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

2015

1. Basis of compilation

The following information is compiled in terms of Regulation 43 of the Regulations relating to banks 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. The main differences between IFRS and the information disclosed in terms of the Regulations relate to the definition of capital, the calculation and measurement thereof and adjustments made to risk weighted assets.

2. Period of reporting

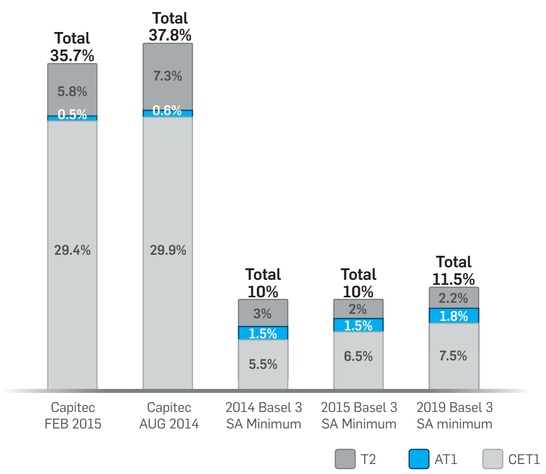
This report covers the 6 months ended 28 February 2015. Comparative information is presented for the previous 6-month period ended 31 August 2014.

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 3 as they do not meet new loss absorbency standards.*
- *T2 – Tier 2 capital – Capitec Bank's subordinated debt instruments qualify as entry-level T2 capital, and are subject to phasing-out in terms of Basel 3 as they do not meet new loss absorbency standards. Subordinated debt is issued by the bank subsidiary so that the interest cost is offset against revenue. Subordinated debt is regarded as third-party capital, subject to additional phasing-out rules, at a consolidated level. No subordinated debt instruments were issued by Capitec during the reporting period.*
- *Globally, the Basel 3 minimum capital adequacy requirement is 8%.*
- *The 2015 Basel 3 SA minimum includes the SA country buffer of 2% (2019: 1%). The level of this buffer is at the discretion of the SARB and it is subject to periodic review.*
- *The 2019 Basel 3 SA minimum includes the capital conservation buffer of 2.5% which phases in from 2016. All banks must maintain this buffer to avoid regulatory restrictions on the payment of dividends and bonuses.*
- *Excluded from the SA minima are the Basel 3:*
  - *Bank-specific buffers. Bank-specific buffers include the Individual Capital Requirement (ICR) and the Domestic Systemically Important Bank (D-SIB) buffer. In terms of the Banks Act regulations, banks may not disclose their ICR requirement and D-SIB status. The D-SIB requirement will be phased in over 4 years commencing January 2016. Current regulations state that the South African country risk buffer and the D-SIB buffers on a combined basis will not be more than 3.5%.*
  - *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. Implementation commences in January 2016.*
  - *Haircuts to be applied against minority and third-party capital issued by subsidiaries, which began phasing-in from 2013 at 20% per year.*

4. Regulatory capital adequacy

R'000	28 Feb 2015	31 Aug 2014
Composition of qualifying regulatory capital		
Ordinary share capital[1]	5 649 071	5 512 570
Accumulated profit	5 700 459	4 677 634
	11 349 530	10 190 204
Regulatory adjustments		
– Intangible assets in terms of IFRS	(238 876)	(208 061)
– Specified advances	(178)	(119)
– Unappropriated profit	(482 226)	(112 711)
Common Equity Tier 1 capital (CET1)	10 628 250	9 869 313
Issued preference share capital[1]	207 175	207 175
Phase out – non-loss absorbent[2] [8]	(25 897)	-
Additional Tier 1 capital (AT1)	181 278	207 175
Tier 1 capital (T1)	10 809 528	10 076 488
Issued subordinated debt[1]	2 891 000	2 891 000
Phase out – non-loss absorbent[2]	(867 300)	(578 200)
Deduction for third-party capital issued by bank subsidiary[3]	(312 487)	(275 904)
Total subordinated debt	1 711 213	2 036 896
Unidentified impairments	398 251	362 810
Tier 2 capital (T2)	2 109 464	2 399 706
Qualifying regulatory capital	12 918 992	12 476 194
CET1%	29.4	29.9
AT1%	0.5	0.6
T1%	29.9	30.5
T2%	5.8	7.3
Total capital adequacy %[4]	35.7	37.8
Composition of required regulatory capital		
On balance sheet	3 183 153	2 899 299
Off balance sheet	-	188
Credit risk	3 183 153	2 899 487
Operational risk	253 131	245 660
Equity risk in the banking book	-	196
Other assets	183 357	153 780
Total regulatory capital requirement[5]	3 619 641	3 299 123
Composition of risk-weighted assets[6]		
On balance sheet	31 831 530	28 992 994
Off balance sheet	-	1 875
Credit risk	31 831 530	28 994 869
Operational risk	2 531 306	2 456 603
Equity risk in the banking book	-	1 962
Other assets	1 833 573	1 537 797
Total risk-weighted assets	36 196 409	32 991 231
Total assets based on IFRS	53 916 475	49 574 398
Total risk-weighted assets – adjustments[7]	(17 720 066)	(16 583 167)
Total risk-weighted assets – regulatory	36 196 409	32 991 231

