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

FEB 2021

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 3 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.

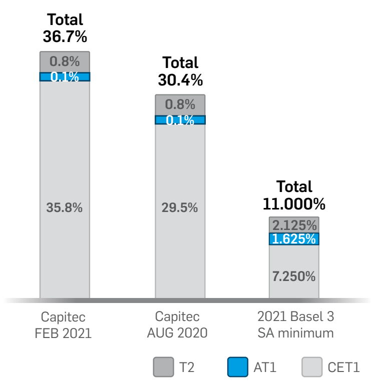
2. Period of reporting

This report covers the 6 months ended 28 February 2021. Comparative information is presented for the previous 6-month period ended 31 August 2021.

3. Scope of reporting

This report covers the consolidated results of Capitec Bank Holdings Limited (Capitec). All subsidiaries are consolidated in the same manner for both accounting and supervisory reporting purposes. All consolidated companies are incorporated in the Republic of South Africa. On 1 December 2020, the assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited in terms of Section 54 of the Banks Act, resulting in Mercantile Bank Limited becoming a division of Capitec Bank Limited.

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 Capitec's subsidiary as the interest cost is offset against relative revenue and 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 percentage is 8%.*
- *The Basel 3 SA minimum includes the current Pillar 2A South African country-specific buffer of 0%. The level of this buffer is at the discretion of the Prudential Authority (PA) and it is subject to periodic review. The PA issued Directive 2 on 6 April 2020 and temporarily relaxed the Pillar 2A South African country-specific buffer of 1%, to provide temporary capital relief to banks during this time of financial stress following the outbreak of the COVID-19 pandemic, in a manner that ensures South Africa's continued compliance with the relevant internationally agreed capital framework. It is currently anticipated that the 1% Pillar 2A requirement will be reinstated on 1 January 2022.*
- *The PA issued Directive 4 of 2020 on 27 August 2020. Directive 4 of 2020 has replaced Directive 6 of 2016 and requires banks to publicly disclose their Domestic Systemically Important Bank (D-SIB) capital add-on as part of their composition of regulatory capital disclosure. Capitec's D-SIB requirement currently amounts to 0.5%. Current regulations state that the South African Pillar 2A country risk buffer and the D-SIB buffers on a combined basis cannot exceed 3.5%. The capital conservation buffer is currently set at 2.5%.*
- *Excluded from the SA minima are the Basel 3:*
  - *Bank-specific buffers. Bank-specific buffers include the Individual Capital Requirement (ICR). In terms of the Banks Act regulations, banks may not disclose their ICR requirement.*
  - *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 commenced in January 2016 with a rate of zero.*

4. Regulatory capital adequacy

R'000	28 Feb 2021	31 Aug 2020
Composition of qualifying regulatory capital		
Ordinary share capital[1]	5 649 020	5 649 020
Foreign currency translation reserve	50 291	81 952
Other reserves	(64 893)	(53 664)
Accumulated profit	24 225 346	20 351 863
Total ordinary shareholder equity	**29 859 764**	**26 029 171**
Regulatory adjustments		
– Intangible assets, deferred tax assets excluding temporary differences and goodwill in terms of IFRS[8]	(1 458 975)	(1 549 323)
– Specified advances	187 890	208 583
– Unappropriated profit	(716 053)	(49 527)
Common Equity Tier 1 capital (CET1)	27 872 626	24 638 904
Issued preference share capital[1]	55 641	65 279
Phase out – non-loss absorbent[2] [7]	(29 744)	(13 485)
Additional Tier 1 capital (AT1)	25 897	**51 794**
Tier 1 capital (T1)	27 898 523	**24 690 698**
Unidentified impairments	647 835	721 072
Tier 2 capital (T2)	647 835	**721 072**
Qualifying regulatory capital	28 546 358	**25 411 770**
CET1%	35.8	29.5
AT1%	0.1	0.1
T1%	35.9	29.6
T2%	0.8	0.8
Total capital adequacy %[3]	36.7	**30.4**
Composition of required regulatory capital		
On balance sheet	5 654 894	6 529 736
Off balance sheet	39 383	44 956
Credit risk	5 694 277	6 574 692
Operational risk	1 026 976	1 178 003
Market risk	5 007	4 755
Equity risk	577 464	167 913
Other assets	1 254 413	1 261 927
Total regulatory capital requirement[4]	8 558 137	**9 187 290**
Composition of risk-weighted assets[5]		
On balance sheet	51 408 127	59 361 240
Off balance sheet	358 031	408 691
Credit risk	51 766 158	59 769 931
Operational risk	9 336 148	10 709 121
Market risk	45 513	43 225
Equity risk	5 249 671	1 526 481
Other assets [6]	11 403 742	11 472 057
Total risk-weighted assets	77 801 232	**83 520 815**
Total assets based on IFRS	156 506 986	144 520 625
Total risk-weighted assets – adjustments [9]	(78 705 754)	(60 999 810)
Total risk-weighted assets – regulatory [9]	77 801 232	**83 520 815**

