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

AUG 2019

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.

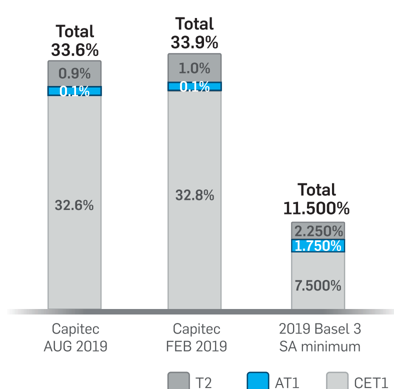
2. Period of reporting

This report covers the 6 months ended 31 August 2019. Comparative information is presented for the previous 6-month period ended 28 February 2019.

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. 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 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 2019 Basel 3 SA minimum includes the SA country buffer of 1.00% (2018: 1.25%). 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 phased in from the beginning of 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 requirement. Current regulations state that the South African country risk buffer and the D-SIB buffers on a combined basis cannot 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 commenced in January 2016 with a rate of zero.*
  - *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	31 Aug 2019	28 Feb 2019
Composition of qualifying regulatory capital		
Ordinary share capital[1]	5 649 020	5 649 020
Foreign currency translation reserve	18 435	4 619
Accumulated profit	17 456 776	15 950 142
	23 124 231	21 603 781
Regulatory adjustments		
– Intangible assets in terms of IFRS	(438 986)	(316 282)
– Specified advances	318 627	480 650
– Unappropriated profit	(440 116)	(856 407)
Common Equity Tier 1 capital (CET1)	22 563 756	20 911 742
Issued preference share capital[1]	74 370	81 603
Phase out – non-loss absorbent[2] [8]	-	(3 912)
Additional Tier 1 capital (AT1)	74 370	77 691
Tier 1 capital (T1)	22 638 126	20 989 433
Issued subordinated debt[1]	572 000	1 822 000
Phase out – non-loss absorbent[2]	(572 000)	(1 822 000)
Deduction for third-party capital issued by bank subsidiary[3]	-	-
Total subordinated debt	-	-
Unidentified impairments	647 418	624 762
Tier 2 capital (T2)	647 418	624 762
Qualifying regulatory capital	23 285 544	21 614 195
CET1%	32.6	32.8
AT1%	0.1	0.1
T1%	32.7	32.9
T2%	0.9	1.0
Total capital adequacy %[4]	33.6	33.9
Composition of required regulatory capital		
On balance sheet	5 880 092	5 706 267
Off balance sheet	5 326	4 739
Credit risk	5 885 418	5 711 006
Operational risk	956 405	879 306
Equity risk in the banking book	56 808	51 291
Other assets	1 071 411	685 946
Total regulatory capital requirement[5]	7 970 042	7 327 549
Composition of risk-weighted assets[6]		
On balance sheet	51 131 235	49 619 716
Off balance sheet	46 315	41 209
Credit risk	51 177 550	49 660 925
Operational risk	8 316 566	7 646 139
Equity risk in the banking book	493 984	446 009
Other assets [7]	9 316 616	5 964 751
Total risk-weighted assets	69 304 716	63 717 824
Total assets based on IFRS	113 594 749	100 427 749
Total risk-weighted assets – adjustments[9]	(44 290 033)	(36 709 925)
Total risk-weighted assets – regulatory	69 304 716	63 717 824

(1) *For further details of the main features of these instruments, please refer to template CCA: Main Features of Capital Instruments and template CC1: Compostion of Capital on the Capitec Bank website, under 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.*

(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 11.500% (2018: 11.250%) of risk-weighted assets, being the Basel global minimum requirement of 8.000%, the South African country-specific buffer of 1.000% (2018: 1.250%) and the Capital Conservation Buffer of 2.500% (2018: 1.875%)(disclosable in terms of SARB November 2016 directive in order to standardise reporting across banks). In terms of the regulations the Individual Capital Requirement (ICR) is excluded.*