(1) *For further details of the main features of these instruments, please refer to the related Main Features of Capital Instruments and Transitional Basel 3 template documents on the Capitec Bank website: www.capitecbank.co.za/investor-relations.*

(2) *Starting 2013, the non loss absorbent AT1 and T2 capital is subject to a 10% per annum phase-out in terms of Basel 3. Non loss absorbent preference shares, no longer qualifying as capital due to the phase out rules, were redeemed in the period ended 31 August 2014.*

(3) *Starting 2013, a deemed surplus attributable to T2 capital of subsidiaries issued to outside third parties, is excluded from group qualifying capital in terms of the accelerated adoption of Basel 3. This deduction phases in at 20% per annum.*

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

(5) *This value is 10% of risk-weighted assets, being the Basel global minimum requirement of 8% and a South African country-specific buffer of 2%. In terms of the regulations the Individual Capital Requirement (ICR) is excluded.*

(6) *Risk-weighted assets are calculated by using regulatory percentages (regulatory risk adjustments) applied to the balance sheet, in order to establish the base for calculating the required regulatory capital.*

(7) *The adjustments reflect mainly the impact of the regulatory percentages and the addition of a risk-weighted equivalent for operational risk.*

(8) *The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. 20% of these shares were redeemed in the 2015 financial year as they no longer contributed to qualifying regulatory capital.*

5. Leverage ratio

Public disclosure of the leverage ratio (calculated using the prescribed leverage ratio template) and its components was made effective from 1 January 2015. The Basel 3 leverage ratio is defined as the capital measure (Tier 1 capital) divided by the exposure measure (Total exposures), and is expressed as a percentage. This measure acts as a backstop to the risk based leverage capital adequacy ratio (see 4), by acting as a floor to restrict the build-up of excessive leverage by banks.

Capitec is conservatively leveraged with a ratio of 20% or exposure of 5 times equity (Aug 2014: 20% or 5 times equity).

The exposure used in the calculation of the ratio (see 5.2) differs from the total assets as measured using IFRS as shown below:

5.1 Summary comparison of accounting assets vs leverage ratio exposure measure

Line #	R'000	28 Feb 2015	31 Aug 2014
1	Total consolidated assets as per published financial statements	**53 916 475**	49 574 398
	Adjustments for:		
2	Investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3	Fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-
4	Derivative financial instruments	**22 059**	26 701
5	Securities financing transactions (i.e. repos and similar secured lending)	-	32 183
6	Off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	**46 950**	42 364
7	Other adjustments	**(239 053)**	(208 180)
8	**Leverage ratio exposure %**	**53 746 431**	49 467 466