(1) *For further details of the main features of these instruments, please refer to the Main Features of Capital Instruments and Traditional Basel 3 template on the Capitec Bank website.*

(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.*

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

(4) *This value is currently 11% (Aug 2020: 11%) of risk-weighted assets, being the Basel global minimum requirement of 8%, the Capital Conservation Buffer of 2.5% and the D-SIB capital add-on of 0.5%, disclosable in terms of Directive 4 of 2020 issued by the PA on 27 August 2020. Directive 4 of 2020 has replaced Directive 6 of 2016 and requires banks to publicly disclose their D-SIB capital add-on as part of their composition of regulatory capital disclosure. In terms of the regulations relating to banks the Individual Capital Requirement (ICR) is excluded. The PA issued Directive 2 on 6 April 2020 and temporarily relaxed the Pillar 2A South African country-specific buffer of 1% to provide temporary capital relief to banks during this time of financial stress following the outbreak of the COVID-19 pandemic, in a manner that ensures South Africa's continued compliance with the relevant internationally agreed capital framework.*

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

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

(7) *The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. At 28 February 2021, 78.51% (Aug 2020: 74.79%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.*

(8) *In terms of the regulations relating to banks, goodwill and intangible assets net of the related deferred tax liability, are treated as specified adjustments and are deducted from Common Equity Tier 1 (CET1) capital and reserve funds.*

(9) *The new regulations relating to the capital requirements for banks' equity investments in funds became effective on 1 January 2021. In terms of the new regulations, banks are allowed to adopt a look-through approach to calculate the risk weighted asset exposures for equity investments in funds. Capitec invests in money market unit trust (MMUT) investment funds, which are included in the scope of the new regulations. The underlying assets of MMUT investment funds are typically invested in a composition of Government Bonds, Treasury Bills and interest bearing deposits with banks. Up until 31 December 2020, the investments in these MMUT's were classified as corporate investments and included under credit risk, which were risk weighted at a 100% risk weight. From 1 January 2021, these investments were classified as equity investments in funds and now included under investment risk. Capitec adopted the look-through approach as outlined in the new regulations to calculate the risk weighted exposures of these investments, and the effective risk weight of these funds amounted to 55% for the month of February 2021.*

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.

Capitec is conservatively leveraged with a ratio of 17.6% (Aug 2020: 17.1%).

5.1 Summary of leverage ratio

Line #	leverage ratio framework R'000	Capitec Bank Holdings Limited 28 Feb 2021	Capitec Bank Holdings Limited 31 Aug 2020	Capitec Bank Limited 28 Feb 2021	Capitec Bank Limited 31 Aug 2020
	Capital and total exposures				
20	Tier 1 capital	**27 898 523**	24 690 698	**27 458 805**	24 154 867
21	Total exposures[1]	**158 134 375**	144 709 567	**158 074 607**	132 828 359
	Leverage ratio				
22	**Basel 3 leverage ratio%**	**17.6%**	17.1%	**17.4%**	18.2%

(1) *On 1 December 2020, the assets and liabilities of Mercantile Bank Limited were transferred to Capitec Bank Limited in terms of Section 54 of the Banks Act, resulting in Mercantile Bank Limited becoming a division of Capitec Bank Limited.*

For further details on our Leverage ratio, please refer to the Leverage ratio common disclosure template on the Capitec website under investor relations.

6. Credit risk

6.1 Summary of on Balance Sheet and off Balance Sheet Credit Exposure

The table below summarises the daily average credit exposures for the six month period ending on 28 February 2021 and 31 August 2020 respectively for Capitec Bank Holdings Limited.

Asset Class R'000	Average Gross credit exposure 28 Feb 2021	Average Gross credit exposure 31 Aug 2021
Liquid assets	**48 004 375**	**43 752 032**
Cash and cash equivalents - Banks	22 290 499	28 521 009
Cash and cash equivalents - Sovereign	1 870 132	2 203 999
Resale agreements with banks	20 130 481	9 838 139
Resale agreements with corporates	3 174 955	1 931 540
Other balances with central banks	-	549 971
Negotiable securities	538 308	707 374
Gross loans and advances	**75 607 450**	**75 546 656**
Retail personal term loans	57 075 224	60 849 122
Retail Revolving Credit	9 654 573	6 479 329
Mortgage loans	5 445 023	5 430 725
Instalment sales and leases	1 502 579	1 596 257
Other advances	1 930 051	1 191 223
Gross other assets	**28 266 479**	**22 321 943**
Term deposit investments - Banks	309 905	193 519
Financial investments - Sovereign	27 912 212	22 076 066
Derivative financial assets	44 362	52 358
On-balance sheet exposure	**151 878 304**	**141 620 631**
Guarantees	563 165	516 668
Letters of credit	3 202	7 917
Committed undrawn facilities	251 612	286 817
Conditionally revocable commitments	4 276 286	2 694 224
Off Balance sheet exposure	**5 094 265**	**3 505 626**
Total credit exposure	**156 972 569**	**145 126 257**

6.2 Credit Quality of assets

The table below summarises the group's asset classes by IFRS 9 stage and splits the exposures between default and non-default. The table also indicates whether the exposure is calculated on a month-end basis or on a daily average balance method and the total impairment provisions on each asset class.