(6) *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.*

(7) *We implemented IFRS 16, the revised accounting standard on leases on 1 March 2019. IFRS 16 requires the lessee, in an operating lease commitment, to record an asset with the corresponding lease liability. On 1 March 2019 we recognised right-of-use assets of R2.60 billion and lease liabilities of R2.75 billion. Practically, operating lease or rental cost expense will be replaced by an interest expense and depreciation charge.*

(8) *The base value of preference shares phasing out in terms of Basel 3 is R258 969 000. At 31 August 2019, 71.29% (Feb 2019: 68.49%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.*

(9) *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.*

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 20% or exposure of 5 times equity (Feb 2019: 21% or 5 times).

5.1 Summary of leverage ratio

Line #	Group leverage ratio framework R'000	31 Aug 2019	28 Feb 2019
	Capital and total exposures		
20	Tier 1 capital	**22 638 126**	20 989 433
21	Total exposures	**114 226 273**	100 801 802
	Leverage ratio		
22	**Basel 3 leverage ratio%**	**19.8%**	20.8%

Line #	Summary leverage ratio framework - bank level		
	Capital and total exposures		
20	Tier 1 capital	**22 058 353**	20 283 033
21	Total exposures	**113 885 293**	100 477 209
22	**Basel 3 leverage ratio%**	**19.4%**	20.2%

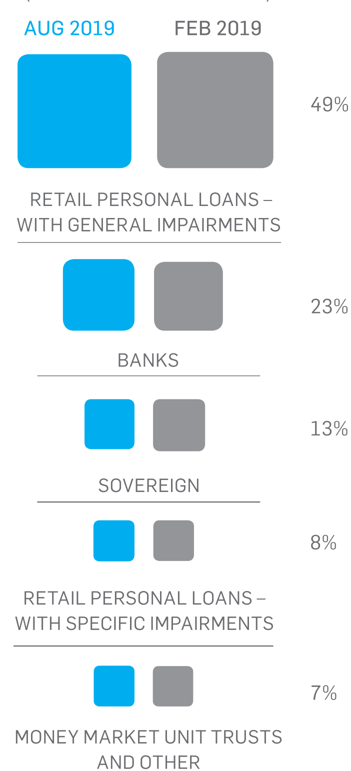
For further details on our Leverage ratio, please refer to the Leverage ratio common disclosure template for additional information on the Capitec website under investor relations.

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] 31 Aug 2019	Average gross exposure[1] 28 Feb 2019	Aggregate gross period-end exposure[2] [4] 31 Aug 2019	Aggregate gross period-end exposure[2] [4] 28 Feb 2019	Exposure post risk mitigation[2] [3] [4] 31 Aug 2019	Exposure post risk mitigation[2] [3] [4] 28 Feb 2019	Risk weights[5] %
On balance sheet							
Corporate[6]	**7 207 357**	6 157 970	**7 048 202**	6 402 202	**6 936 992**	6 262 852	100
Sovereign[7]	**14 108 409**	12 628 587	**15 751 642**	13 176 711	**15 751 642**	13 176 711	0
Banks (claims < 3 mths original maturity)	**15 619 653**	14 422 645	**18 522 526**	11 877 158	**9 654 935**	10 156 473	20
Banks (claims > 3 mths original maturity)	**8 421 674**	7 305 578	**7 352 784**	10 331 464	**7 352 784**	10 331 464	50/100
Banks (Derivatives >3mths Aaa to Aa3)	**-**	-	**-**	-	**-**	-	20
Banks (Derivatives > 3 mths A1 to Baa3)	**11 393**	20 551	**16 104**	8 479	**16 104**	8 479	50
Retail personal loans							
– with general impairments	**47 439 163**	45 837 897	**49 451 551**	46 345 711	**49 451 551**	46 345 711	75
– with specific impairments[8]	**9 448 361**	7 638 058	**10 800 216**	8 440 489	**10 800 216**	8 440 489	various
Subtotal	**102 256 010**	94 011 286	**108 943 025**	96 582 214	**99 964 224**	94 722 179	
Off balance sheet							
Corporate facilities	**-**	-	**-**	-	**-**	-	100
Retail personal loans							
– retail guarantees	**-**	-	**-**	-	**-**	-	75
– committed undrawn facilities	**-**	-	**-**	-	**-**	-	75
– conditionally revocable commitments[9]	**682 301**	566 592	**1 188 457**	911 740	**1 188 457**	911 740	0
Total exposure	**102 938 311**	94 577 878	**110 131 482**	97 493 954	**101 152 681**	95 633 919	