5.2 Leverage ratio - common disclosure template

Line #	Group leverage ratio framework R'000	28 Feb 2015	31 Aug 2014
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and Security Financing Transactions 'STF's' but including collateral)	**53 376 843**	49 438 021
2	Asset amounts deducted in determining Basel 3 Tier 1 capital	**(239 053)**	(208 180)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**53 137 790**	49 229 841
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**35 846**	136 377
5	Add-on amounts for Potential Future Exposure 'PFE' associated with all derivatives transactions	**22 059**	26 701
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	**-**	-
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	**-**	-
8	Exempted Central Counterparty 'CCP' leg of client-cleared trade exposures	**-**	-
9	Adjusted effective notional amount of written credit derivatives	**-**	-
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	**-**	-
11	**Deductions of receivables assets for cash variation margin provided in derivatives transactions (sum of lines 4 to 10)**	**57 905**	163 078
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**503 787**	-
13	Netted amounts of cash payables and cash receivables of gross SFT assets	**-**	-
14	Counterparty Credit Risk 'CCR' exposure for SFT assets	**-**	32 183
15	Agent transaction exposures	**-**	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**503 787**	32 183
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**469 496**	408 640
18	Adjustments for conversion to credit equivalent amounts	**(422 547)**	(366 276)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**46 949**	42 364
	Capital and total exposures		
20	Tier 1 capital	**10 809 528**	10 076 488
21	Total exposures (sum of lines 3, 11, 16 and 19)	**53 746 431**	49 467 466
	Leverage ratio		
22	**Basel 3 leverage ratio%**	**20.1%**	20.4%
	Summary leverage ratio framework - bank level		
	Capital and total exposures		
20	Tier 1 capital	**10 725 759**	10 004 093
21	Total exposures (sum of lines 3, 11, 16 and 19 [bank])	**53 742 650**	49 465 101
22	**Basel 3 leverage ratio%[1]**	**20.0%**	20.2%

[1] *There is no material difference on an individual line basis between group and bank level.*

6. Credit Risk

6.1 Gross credit risk exposures by sector

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

Basel 3 exposure categories R'000	Average gross exposure[1]		Aggregate gross year-end exposure[2] [4]		Exposure post risk mitigation[2] [3] [4]		Risk weights[5]
	28 Feb 2015	31 Aug 2014	28 Feb 2015	31 Aug 2014	28 Feb 2015	31 Aug 2014	%
On balance sheet							
Corporate[6]	**1 617 776**	1 015 979	**2 086 439**	544 920	**1 960 892**	450 432	100
Sovereign[7]	**3 921 671**	4 363 145	**3 361 552**	3 572 410	**3 361 552**	3 572 410	0
Banks (claims < 3 mths original maturity)	**2 745 677**	4 756 428	**2 411 444**	4 579 637	**2 411 444**	4 579 637	20
Banks (claims > 3 mths original maturity)	**5 455 252**	1 828 959	**5 849 613**	4 173 368	**5 849 613**	4 173 368	50
Banks (Derivatives > 3 mths A1 to Baa3)	**162 539**	176 276	**57 905**	163 078	**57 905**	163 078	50
Retail personal loans							
– with unidentified impairments	**33 855 375**	31 732 243	**33 479 975**	32 392 656	**33 479 975**	32 392 656	75
– with identified impairments	**2 673 922**	2 807 490	**2 847 588**	2 679 503	**2 847 588**	2 679 503	100
Subtotal	**50 432 212**	46 680 520	**50 094 516**	48 105 572	**49 968 969**	48 011 084	
Off balance sheet							
Retail personal loans							
– committed undrawn facilities	**2 679**	4 143	**-**	3 750	**-**	3 750	75
– conditionally revocable commitments[9]	**388 088**	357 159	**469 496**	404 890	**469 496**	404 890	0
Total exposure	**50 822 979**	47 041 822	**50 564 012**	48 514 212	**50 438 465**	48 419 724	

As required by the regulations (which incorporate Basel requirements):

(1) *Average gross exposure is calculated using daily balances for the last 6 months.*

(2) *Items represent exposure before the deduction of qualifying impairments on advances.*

(3) *Represents exposure after taking into account any 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 6 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 regulations. Risk weights for exposures (other than retail) are determined by mapping the exposure's Moody's International grade rating to a risk-weight percentage using the mapping table (shown on page 6). 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) *85% (Aug 2014: 97%) of corporate (unrated) aggregate gross period-end exposure relates to investments in money market unit trusts.*

(7) *Sovereign comprises investments in RSA treasury bills and SARB debentures. These exposures are zero risk weighted.*

(8) *An ageing of impaired advances based on arrears status is shown in 6.2.*

(9) *These commitments are a result of undrawn loan amounts. The loans are approved with a contractual repayment period of one month or less. The bank's contractual commitment is revocable should a client not meet their contractual obligations or where the bank has determined that the client's credit risk profile has changed. 22.7% (Aug 2014: 22.4%) 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 MOODY'S INTERNATIONAL RATING GRADES TO RELATED RISK WEIGHTS