28 Feb 2021 R'000	Month Average / Month-end exposure	Credit Exposure Value			
		Defaulted exposures	Non-defaulted exposures	Impairments	Net
Stage 1		-	115 630 079	(3 910 408)	111 719 671
Retail term loans	Month-end	-	28 986 754	(2 510 395)	26 476 359
Retail revolving credit	Monthly Ave	-	9 854 616	(1 133 915)	8 720 701
Sovereigns and their central banks	Monthly Ave	-	35 061 268	(67 740)	34 993 528
Banks	Monthly Ave	-	29 554 410	(2 438)	29 551 972
Corporate exposures	Both	-	6 315 955	(83 666)	6 232 289
Residential mortgage advances	Month-end	-	2 390 737	(30 178)	2 360 559
SME Secured lending	Month-end	-	2 771 933	(49 768)	2 722 165
Other Exposures (SME Unsecured lending and Public sector Entities)	Both	-	694 406	(32 308)	662 098
Stage 2		-	11 482 310	(3 273 444)	8 208 866
Retail term loans	Month-end	-	9 171 254	(2 649 540)	6 521 714
Retail revolving credit	Monthly Ave	-	646 842	(352 466)	294 376
COVID-19 retail reschedules	Month-end	-	391 882	(135 805)	256 077
Sovereigns and their central banks	Monthly Ave	-	-	-	-
Banks	Monthly Ave	-	-	-	-
Corporate exposures	Both	-	708 742	(87 289)	621 453
Residential mortgage advances	Month-end	-	304 281	(13 271)	291 010
SME Secured lending	Month-end	-	166 491	(16 181)	150 310
Other Exposures (SME Unsecured lending and Public sector Entities)	Both	-	92 818	(18 892)	73 926
Stage 3		9 385 132	6 476 437	(10 721 365)	5 140 204
Retail term loans	Month-end	7 903 199	6 320 643	(9 679 418)	4 544 424
Retail revolving credit	Monthly Ave	740 279	155 794	(741 739)	154 334
Sovereigns and their central banks	Monthly Ave	-	-	-	-
Banks	Monthly Ave	-	-	-	-
Corporate exposures	Both	137 927	-	(79 908)	58 019
Residential mortgage advances	Month-end	261 285	-	(45 828)	215 457
SME Secured lending	Month-end	246 380	-	(110 692)	135 688
Other Exposures (SME Unsecured lending and Public sector Entities)	Both	96 062	-	(63 780)	32 282
Debt securities		-	-	-	-
Off balance sheet items		-	7 063 759	-	7 063 759
Total		9 385 132	140 652 585	(17 905 217)	132 132 500

Stage 1: Includes up-to-date loans and advances, loans rescheduled from arrears and rehabilitated and loans rescheduled from up-to-date and rehabilitated.

Stage 2: Includes up-to-date loans with Significant Increase in Credit Risk (SICR), loans up to 1 month in arrears, clients having applied for debt review longer than 6 months ago and COVID-19 related rescheduled loans as per Directive 3 of 2020.

Stage 3: Includes loans more than 1 month in arrears, up-to date loans rescheduled from arrears (in financial distress) and not rehabilitated, up-to-date loans which are rescheduled from up-to-date (financial distress) and not rehabilitated, application for debt review within the last 6 months, under debt review clients, clients handed over or with a legal status and loans that are currently one month in arrears that were previously rescheduled but have not rehabilitated.

Per SARB Directive D5 of 2017, provisions on Stage 1 and Stage 2 exposures are classified as general/portfolio impairment provisions, whereas provisions on Stage 3 exposures are classified as specific impairment provisions.

IFRS 9 requires a minimum 12 month expected credit loss (ECL) for loans and advances for which there has not been a SICR (i.e. Stage 1 exposures). A lifetime ECL applies to exposures with a SICR (Stage 2 exposures) and credit impaired exposures (Stage 3 exposures).

6.2 Credit Quality of assets (Continued)

The table below summarises the group's asset classes by IFRS 9 stage and splits the exposures between default and non-default. The table also indicates whether the exposure is calculated on a month-end basis or on a daily average balance method and the total impairment provisions on each asset class.