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 5). 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) *98.7% (Feb 2019: 95.3%) 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) *Per banking regulations, those retail personal loans which have been provided for in excess of 50% of the outstanding balance, are risk weighted at 50%.*

(9) *These commitments are as a result of undrawn credit facility and undrawn credit card amounts. 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. 65.6% (Feb 2019: 64.0%) 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 Credit quality of assets

31 August 2019

R'000	Gross loans and advances		Impairments	Net Loans
	Defaulted exposures [1]	Non-defaulted exposures		
Stage 1	-	45 311 351	(2 916 437)	42 394 914
Stage 2	-	4 140 000	(1 337 688)	2 802 312
Stage 3	6 990 807	3 810 009	(8 595 079)	2 205 737
Total	6 990 807	53 261 360	(12 849 204)	47 402 963

28 February 2019

R'000	Gross loans and advances		Impairments	Net Loans
	Defaulted exposures [1]	Non-defaulted exposures		
Stage 1	-	41 587 493	(2 671 379)	38 916 114
Stage 2	-	4 851 164	(1 352 508)	3 498 656
Stage 3[2]	5 718 829	3 737 825	(7 356 740)	2 099 914
Total	5 718 829	50 176 482	(11 380 627)	44 514 684

(1) *Defaulted loans include loans which are more than 3 months in arrears which have not yet been handed over or written-off, and loans with a legal status.*

(2) *At February 2019, gross carrying amount did not include impaired interest on stage 3 advances. Gross carrying amount was presented in this manner to align to the income statement presentation under IFRS 9 which requires interest to be recognised on the net carrying amount of the loan for example after the expected credit loss(ECL). This is aligned to industry practise under IFRS 9. The gross carrying amount is grossed up by R1 016 million at 28 February 2019.*

Analysis of loans in default

R'000	31 Aug 2019	28 Feb 2019
Defaulted loans and debt securities at end of previous reporting period	5 718 829	3 469 438
Loans and debt securities that have defaulted since the last reporting period	2 207 193	2 496 172
Returned to non-defaulted status	(68 280)	(50 272)
Amounts written off	(866 935)	(196 509)
Defaulted loans and debt securities at end of reporting period	6 990 807	5 718 829

6.3 Analysis of credit impairments

All impairments presented below relate to retail personal loans.

Movement in impairments: R'000	6 months 31 Aug 2019	6 months 28 Feb 2019
Balance at beginning of period	**11 380 627**	9 470 577
- Stage1 (IFRS 9)	**2 671 379**	2 874 944
- Stage2 (IFRS 9)	**1 352 508**	1 446 572
- Stage3 (IFRS 9)	**7 356 740**	5 149 061
Movement	**1 468 577**	1 910 050
- Stage1 (IFRS 9)	**245 058**	(203 565)
- Stage2 (IFRS 9)	**(14 820)**	(94 064)
- Stage3 (IFRS 9)	**1 238 339**	2 207 679
Balance at end of period	**12 849 204**	11 380 627
- Stage1 (IFRS 9)	**2 916 437**	2 671 379
- Stage2 (IFRS 9)	**1 337 688**	1 352 508
- Stage3 (IFRS 9) [(1)]	**8 595 079**	7 356 740

[(1)] *At February 2019, the gross carrying amount did not include impaired interest on stage 3 advances. The gross carrying amount was presented in this manner to align to the income statement presentation under IFRS 9 which requires interest to be recognised on the net carrying amount of the loan for example after the expected credit loss(ECL). In the current year, the gross carrying amount was updated to include old contractual cash flows before ECL. This is aligned to industry practise under IFRS 9. The gross carrying amount is grossed up by R1 016 million at 28 February 2019.*

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 and clients applying for debt review > 6 months.