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

6.2 Age analysis of arrears

	6 MONTHS 28 Feb 2015 R'000	6 MONTHS 31 Aug 2014 R'000
Ageing		
< 60 days	**1 654 490**	1 578 697
60 – 90 days	**309 689**	356 131
Total arrears	**1 964 179**	1 934 828

6.3 Write-offs and recoveries reflected in the income statement

	6 MONTHS 28 Feb 2015 R'000	6 MONTHS 31 Aug 2014 R'000
Net impairment charge on loans and advances:		
Bad debts (write-offs)	**2 266 348**	2 129 254
Movement in impairment allowance	**94 522**	125 672
Bad debts recovered	**(342 802)**	(258 909)
Net impairment charge	**2 018 068**	1 996 017

6.4 Analysis of credit impairments

All impairments presented below relate to retail personal loans.

	6 MONTHS 28 Feb 2015 R'000	6 MONTHS 31 Aug 2014 R'000
Movement in impairments:		
Balance at beginning of period	**3 762 848**	3 637 176
Unidentified impairments	**2 591 506**	2 319 506
Identified impairments	**1 171 342**	1 317 670
Movement	**94 522**	125 672
Unidentified impairments	**109 553**	272 000
Identified impairments	**(15 031)**	(146 328)
Balance at end of period	**3 857 370**	3 762 848
Unidentified impairments	**2 701 059**	2 591 506
Identified impairments	**1 156 311**	1 171 342

7. Liquidity measurements

7.1 Liquidity management

Liquidity risk is managed by ALCO that oversees the activities of the treasury department which operates in terms of an approved ALM policy and approved limits, managing cash on a centralised basis.

Further information regarding liquidity management is available in the Integrated Annual Report.

This section presents various measurements of the group liquidity position.

7.2 Contractual and behavioural liquidity mismatches

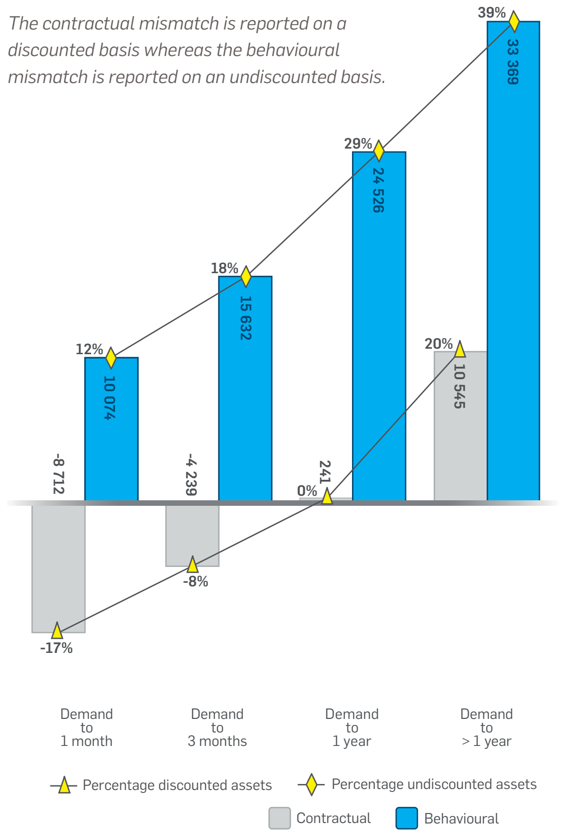
Both the contractual and behavioural mismatches benefit positively from the high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than at banks with lower capital ratios.

The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits. 92% (Aug 2014: 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. In the behavioural analysis, retail fixed deposit and retail term loan contractual flows are adjusted for early settlement behaviour. Loan flows are also adjusted for expected credit losses.