31 Aug 2020 R'000	Month Average / Month-end exposure	Credit Exposure Value			
		Defaulted exposures	Non-defaulted exposures	Impairments	Net
Stage 1		-	110 906 187	(3 491 224)	107 414 963
Retail term loans	Month-end	-	31 684 895	(2 889 367)	28 795 528
Retail revolving credit	Monthly Ave	-	5 675 673	(419 558)	5 256 115
Sovereigns and their central banks	Monthly Ave	-	26 356 551	-	26 356 551
Banks	Monthly Ave	-	26 274 807	-	26 274 807
Corporate exposures	Both	-	15 021 830	(96 592)	14 925 238
Residential mortgage advances	Month-end	-	2 226 138	(12 498)	2 213 640
SME Secured lending	Month-end	-	2 965 025	(49 869)	2 915 156
Other Exposures (SME Unsecured lending and Public sector Entities)	Both	-	701 268	(23 340)	677 928
Stage 2		-	11 098 379	(3 242 557)	7 855 822
Retail term loans	Month-end	-	4 383 946	(1 108 628)	3 275 318
Retail revolving credit	Monthly Ave	-	924 191	(380 757)	543 434
COVID-19 retail reschedules	Month-end	-	4 997 050	(1 625 550)	3 371 500
Sovereigns and their central banks	Monthly Ave	-	-	-	-
Banks	Monthly Ave	-	-	-	-
Corporate exposures	Both	-	304 959	(63 437)	241 522
Residential mortgage advances	Month-end	-	302 587	(22 898)	279 689
SME Secured lending	Month-end	-	139 687	(17 029)	122 658
Other Exposures (SME Unsecured lending and Public sector Entities)	Both	-	45 959	(24 258)	21 701
Stage 3		8 716 201	7 777 357	(11 604 070)	4 889 488
Retail term loans	Month-end	7 511 182	7 667 116	(10 777 723)	4 400 575
Retail revolving credit	Monthly Ave	610 696	110 241	(583 004)	137 933
Sovereigns and their central banks	Monthly Ave	-	-	-	-
Banks	Monthly Ave	-	-	-	-
Corporate exposures	Both	161 234	-	(75 565)	85 669
Residential mortgage advances	Month-end	230 032	-	(49 597)	180 435
SME Secured lending	Month-end	132 351	-	(86 994)	45 357
Other Exposures (SME Unsecured lending and Public sector Entities)	Both	70 706	-	(31 187)	39 519
Debt securities		-	-	-	-
Off balance sheet items		-	3 828 388	-	3 828 388
Total		8 716 201	133 610 311	(18 337 851)	123 988 661

6.3 Analysis of loans in default

The table below reconciles the movement in loans classified as being in default from 1 September 2020 to 28 February 2021:

R'000	28 Feb 2021	31 Aug 2020
Defaulted loans and debt securities at end of previous reporting period[1]	**8 716 201**	7 953 027
Loans and debt securities that have defaulted since the last reporting period	**3 109 803**	2 879 208
Returned to non-defaulted status	**(146 759)**	(98 807)
Amounts written off	**(2 079 864)**	(1 981 229)
Other changes	**(214 249)**	(35 998)
Defaulted loans and debt securities at end of reporting period[1]	**9 385 132**	**8 716 201**

(1) Default on retail loans include the following:

- *loans on which clients are past due on 3 or more contractual payments;*
- *loans which clients have applied for debt review less than 6 months ago which are currently performing;*
- *up-to-date loans that rescheduled from up-to-date (not yet rehabilitated);*
- *loans that are currently up to 1 month in arrears that were previously rescheduled but have not rehabilitated or*
- *up-to-date loans that rescheduled from arrears (not yet rehabilitated).*

Default on business loans occurs when one or more of the following criteria is met:

Quantitative criteria
The borrower is more than 90 days past due on its contractual payments (rebuttable presumption).

Qualitative criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where, inter alia:

- *The borrower is in long-term forbearance;*
- *The borrower is deceased;*
- *The borrower is insolvent;*
- *The borrower is in breach of financial covenant(s);*
- *An active market for the financial assets have disappeared because of financial difficulties;*
- *Concessions have been made by the group relating to the borrower's financial difficulty / inability to meet contractual obligations; or*
- *It is becoming probable that the borrower may enter bankruptcy.*

A rebuttable assumption is applied and the financial instrument is considered impaired if the borrower is more than 90 days past due on its contractual payments.

6.4 Standardised approach - credit risk exposure and credit risk mitigation effects

The following table summarises the group's Credit risk exposures, both pre and post Credit Risk Mitigation (CRM) and Credit Conversion Factor (CCF), together with the resulting Credit Risk Weighted Assets and Risk Weighted Asset density. Resales agreements with Banks and Corporate entities are included in the Banks and Corporate disclosure lines respectively in the table below. Past-due loans include retail loans which are in arrears by 1 day or longer, and business past-due loans include loans which are in arrears by more than 90 days.