Stage 3: Includes loans more than 1 month in arrears, up-to date loans rescheduled from arrears and not rehabilitated, up-to-date loans rescheduled from up-to-date and not rehabilitated, application for debt review < 6months, 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 significant increase in credit risk (Stage 2 exposures) and credit impaired exposures (Stage 3 exposures).

6.4 Write-offs and recoveries reflected in the income statement

R'000	6 months 31 Aug 2019	6 months 28 Feb 2019
Net impairment charge on loans and advances:		
Bad debts (write-offs) [(1)]	**2 098 060**	239 212
Net movement in impairment allowance [(1)]	**704 838**	1 344 792
Movement in impairment allowance [(1)(3)]	**1 468 577**	1 975 766
Stage 3 interest [(3)]	**(763 739)**	(630 974)
Bad debts recovered [(2)]	**(688 041)**	323 986
Net impairment charge	**2 114 857**	1 907 990

(1) *By 28 February 2019, a large portion of loans more than 3 months in arrears have not yet been handed over or written off due to the change in the write-off policy. This has resulted in a build-up of loans and advances on balance sheet which are more than 3 months in arrears, with an appropriate provision at 28 February 2019.*

(2) *The expected recoveries receivable (R906 million) on 1 March 2018 represented the net present value of expected future recoveries on loans that were written off in full previously under IAS39. Under IFRS9, no future expected receivable is recognised post write-off. The receivable was settled and bad debts recovered and bad debts written-off reduced by R906 million for the 6 months ended 28 Feb 2019 .*

(3) *Under IFRS 9, interest income and credit impairment charge are recognised on a net basis for all loans classified as stage 3 (R764 million netting reversal for the period ended August 2019; August 2018: R442 million; February 2019: R631 million)*

6.5 Counterparty credit risk (CCR)

Risk weights %	OTC derivative instruments 31 Aug 2019 R'000	Securities financing transactions 31 Aug 2019 R'000	OTC derivative instruments 28 Feb 2019 R'000	Securities financing transactions 28 Feb 2019 R'000
20	**-**	**619 474**	-	106 215
50	**16 104**	**-**	8 479	-
100	**-**	**2 000**	-	4 298
	16 104	**621 474**	8 479	110 513

Counterparty Credit Risk (CCR) is calculated on the Current Exposure Method based on the asset values as well as any potential future add-ons as prescribed by the Regulations. These values are reflected in the exposures as shown in 6.1.
The Standardised Credit Valuation Adjustment (CVA) capital charge relating to CCR was R0.6 million (Feb 2019: R0.3 million).

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

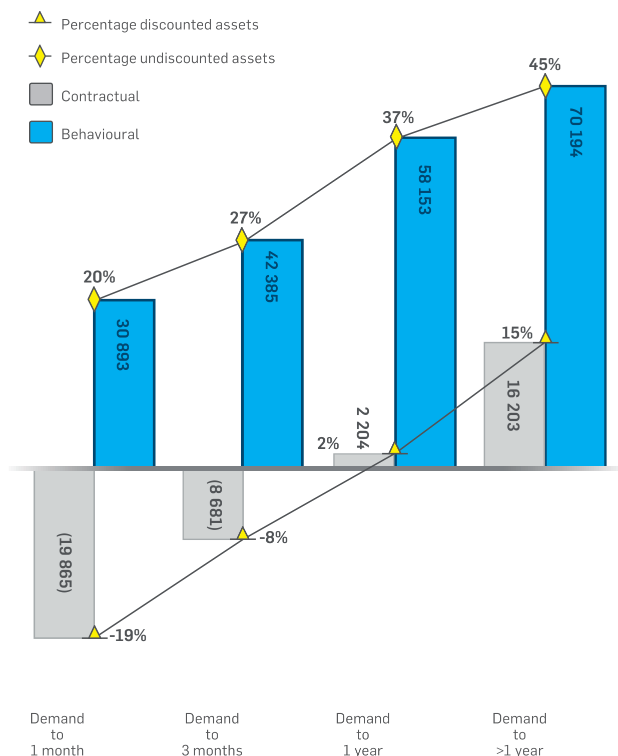
Both the contractual and behavioural mismatches benefit positively from the high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than at banks with lower capital ratios.