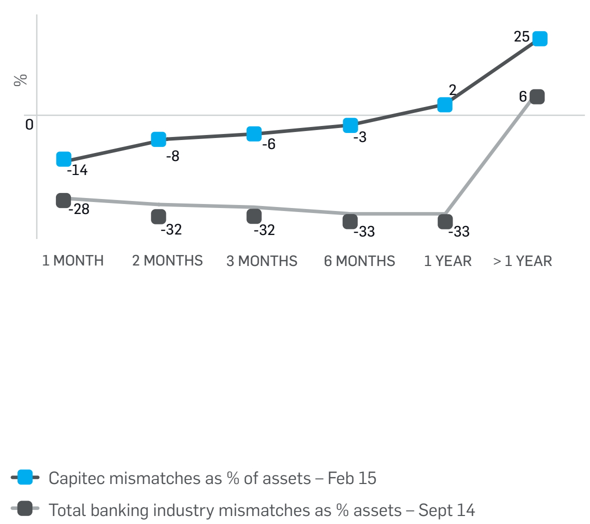
Industry comparison

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.

CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES R'm



INDUSTRY COMPARISON – CUMULATIVE CONTRACTUAL LIQUIDITY MISMATCHES



7.3 Contractual Liquidity maturity analysis (mismatch)

The following table 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 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 9 and 10 for details of off-balance sheet items)
- Adjustments to loans and advances to clients relate to deferred loan 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 liabilities (tables reflect discounted cash flows) [2] R'000	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment [3]	Total
FEB 2015						
Undiscounted assets						
Cash and cash equivalents - sovereigns	761 481	-	-	-	-	761 481
Cash and cash equivalents - banks	9 650 303	799 416	-	-	-	10 449 719
Corporate cash investments	-	101 525	-	-	-	101 525
Money markets unit trusts - corporate other	8 240	-	-	-	-	8 240
Investments at fair value through profit or loss - sovereigns & banks [4]	1 623	577 540	2 169 847	-	-	2 749 010
Term Deposit Investments	273 695	3 761 421	1 830 989	-	-	5 866 105
Loans and advances to clients - retail personal	2 742 871	3 528 034	14 440 536	44 767 577	(330 353)	65 148 665
Loans and advances to clients - retail other	7 020	-	-	-	-	7 020
Loans and advances to clients - corporate other	13 702	-	-	-	-	13 702
Other receivables	105 037	714	-	5 939	-	111 690
Derivative assets	(79)	(1 357)	(4 301)	43 485	-	37 784
Current income tax	-	-	37 635	-	-	37 635
Undiscounted assets	13 563 893	8 767 293	18 474 706	44 817 001	(330 353)	85 292 540
Adjustments for undiscounted assets	(1 308 668)	(1 852 579)	(7 340 117)	(18 511 420)	-	(29 012 784)
Discounted assets						
Loan impairment provision	(332 179)	(147 941)	(584 423)	(2 792 827)	-	(3 857 370)
Total discounted assets	11 923 046	6 766 773	10 550 166	23 512 754	(330 353)	52 422 386
Undiscounted liabilities						
Deposits and bonds	20 116 795	2 227 827	6 959 632	16 089 687	-	45 393 941
Trade and other payables	547 867	262 581	32 593	118 574	145 199	1 106 814
Current income tax	-	-	-	-	-	-
Provisions	-	-	-	64 268	-	64 268
Undiscounted Liabilities	20 664 662	2 490 408	6 992 225	16 272 529	145 199	46 565 023
Adjustments for undiscounted liabilities to depositors	(29 507)	(196 695)	(922 446)	(3 063 640)	-	(4 212 288)
Total discounted liabilities	20 635 155	2 293 713	6 069 779	13 208 889	145 199	42 352 735
Net liquidity excess /(shortfall) [1]	(8 712 109)	4 473 060	4 480 387	10 303 865	(475 552)	10 069 651
Cumulative liquidity excess/(shortfall)	(8 712 109)	(4 239 049)	241 338	10 545 203	10 069 651	10 069 651

[1] *Much of the liquidity shortfall in the demand to three month categories results from 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.*

[2] *The definitions of sovereign, banks, corporate and retail are aligned with the Banks' Act Regulations.*

[3] *The adjustment includes adjustments to deferred initiation fees, leave pay provision, deferred income and straightlining of lease accruals.*

[4] *96% of Investments at fair value through profit or loss - sovereigns & banks relates to investments in sovereigns.*