28 Feb 2021	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset Classes R'000	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA[2]**	**RWA density**
Sovereigns and their central banks[3]	35 061 268	-	35 061 268	-	-	0%
Banks[1]	29 554 410	247	11 025 997	49	2 312 904	21%
Corporates[1]	5 830 723	869 083	3 124 773	114 721	3 217 576	99%
Regulatory retail portfolios	53 298 542	5 881 364	53 268 714	101 252	40 386 236	76%
Secured by residential property	2 695 018	127 577	2 682 959	127 577	1 047 350	37%
Secured by commercial real estate	2 512 611	185 363	2 512 611	123 721	2 636 332	100%
Past-due loans	3 300 024	124	3 307 133	3	2 154 301	65%
Total	**132 252 596**	**7 063 758**	**110 983 455**	**467 323**	**51 754 699**	**46%**

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

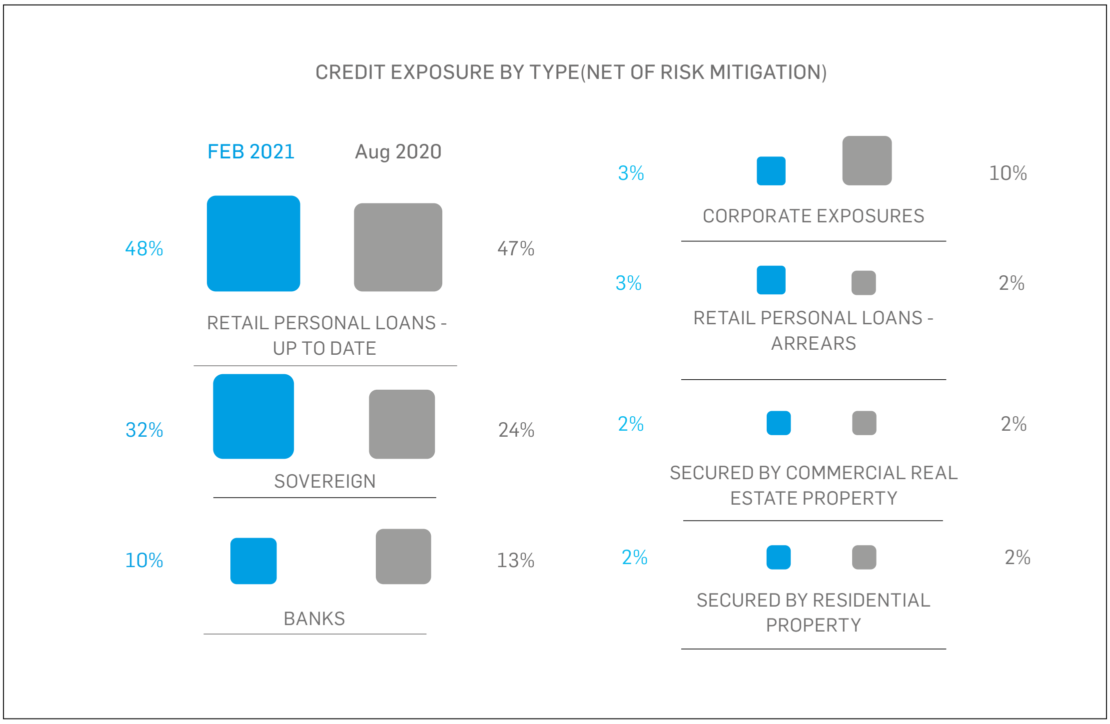
(1) *Corporate and Bank exposures were calculated based on an average, using daily balances for month 6 of the respective reporting periods. All other items are the balances at the respective month-ends.*

(2) *The risk weightings reflected are the standard risk weightings applied to exposures, as required by the regulations. Risk weightings 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.*

The risk weightings for retail exposures are specified directly in the banking regulations. A standard risk weighting of 75% is applied to performing (Stage 1 and Stage 2) exposures while non-performing (Stage 3) exposures attract a standard 50% risk weighting in the case where more than 50% of the outstanding balance has already been provided, or a 100% risk weighting in the case where less than 50% of the outstanding balance has been provided for, net of allowed impairments. A standard risk weighting of 150% is applied to non-performing exposures in the case where less than 20% of the outstanding balance has been provided for.