The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits. 92.88% (Feb 2019: 92.28%) 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.

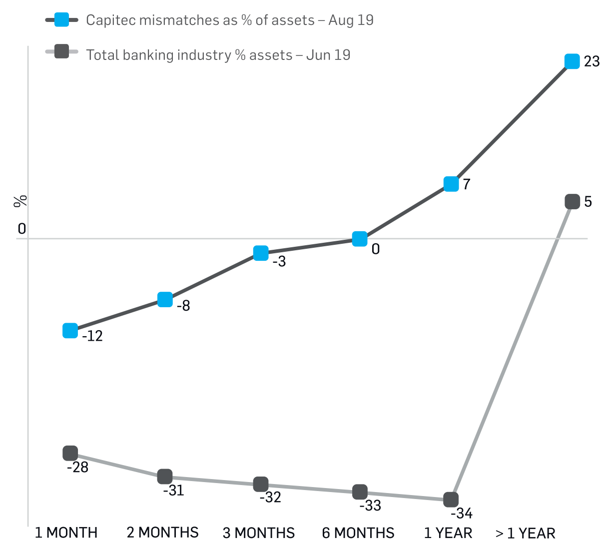
Industry comparison
The industry comparison shows that Capitec's contractual mismatch as a percentage of assets is prudent relative to the total industry mismatch. The source data is as reported on the SARB BA 300 returns, which exclude the impact of loan impairments.

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 – CUMALITIVE 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 11 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**
AUG 2019						
Undiscounted assets						
Cash and cash equivalents - sovereigns	1 276 037	-	-	-	-	1 276 037
Cash and cash equivalents - banks	29 011 559	6 937 439	-	-	(4 315)	35 944 683
Money markets unit trusts - corporate other	43 266	-	-	-	-	43 266
Financial investments - sovereigns & banks[1][4]	1 098 970	2 910 030	11 026 990	-	(8 663)	15 027 327
Term deposit investments	456 763	1 895 608	3 313 354	-	(2 889)	5 662 836
Financial assets – equity instruments at FVOCI	-	-	-	100 000	-	100 000
Loans and advances to clients - retail personal	6 412 837	5 971 830	23 450 003	61 105 220	(539 606)	96 400 284
Loans and advances to clients - retail other	-	-	-	-	-	-
Loans and advances to clients - corporate other	20 733	-	-	-	-	20 733
Other receivables	864 248	68 442	183 966	32 182	-	1 148 838
Net insurance receivable	-	-	185 130	-	-	185 130
Derivative assets	-	-	2 299	2 243	-	4 542
Current income tax asset	-	-	-	-	-	-
Undiscounted assets	39 184 413	17 783 349	38 161 742	61 239 645	(555 473)	155 813 676
Adjustments for undiscounted assets	(1 257 198)	(2 438 955)	(9 306 246)	(23 996 557)	-	(36 998 956)
Discounted assets						
Loan impairment provision	(3 877 833)	(639 679)	(2 474 894)	(5 856 798)	-	(12 849 204)
Total discounted assets	34 049 382	14 704 715	26 380 602	31 386 290	(555 473)	105 965 516
Undiscounted liabilities						
Retail deposits	52 317 936	3 554 125	14 270 580	15 486 529	-	85 629 170
Wholesale funding	54 999	97 658	1 754 822	2 607 340	-	4 514 819
Lease liability	40 794	82 419	376 500	3 374 094	-	3 873 807
Current income tax liabilities	-	-	26 822	-	-	26 822
Trade and other payables	1 541 719	56 280	396 492	149 325	102 093	2 245 909
Derivative liabilities	406	3 974	16 129	16 386	-	36 895
Provisions	-	-	-	77 506	-	77 506
Undiscounted Liabilities	53 955 854	3 794 456	16 841 345	21 711 180	102 093	96 404 928
Adjustments for undiscounted liabilities to depositors	(41 250)	(273 646)	(1 346 499)	(4 323 822)	-	(5 985 217)
Total discounted liabilities	53 914 604	3 520 810	15 494 846	17 387 358	102 093	90 419 711
Undiscounted Net liquidity excess /(shortfall)	(18 649 274)	13 349 214	18 845 503	33 671 667	(657 566)	46 559 544
Undiscounted Cumulative liquidity excess/ (shortfall)[2]	(18 649 274)	(5 300 060)	13 545 443	47 217 110	46 559 544	46 559 544