Maturities of financial assets and liabilities (tables reflect discounted cash flows) (2) R'000	Demand to one month	One to three months	Three months to one year	More than one year	Adjustment (3)	Total
AUG 2014						
Undiscounted assets						
Cash and cash equivalents - sovereigns	716 299	-	-	-	-	716 299
Cash and cash equivalents - banks	7 060 567	1 756 229	-	-	-	8 816 796
Money markets unit trusts - corporate other	2 231	-	-	-	-	2 231
Investments at fair value through profit or loss - sovereigns & banks (4)	201 588	801 820	1 936 932	-	-	2 940 340
Term Deposit Investments	1 592	2 357 597	1 944 516	-	-	4 303 705
Loans and advances to clients - retail personal	2 252 584	3 301 804	13 688 162	42 954 495	(343 447)	61 853 598
Loans and advances to clients - retail other	8 273	-	-	-	-	8 273
Loans and advances to clients - corporate other	13 661	-	-	-	-	13 661
Other receivables	89 995	597	7 158	3 226	-	100 976
Derivative assets	-	(1 254)	5 043	137 417	-	141 206
Current income tax	(9 159)	39 273	40 157	-	-	70 271
Undiscounted assets	10 337 631	8 256 066	17 621 968	43 095 138	(343 447)	78 967 356
Adjustments for undiscounted assets	(874 149)	(1 755 335)	(6 903 383)	(17 430 297)	-	(26 963 164)
Discounted assets						
Loan impairment provision	(333 092)	(148 695)	(617 764)	(2 663 297)	-	(3 762 848)
Total discounted assets	9 130 390	6 352 036	10 100 821	23 001 544	(343 447)	48 241 344
Undiscounted liabilities						
Deposits and bonds	17 401 128	2 111 474	6 563 021	16 666 793	-	42 742 416
Trade and other payables	372 385	14 497	193 387	66 226	137 526	784 021
Current income tax	-	-	-	-	-	-
Provisions	-	-	-	21 615	-	21 615
Undiscounted Liabilities	17 773 513	2 125 971	6 756 408	16 754 634	137 526	43 548 052
Adjustments for undiscounted liabilities to depositors	(27 084)	(190 635)	(905 924)	(3 284 939)	-	(4 408 582)
Total discounted liabilities	17 746 429	1 935 336	5 850 484	13 469 695	137 526	39 139 470
Net liquidity excess /(shortfall) (1)	(8 616 039)	4 416 700	4 250 337	9 531 849	(480 973)	9 101 874
Cumulative liquidity excess/(shortfall)	(8 616 039)	(4 199 339)	50 998	9 582 847	9 101 874	9 101 874

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

	28 Feb 2015 R'000	31 Aug 2014 R'000
Property operating lease commitments		
The future aggregate minimum lease payments under non-cancellable leases are as follows:		
Within one year	**307 476**	287 271
From one to 5 years	**835 503**	791 398
After 5 years	**214 233**	204 825
Total future cash flows	**1 357 212**	1 283 494
Straight lining accrued	**(70 473)**	(64 245)
Future expenditure	**1 286 739**	1 219 249

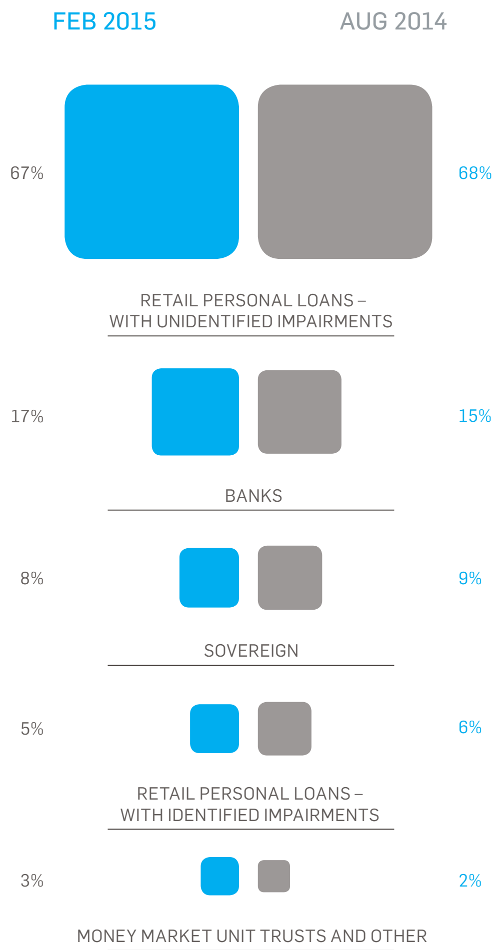
	28 Feb 2015 R'000	31 Aug 2014 R'000
Other operating lease commitments		
Within one year	**1 107**	1 682
From one to 5 years	**365**	754
Future expenditure	**1 472**	2 436