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

31 Aug 2020	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset Classes R'000	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA[2]**	**RWA density**
Sovereigns and their central banks[3]	26 356 551	-	26 356 551	-	-	0%
Non-central government public sector entities	1 328	-	1 328	-	996	75%
Banks[1]	26 274 917	19 952	14 193 281	40	2 950 413	11%
Corporates[1]	14 156 182	531 062	11 580 271	118 029	11 636 011	82%
Regulatory retail portfolios	55 130 871	2 942 583	52 689 483	113 906	39 817 034	72%
Secured by residential property	2 528 725	77 227	2 370 059	77 227	971 546	38%
Secured by commercial real estate	2 641 766	257 406	2 570 233	171 705	2 790 765	106%
Past-due loans	11 407 783	158	2 400 141	4	1 580 218	14%
Total	**138 498 123**	**3 828 388**	**112 161 347**	**480 911**	**59 746 982**	**43%**



6.5 Credit Risk mitigation techniques

28 Feb 2021 R'000	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which secured amount
Total Net Loans and Advances	**118 327 064**	**31 642 914**	**23 705 496**
Retail term loans	**52 724 141**	**101 663**	**71 936**
Retail revolving credit	**16 601 166**	-	-
Sovereigns and their central banks	**34 993 528**	-	-
Banks	**10 027 727**	**19 526 929**	**19 690 720**
Corporate exposures	**1 301 303**	**6 795 603**	**3 748 260**
Residential mortgage advances	**258 389**	**2 825 491**	**15 850**
SME Secured lending	**1 192 106**	**2 393 228**	**178 730**
Other Exposures (SME Unsecured lending)	**1 228 704**	-	-
Debt Securities	-	-	-
Total	**118 327 064**	**31 642 914**	**23 705 496**
Of which defaulted (Net of credit impairment)	1 747 998	566 359	360

6.5 Credit Risk mitigation techniques (Continued)

31 Aug 2020 R'000	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which secured amount
Total Net Loans and Advances	**118 958 651**	**23 367 858**	**16 003 254**
Retail term loans	56 174 368	109 036	74 347
Retail revolving credit	9 550 023	-	-
Sovereigns and their central banks	26 356 551	-	-
Banks	13 516 262	12 778 607	12 838 781
Corporate exposures	10 756 334	5 339 879	2 894 237
Residential mortgage advances	181 152	2 654 643	18 355
SME Secured lending	1 269 460	2 485 693	177 534
Other Exposures (SME Unsecured lending)	1 154 501	-	-
Debt Securities	-	-	-
Total	**118 958 651**	**23 367 858**	**16 003 254**
Of which defaulted (Net of credit impairment)	1 026 141	483 098	5 685

6.6 Standardised approach - exposure by asset classes and risk weights

The following table summarises the credit risk exposures by risk weighting percentage:

28 Feb 2021 Risk weight/ Asset Classes R'000	0%	20%	35%	50%	75%	100%	150%	Total credit exposure amount post CRM and CCF
Sovereigns and their central banks	35 061 268	-	-	-	-	-	-	35 061 268
Banks	-	11 020 366	-	2 537	-	3 098	45	11 026 046
Corporates	-	-	-	43 769	-	3 195 725	-	3 239 494
Regulatory retail portfolios	-	-	-	507 442	51 304 705	1 304 353	253 466	53 369 966
Secured by residential property	-	-	2 810 536	-	-	-	-	2 810 536
Secured by commercial real estate	-	-	-	-	-	2 636 332	-	2 636 332
Past-due loans	-	-	-	1 889 524	1 007 364	310 160	100 088	3 307 136
Total	35 061 268	11 020 366	2 810 536	2 443 272	52 312 069	7 449 668	353 599	111 450 778

6.6 Standardised approach - exposure by asset classes and risk weights (Continued)

31 Aug 2020 Risk weight/ Asset Classes R'000	0%	20%	35%	50%	75%	100%	150%	Total credit exposure amount post CRM and CCF
Sovereigns and their central banks	26 356 551	-	-	-	-	-	-	26 356 551
Non-central government public sector entities	-	-	-	-	1 328	-	-	1 328
Banks	-	13 876 604	-	304 666	-	12 051	-	14 193 321
Securities firms	-	-	-	-	-	-	-	-
Corporates	-	-	-	76 790	-	11 621 510	-	11 698 300
Regulatory retail portfolios	-	-	-	580 200	50 637 557	1 305 993	279 639	52 803 389
Secured by residential property	-	-	2 447 286	-	-	-	-	2 447 286
Secured by commercial real estate	-	-	-	-	-	2 741 938	-	2 741 938
Past-due loans	-	-	-	1 365 557	687 744	277 043	69 801	2 400 145
Total	**26 356 551**	**13 876 604**	**2 447 286**	**2 327 213**	**51 326 629**	**15 958 535**	**349 440**	**112 642 258**

6.7 Write-offs and recoveries reflected in the income statement

The table below compares the net credit impairment charge in the Income Statement for the six month period ending 28 February 2021, with the six month period which ended on 31 August 2020.