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 2019						
Undiscounted assets						
Cash and cash equivalents - sovereigns	1 163 650	-	-	-	-	1 163 650
Cash and cash equivalents - banks	22 538 055	5 494 806	-	-	(4 315)	28 028 546
Money markets unit trusts - corporate other	35 496	-	-	-	-	35 496
Financial investments - sovereigns & banks[(1)(4)]	1 471 610	1 728 260	7 936 690	-	(8 663)	11 127 897
Term deposit investments	24 403	1 102 809	8 586 860	-	(2 889)	9 711 183
Financial assets – equity instruments at FVOCI	-	-	-	100 000	-	100 000
Loans and advances to clients - retail personal	5 223 786	5 498 162	21 749 520	56 588 732	(608 742)	88 451 458
Loans and advances to clients - retail other	-	-	-	-	-	-
Loans and advances to clients - corporate other	23 372	-	-	-	-	23 372
Other receivables	1 198 819	115 080	84 734	20 359	-	1 418 992
Net insurance receivable	-	-	236 391	-	-	236 391
Derivative assets	-	59	(83)	575	-	551
Current income tax asset	-	-	286 046	-	-	286 046
Undiscounted assets	31 679 191	13 939 176	38 880 158	56 709 666	(624 609)	140 583 582
Adjustments for undiscounted assets	(1 218 922)	(2 273 769)	(8 975 529)	(21 986 088)	-	(34 454 308)
Discounted assets						
Loan impairment provision	(3 021 694)	(563 073)	(2 038 570)	(4 741 124)	-	(10 364 461)
Total discounted assets	27 438 575	11 102 334	27 866 059	29 982 454	(624 609)	95 764 813
Undiscounted liabilities						
Retail deposits	46 497 973	2 866 125	11 495 083	14 022 798	-	74 881 979
Wholesale funding	72 154	371 916	2 222 196	3 034 663	-	5 700 929
Trade and other payables	1 148 611	566 352	106 634	141 754	239 280	2 202 631
Derivative liabilities	272	2 599	7 389	5 316	-	15 576
Provisions	-	-	-	91 005	-	91 005
Undiscounted Liabilities	47 719 010	3 806 992	13 831 302	17 295 536	239 280	82 892 120
Adjustments for undiscounted liabilities to depositors	(30 544)	(215 494)	(1 128 074)	(2 766 055)	-	(4 140 167)
Total discounted liabilities	47 688 466	3 591 498	12 703 228	14 529 481	239 280	78 751 953
Undiscounted Net liquidity excess /(shortfall)	(19 061 513)	9 569 111	23 010 286	34 673 006	(863 889)	47 327 001
Undiscounted Cumulative liquidity excess/ (shortfall)[(2)]	(19 061 513)	(9 492 402)	13 517 884	48 190 890	47 327 001	47 327 001

(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, straight-lining of lease accruals and ECL.*