(b) Capital commitments

Capital commitments for the acquisition of information technology hardware, improvements to leased premises and support services, that are expected to result in cash outflows by the end of the 2015 financial year, are as follows:

	28 Feb 2015 R'000	31 Aug 2014 R'000
Capital commitments – approved by the board		
Contracted for:	**63 842**	88 243
Property and equipment	**54 400**	78 810
Intangible assets	**9 442**	9 433
Non-contracted for:	**629 092**	302 687
Property and equipment	**496 697**	225 264
Intangible assets	**132 395**	77 423
Future expenditure	**692 934**	390 930

CREDIT EXPOSURE BY TYPE
(NET OF RISK MITIGATION)



(c) Conditionally revocable retail loan commitments

Conditionally revocable retail loan commitments totalled R469 million (Aug 2014: R405 million). These commitments are as a result of undrawn loan amounts. These 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. 22.7% (Aug 2014: 22.4%) 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.

7.4 Liquidity coverage ratio - common disclosure template

The LCR is a 30-day stress test, using the 3 month end balances as data points to calculate an average for the quarter, which 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.

The LCR calculation has been revised to include the updated Basel weightings and disclosures made effective January 2015.

Line #	Group and bank R'000	Total Unweighted Value (Average) 28 Feb 2015	Total Weighted Value (Average) 28 Feb 2015	Total Weighted Value (Average) 31 Aug 2014
	High-Quality Liquid Assets			
1	**Total high-quality liquid assets (HQLA) (see 7.4.1)**		6 006 253	5 361 343
	Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	28 749 270	1 888 919	1 632 769
3	Stable deposits	-	-	-
4	Less-stable deposits	28 749 270	1 888 919	1 632 769
5	Unsecured wholesale funding, of which:	11 052 292	81 094	120 205
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-
7	Non-operational deposits (all counterparties)	157 263	15 729	13 430
8	Unsecured debt	10 895 029	65 365	106 775
9	Secured wholesale funding		-	-
10	Additional requirements, of which:	459 320	16 088	24 094
11	Outflows related to derivative exposures and other collateral requirements	1 754	1 754	1 066
12	Outflows related to loss of funding on debt products	21	-	-
13	Credit and liquidity facilities	454 621	11 410	20 116
14	Other contractual funding obligations	2 924	2 924	2 912
15	Other contingent funding obligations	-	-	-
16	**Total Cash Outflows**		1 986 101	1 777 068
	Cash Inflows			
17	Secured lending (e.g. reverse repos)	334 876	334 876	-
18	Inflows from fully performing exposures	6 822 755	6 239 006	6 485 147
19	Other cash inflows	51 570	154	83
20	**Total Cash Inflows**	7 209 201	6 574 036	6 485 230
				Total Adjusted Value
21	Total HQLA		6 006 253	5 361 343
22	Total Net Cash Outflows(1)		496 525	444 267
23	**Liquidity Coverage Ratio (%)(2)**		1 210%	1 207%

(1) *As Capitec has a net cash inflow after applying the run-off weightings, outflows for the purpose of the ratio are deemed to be 25% of gross ouflows.*
(2) *There is no difference between group and bank level.*

7.4.1 Composition of high quality liquid assets

	28 Feb 2015	31 Aug 2014
Total level one R'000 qualifying high-quality liquid assets[1]	**6 006 253**	5 361 343
Cash	**2 367 139**	1 882 061
Qualifying central bank reserves	**749 044**	715 792
Specified debt securities issued in Rand by the central government of the RSA or the Reserve Bank	**2 890 070**	2 763 490

[1] *Capitec does not have any investments in level two high-quality liquid assets*

7.4.2 Diversification of funding sources

FEB 2015	AUG 2014	
41%	38%	Demand deposits – retail
23%	24%	Fixed-term deposits – retail
12%	13%	Equity – ordinary shareholders (listed)
11%	12%	Fixed-term deposits – wholesale (listed)
4%	4%	Fixed-term deposits – wholesale (listed subordinated debt)
4%	4%	Fixed-term deposits – wholesale (negotiable instruments)
3%	3%	Fixed-term deposits – wholesale (other)
2%	2%	Fixed-term deposits – wholesale (subordinated debt)
0%	0%	Equity – preference shareholders (listed)