R'000	6 months 28 Feb 2021	6 months 31 Aug 2020
Net impairment charge on loans and advances:		
Bad debts (write-offs)	**3 514 861**	2 894 479
Net Movement in impairment allowance	**(1 319 508)**	3 666 937
Bad debts recovered	**(456 754)**	(475 294)
Net impairment charge	**1 738 599**	**6 086 122**

6.8 Analysis of counterparty credit risk by approach (CCR)

Counterparty Credit Risk (CCR) is calculated on the new Standardised Approach (SA-CCR) which was implemented on 1 January 2021, based on the asset values as well as any potential future add-ons as prescribed by the Regulations.

28 Feb 2021 R'000	Replacement cost	Potential future exposure	EAD Post - CRM	RWA
SA-CCR for derivatives	5 560	8 907	14 499	18 744
Simple Approach for credit risk mitigation (for SFTs)	23 052 519	21 231 396	1 821 123	1 022 309
Total	**23 058 079**	**21 240 303**	**1 835 622**	**1 041 053**

31 Aug 2020 R'000	Replacement cost	Potential future exposure	EAD Post - CRM	RWA
SA-CCR for derivatives	20 225	14 121	31 073	45 549
Simple Approach for credit risk mitigation (for SFTs)	15 495 380	14 695 814	799 566	241 929
Total	**15 515 605**	**14 709 935**	**830 639**	**287 478**

7. Liquidity measurements

7.1 Liquidity management

Liquidity risk is managed by the Assets and Liabilities Committee (ALCO) that oversees the activities of the treasury department which operates in terms of an approved Assets and Liabilities Management (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

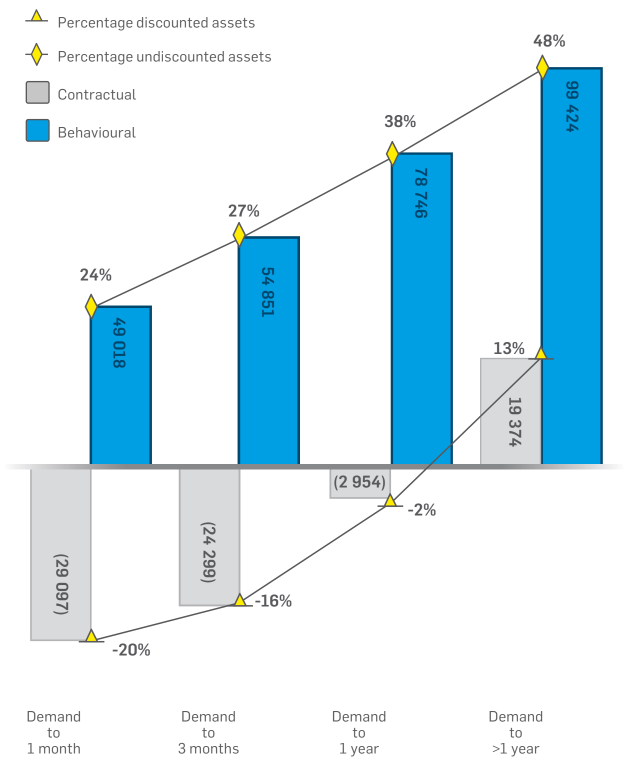
Both the contractual and behavioural mismatches benefit positively from the high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than at banks with lower capital ratios.

The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits. 89.76% (Aug 2020: 91.98%) 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.

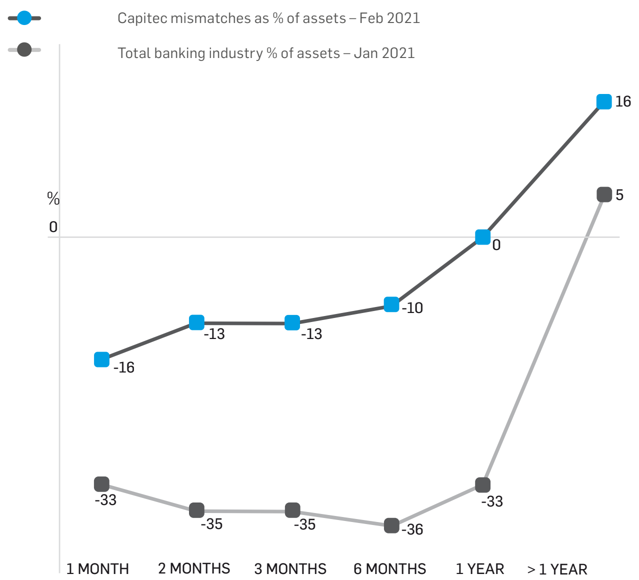
Industry comparison
The industry comparison shows that Capitec's contractual mismatch as a percentage of assets is prudent relative to the total industry mismatch. The source data is as reported on the SARB BA 300 returns, which exclude the impact of loan impairments.

CONTRACTUAL AND BEHAVIOURAL LIQUIDITY MISMATCHES R'm

The contractual mismatch is reported on a discounted basis whereas the behavioural mismatch is reported on an undiscounted basis.