(4) *100% (Aug 2018: 100%) of Financial investments - sovereigns & banks relates to investments in sovereigns.*

7.4 Off balance sheet exposures

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
The group leases various branches under non-cancellable operating leases expiring within one to eleven years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Excess space is sub-let to third parties also under non-cancellable operating leases. IFRS 16 Leases was effective from 1 March 2019. The core principle of this standard is that the lessee and the lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. Capitec elected, as permitted by IFRS 16, not to restate comparative financial statements. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 March 2019. For further information regarding the change in accounting policy refer to page 13 of our unaudited financial results for the 6 months ended 31 August 2019.

R'000	31 Aug 2019	28 Feb 2019
Property operating lease commitments		
The future aggregate minimum lease payments under non-cancellable leases are as follows:		
Within one year	**22 507**	508 383
From one to five years	**90 288**	1 254 205
After five years	**27 906**	157 654
Total future cash flows	**140 701**	1 920 242
Straight lining accrued	**-**	(147 418)
Future expenditure	**140 701**	1 772 824

Impacts on the financial statements on transition

On transition to IFRS 16, the group recognised right-of-use assets, including additional lease liabilities.
The impact on transition is recognised below as at 1 March 2019:

	R'm
Right-of-use asset	**2 603**
Spreading reserve	**147**
Deferred tax asset	**41**
Lease liability	**2 750**

The total undiscounted operating lease commitments as at 28 February 2019 amount to R1.9 billion, the lease liability as at 1 March 2019 amounted to R2.7 billion. The differences primarily relate to extension periods previously not included in the lease commitments to the value of R2.0 billion, which increased the undiscounted operating lease commitments. The undiscounted operating lease commitments balance was discounted using the group's incremental borrowing rate curve which ranges from 7.4% - 11.24%.

	R'm
Operating lease commitments as at 28 February 2019	**1 920**
Add: Adjustments as a result of a different treatment of extension and termination options	**2 015**
Operating lease commitments as at 1 March 2019	**3 935**
Less: Short-term lease commitments	**(9)**
Total commitments to be discounted using the incremental borrowing rate at the date of initial application	**3 926**
Lease liabilities recognised as at 1 March 2019	**2 750**

As a result of initially applying IFRS 16 in relation to the leases that were previously classified as operating leases, the group recognised R2 470 million of right-of-use assets and R 2 711 million of lease liabilities as at 31 August 2019.

(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 2020 financial year, are as follows:

R'000	31 Aug 2019	28 Feb 2019
Capital commitments – approved by the board		
Contracted for:	**504 240**	688 365
Property and equipment	**390 392**	572 348
Intangible assets	**113 848**	116 017
Non-contracted for:	**627 645**	1 412 930
Property and equipment	**568 542**	973 314
Intangible assets	**59 103**	439 616
Future expenditure	**1 131 885**	2 101 295

(c) Conditionally revocable retail commitments
Conditionally revocable retail commitments totalled R1 188 million (Feb 2019: R912 million). These commitments are as a result of undrawn credit facility and undrawn credit card amounts. 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. 65.5% (Feb 2019: 64.0%) 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.

7.5 Liquidity coverage ratio (LCR)

The LCR is a 30-day stress test, using 92 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 31 Aug 2019	Total Adjusted Value 28 Feb 2019
21	Total HQLA	**26 628 505**	16 352 197
22	Total Net Cash Outflows[(1)]	**1 252 413**	1 127 690
23	**Liquidity Coverage Ratio (%)** [(2)]	**2 126%**	1 450%

