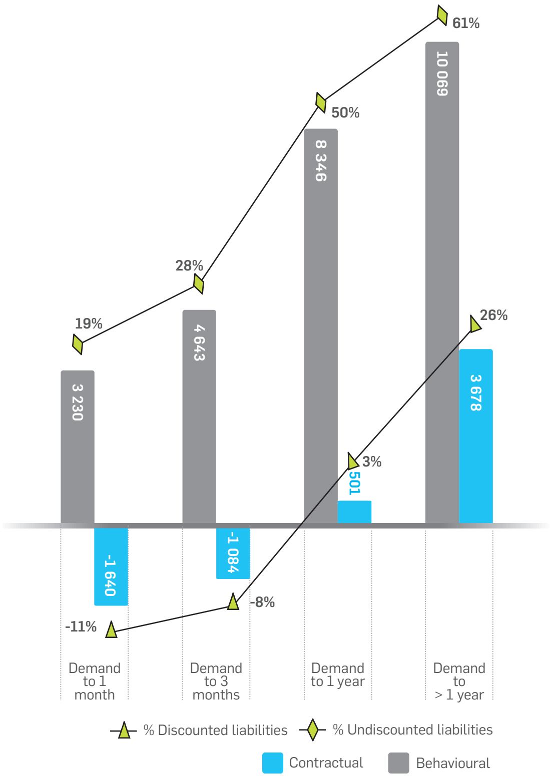
	31 Aug 2011 R'000	28 Feb 2011 R'000
Other operating lease commitments		
Within one year	2 140	1 988
From one to five years	5 073	5 093
	7 213	7 081

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

	31 Aug 2011 R'000	28 Feb 2011 R'000
Capital commitments – approved by the board		
Contracted for:		
Property and equipment	36 281	29 609
Intangible assets	2 654	-
Not contracted for:		
Property and equipment	199 339	417 556
Intangible assets	43 575	88 212
	281 849	535 377

(c) Conditionally revocable retail loan commitments totalled R638.0 million at 31 August 2011 . 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. 9% 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. 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.*
- *The contractual mismatch is reported on a discounted basis whereas the behavioural mismatch is reported on an undiscounted basis.*

DIVERSIFICATION OF FUNDING SOURCES

FEB 2011	AUG 2010	
29% 🟦	29% 🟩	Demand deposits – retail
21% 🟦	23% 🟩	Equity – ordinary shareholders (listed)
18% 🟦	17% 🟩	Fixed-term deposits – retail
16% 🟦	15% 🟩	Fixed-term deposits – wholesale (listed)
6% 🟦	4% 🟩	Fixed-term deposits – wholesale (other)
6% 🟦	7% 🟩	Fixed-term deposits – wholesale (negotiable instruments)
3% 🟦	3% 🟩	Fixed-term deposits – wholesale (subordinated debt)
1% 🟦	2% 🟩	Equity – preference shareholders (listed)

- *Capitec has no exposure to institutional or corporate call accounts.*
- *Wholesale (listed) comprises domestic medium term notes listed on the Bond Exchange of South Africa. 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.

	31 Aug 2011		28 Feb 2011	
	Sensitivity of equity		Sensitivity of equity	
	R'000	**%**	**R'000**	**%**
200 basis points shift				
Increase	**(91 908)**	(1.8)	(70 455)	(1.8)
Decrease	**82 954**	1.7	95 192	2.4

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. All equity investments within the group are strategic in nature being a consequence of normal strategic operational transactions. The group did not hold any investments in listed equities at 31 August 2011. (28 February 2011: Nil)

	SIX MONTHS 31 Aug 2011 R'000	SIX MONTHS 28 Feb 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	16 335	14 283
Amortised cost	33	3 117
Cumulative fair value adjustment - other market risk	16 302	11 166
(Disposals)/Additions at cost	(17)	(3 084)
Fair value adjustment	6 131	5 136
Interest rate risk	-	-
Credit risk	-	-
Exchange rate risk	392	(787)
Other market risk	5 739	2 823
Realised on disposals	-	3 100
Balance at the end of the period	22 449	16 335
Amortised cost	16	33
Cumulative fair value adjustment - other market risk	22 433	16 302

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 2011, in the 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.