- *Capitec has no exposure to institutional or corporate call accounts.*
- *Fixed-term deposits - wholesale (listed) and wholesale (listed subordinated debt) 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 on a bilateral basis.*
- *Retail refers to individuals/natural persons.*

7.4.3 Derivative exposures and potential collateral calls

The below tables provide information on the potential exposure to margin calls on derivative exposures.

All derivatives are entered into for the sole purpose of risk mitigation in the banking book.

Derivative financial instruments: cash flow hedges

R'000	Notional amount in ZAR	Fair values Assets	Fair values Liabilities
FEB 2015			
Interest rate swaps	**6 130 349**	**(29 273)**	**22 127**
Cross currency interest rate swaps	**343 500**	**(5 060)**	**1**
Net	**6 473 849**	**(34 333)**	**22 128**
AUG 2014			
Interest rate swaps	5 161 349	(45 747)	5 037
Cross currency interest rate swaps	396 900	(90 631)	–
Net	5 558 249	(136 378)	5 037

Maturity analysis R'000	Demand to one month	One to three months	Three months to one year	More than one year	Grand total
FEB 2015					
Discounted swap cash flows	**1 870**	**(1 100)**	**(327)**	**(7 589)**	**(7 146)**
Discounted cross currency interest rate swap cash flows	**–**	**6 197**	**17 508**	**(28 764)**	**(5 059)**
Net	**1 870**	**5 097**	**17 181**	**(36 353)**	**(12 205)**
AUG 2014					
Discounted swap cash flows	355	(2 051)	(9 399)	(29 615)	(40 710)
Discounted cross currency interest rate swap cash flows	–	4 789	12 588	(108 008)	(90 631)
Net	355	2 738	3 189	(137 623)	(131 341)

Gains and losses are recognised in other comprehensive income on rate swap contracts and will be continuously released to the income statement in line with the interest expense and foreign currency movement on the underlying hedged items.

The forecast cash flows presented above show how the cash flow hedging reserve will be released to the income statement over time. The swaps have quarterly reset and settlement dates. The forecast cash flows were based on contracted interest and ruling exchange rates.

Derivative financial instruments: economic hedges

R'000	Notional USD	ZAR	Fair values Assets	Liabilities
	R'000	R'000	R'000	R'000
FEB 2015				
Forward foreign exchange contracts	**1 942**	**20 976**	**(1 513)**	**-**
AUG 2014				
Forward foreign exchange contracts	1 942	20 976	–	292

Forward foreign exchange contracts represent commitments to purchase foreign currency, including undelivered spot transactions and were entered into to match corresponding expected future transactions to the amount of R21 million (Aug 2014: R21 million).

8. The net stable funding ratio (NSFR)

NSFR	28 Feb 2015	31 Aug 2014
NSFR%	**138**	132
Required stable funding (R'm)	**31 257**	30 827
Available stable funding (R'm)	**43 215**	40 626

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.

Early compliance with new Basel liquidity ratios underscores Capitec's conservative approach to liquidity management. Our NSFR% is calculated as per the SARB rules in force. Basel has proposed adjustments to the calibration of the ratio. These changes make it easier to comply. If these changes were applied at 28 February 2015 the NSFR% ratio would have been 166%.

9. 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 2015 R'000	%	31 Aug 2014 R'000	%
200 basis points shift				
Increase	**(428 945)**	(3.5)	(363 863)	(3.4)
Decrease	**434 686**	3.6	367 758	3.4

10. 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 had a 28% shareholding in a non-listed entity Key Distributors (Pty) Ltd which was disposed of during the 2015 financial year.

11. Qualitative disclosures and accounting policies

The regulations require that certain qualitative disclosures and statements on accounting policy be made. These were made in the Integrated Annual Report for the financial period ended 28 February 2015, 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 Integrated Annual Report, Main Features of Capital Instruments and Transitional Basel 3 Template. These disclosures can be found on the Capitec Bank website under Investor Relations, Financial results, Banks Act Public Disclosure.