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

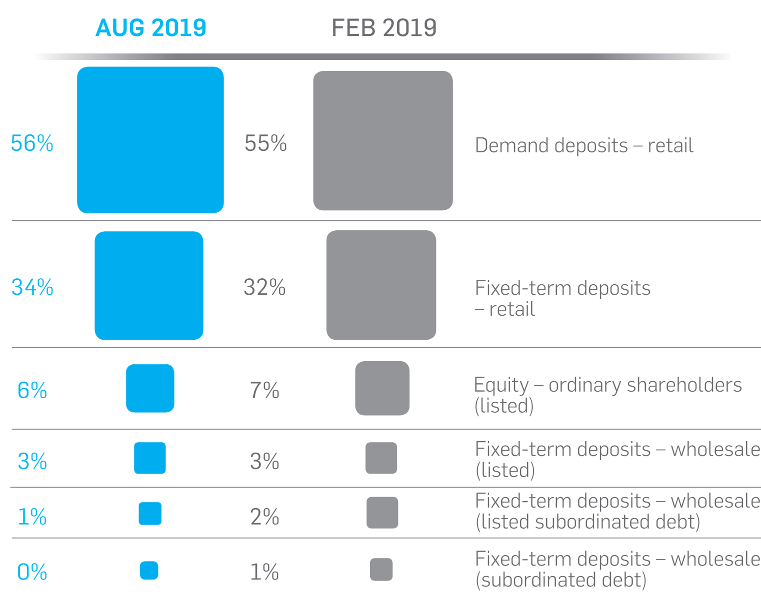
(1) As Capitec has a net cash inflow after applying the run-off factors, outflows for the purpose of the ratio are deemed to be 25% of gross outflows.
(2) There is no difference between group and bank.

7.5.1 Composition of high-quality liquid assets

R'000	31 Aug 2019	28 Feb 2019
Total level one qualifying high-quality liquid assets[(1)]	**26 628 505**	16 352 197
Cash	**3 386 989**	3 442 220
Qualifying central bank reserves	**1 251 191**	1 156 994
Specified debt securities issued in Rand by the central government of the RSA or the Reserve Bank	**13 218 269**	10 547 491
Specified marketable securities from sovereigns, central banks, public sector entities, multilateral development banks and development banks	**8 772 056**	1 205 492

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

7.5.2 Diversification of funding sources



- *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 (negotiable instruments) comprises deposits negotiated on a bilateral basis.*
- *Retail refers to individuals/natural persons.*

7.5.3 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

	Notional		Fair values	
R'000	**USD**	**ZAR**	**Assets**	**Liabilities**
AUG 2019				
Interest rate swaps	**-**	**2 672 000**	**-**	**34 241**
Net	**-**	**2 672 000**	**-**	**34 241**
FEB 2019				
Interest rate swaps	-	3 322 000	(479)	14 704
Net	-	3 322 000	(479)	14 704

Maturity analysis R'000	**Demand to one month**	**One to three months**	**Three months to one year**	**More than one year**	**Grand total**
AUG 2019					
Discounted swap cash flows	**404**	**3 924**	**15 432**	**14 481**	**34 241**
Net	**404**	**3 924**	**15 432**	**14 481**	**34 241**
FEB 2019					
Discounted swap cash flows	271	2 508	7 134	4 312	14 225
Net	271	2 508	7 134	4 312	14 225

Gains and losses recognised in comprehensive income on swap contracts 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.

	Notional		Fair values	
R'000	**Foreign**	**ZAR**	**Assets**	**Liabilities**
AUG 2019				
Forward foreign exchange contracts - USD	**7 617**	**116 794**	**4 543**	**-**
Net	**7 617**	**116 794**	**4 543**	**-**
FEB 2019				
Forward foreign exchange contracts - USD	-	-	-	-
Net	-	-	-	-

8. The net stable funding ratio (NSFR)

NSFR	31 Aug 2019	28 Feb 2019
NSFR%	**202**	196
Required stable funding (R'm)	**51 547**	46 548
Available stable funding (R'm)	**103 892**	91 044

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 from 2018.

Early compliance with the two recent Basel 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. 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. 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	31 Aug 2019	%	28 Feb 2019	%
200 basis points shift				
Increase	**(694 656)**	**(1.8)**	(760 837)	(2.7)
Decrease	**702 787**	**1.9**	785 186	2.8

10. 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 2019, 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**