INDUSTRY COMPARISON – CUMULATIVE CONTRACTUAL LIQUIDITY MISMATCHES



7.3 Contractual Liquidity maturity analysis (mismatch)

Please refer to note 33.5 of the annual financial statements for the year ended 28 February 2021.

7.5 Liquidity coverage ratio (LCR)

The LCR is a 30-day stress test, using 90 days (actual data points for the quarter) 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 R'000	Total Adjusted Value 28 Feb 2021	Total Adjusted Value 31 Aug 2020
21	Total HQLA	**57 601 979**	37 955 609
22	Total Net Cash Outflows[(1)]	**2 342 837**	2 051 309
23	**Liquidity Coverage Ratio (%)**	**2 459%**	**1 850%**

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

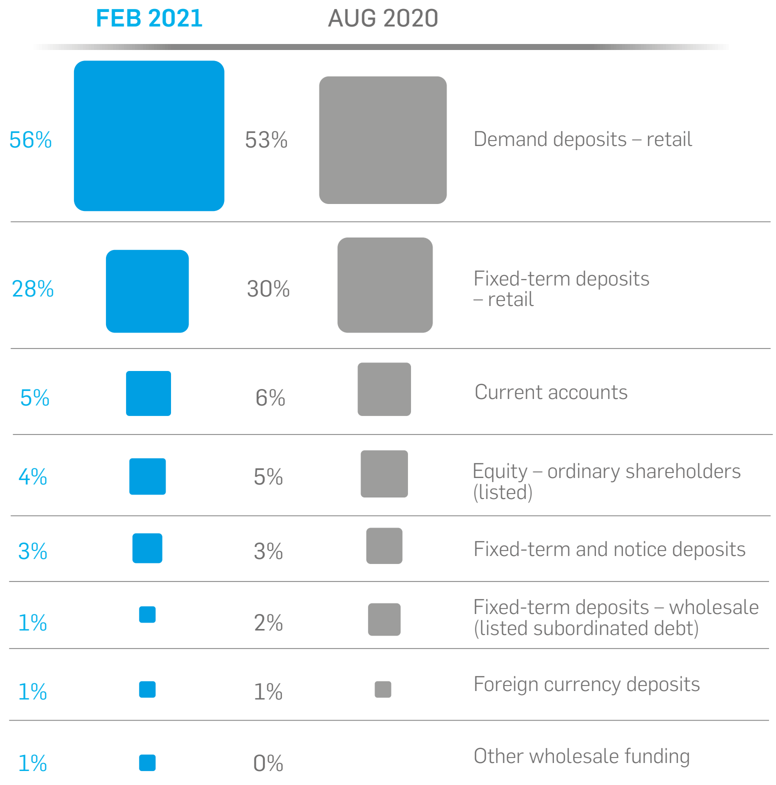
For further details on our LCR ratio, please refer to the Liquidity coverage ratio (LCR) common disclosure (LIQ1) template on the Capitec website under investor relations.

7.5.1 Composition of high-quality liquid assets

R'000	28 Feb 2021	31 Aug 2020
Cash	**3 481 437**	3 140 306
Qualifying central bank reserves	**2 009 091**	1 879 983
Specified debt securities issued in Rand by the central government of the RSA or the Reserve Bank	**30 771 078**	25 097 679
Specified marketable securities from sovereigns, central banks, public sector entities, multilateral development banks and development banks	**21 340 373**	7 837 641
Total level one qualifying high-quality liquid assets[(1)]	**57 601 979**	**37 955 609**

(1) Capitec does not have any investments in level 2 high-quality liquid assets

7.6 Diversification of funding sources



8. The net stable funding ratio (NSFR)

Group NSFR **R'000**	28 Feb 2021	31 Aug 2020
NSFR%	**221.1%**	219.2%
Available stable funding	**136 500 427**	130 457 121
Required stable funding	**61 746 242**	59 504 018

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. The NSFR ratio is based on the latest Basel regulations.

For further details on our NSFR ratio, please refer to the LIQ2: Net Stable Funding Radio (NSFR) common disclosure template on the Capitec website under investor relations.

9. Market risk under standardised approach

The portfolios that are subject to market risk are foreign exchange and interest rate contracts and for which the Bank currently holds R5.0 million in market risk capital in terms of the standardised approach for the calculation of capital.

R'000	28 Feb 2021 RWA	31 Aug 2020 RWA
RWA		
Foreign exchange risk	**45 513**	43 225
Total	**45 513**	43 225

10. 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

R'000	28 Feb 2021	31 Aug 2020
200 basis points shift		
Increase	**(1 276 293)**	(760 432)
Decrease	**1 375 474**	748 109

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 2021, 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, Key Metrics (KM1) and Transitional Basel 3 Template.

These disclosures can be found on **https://www.capitecbank.co.za/investor-relations**