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

1. Basis of compilation

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

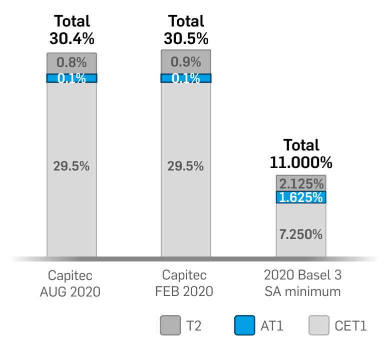
2. Period of reporting

This report covers the 6 months ended 31 August 2020. Comparative information is presented for the previous 6-month period ended 29 February 2020.

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. Capitec Bank Limited (Capitec Bank), the wholly-owned subsidiary of Capitec, acquired 100% of the issued share capital of Mercantile Bank Holdings Limited (Mercantile Holdings) on 7 November 2019, the date on which the final purchase price was paid. On 12 November 2019, the assets and liabilities of Mercantile Holdings were transferred to Capitec Bank. Mercantile Bank Limited (Mercantile) is now the direct, wholly-owned subsidiary of Capitec Bank. Both Capitec and Mercantile apply the standardised approach to calculate capital adequacy. The acquisition of Mercantile has a significant impact on Capitec's capital adequacy ratio, as Capitec's qualifying capital is measured against the combined risk weighted assets of Mercantile and Capitec.

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 0.00%. The level of this buffer is at the discretion of the Prudential Authority and it is subject to periodic review. The Prudential Authority issued Directive 2 on 6 April 2020 and temporarily relaxed the Pillar 2A South African country-specific buffer of 1.00%, 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.*
- *The Prudential Authority 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 0.50%. 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 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). In terms of the Banks Act regulations, banks may not disclose their ICR 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.*

4. Regulatory capital adequacy

R'000	31 Aug 2020	29 Feb 2020
Composition of qualifying regulatory capital		
Ordinary share capital[1]	5 649 020	5 649 020
Foreign currency translation reserve	81 952	29 818
Other reserves	(53 664)	(26 307)
Accumulated profit	20 351 863	19 855 211
	26 029 171	**25 507 742**
Regulatory adjustments		
– Intangible assets, deferred tax assets excluding temporary differences and goodwill in terms of IFRS[9]	(1 549 323)	(1 347 534)
– Specified advances	208 583	343 852
– Unappropriated profit	(49 527)	(46 818)
Common Equity Tier 1 capital (CET1)	24 638 904	**24 457 242**
Issued preference share capital[1]	65 279	73 098
Phase out – non-loss absorbent[2] [8]	(13 485)	(21 304)
Additional Tier 1 capital (AT1)	51 794	**51 794**
Tier 1 capital (T1)	24 690 698	**24 509 036**
Issued subordinated debt[1]	-	-
Phase out – non-loss absorbent[2]	-	-
Deduction for third-party capital issued by bank subsidiary[3]	-	-
Total subordinated debt	-	-
Unidentified impairments	721 072	756 767
Tier 2 capital (T2)	721 072	**756 767**
Qualifying regulatory capital	25 411 770	**25 265 803**
CET1%	29.5	29.5
AT1%	0.1	0.1
T1%	29.6	29.6
T2%	0.8	0.9
Total capital adequacy %[4]	30.4	**30.5**
Composition of required regulatory capital		
On balance sheet	6 529 736	6 914 352
Off balance sheet	44 956	50 702
Credit risk	6 574 692	6 965 054
Operational risk	1 178 003	1 217 338
Market risk	4 755	1 668
Equity risk	167 913	77 108
Other assets	1 261 927	1 264 524
Total regulatory capital requirement[5]	9 187 290	**9 525 692**
Composition of risk-weighted assets[6]		
On balance sheet	59 361 240	60 124 799
Off balance sheet	408 691	440 891
Credit risk	59 769 931	60 565 690
Operational risk	10 709 121	10 585 544
Market risk	43 225	14 500
Equity risk	1 526 481	670 500
Other assets [7]	11 472 057	10 995 861
Total risk-weighted assets	83 520 815	**82 832 095**
Total assets based on IFRS	144 520 625	134 568 086
Total risk-weighted assets – adjustments	(60 999 810)	(51 735 991)
Total risk-weighted assets – regulatory	83 520 815	**82 832 095**

(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) 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 currently 11.000% (Feb 2020: 11.500%) of risk-weighted assets, being the Basel global minimum requirement of 8.000%, the Capital Conservation Buffer of 2.500% and the Domestic Systemically Important Bank("D-SIB") capital add-on of 0.500%, disclosable in terms of Directive 4 of 2020 issued by the Prudential Authority 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 Prudential Authority issued Directive 2 on 6 April 2020 and temporarily relaxed the Pillar 2A South African country-specific buffer of 1.00% 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.

(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. The impact of the inclusion of Mercantile's risk weighted assets resulted in a decrease of 5.5% in the group capital adequacy ratio. Of the total risk weighted assets as at 31 August 2020, R13.2 billion is attributable to Mercantile.

(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. At 31 August 2020, 74.79% (Feb 2020: 71.77%) of these shares had been repurchased as they no longer contributed to qualifying regulatory capital.

(9) 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. The goodwill originating on the acquisition of Mercantile and Mercantile's intangible assets at acquisition therefore reduced the qualifying CET1 capital of Capitec on consolidation and resulted in a further 1.2% decrease in the group capital adequacy ratio. The total decrease in Capitec's capital adequacy ratio attributable to the acquisition amounted to 6.7%.

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 17.1% (Feb 2020: 18.2%).

5.1 Summary of leverage ratio

Line #	leverage ratio framework R'000	Capitec Bank Holdings Limited 31 Aug 2020	Capitec Bank Holdings Limited 29 Feb 2020	Capitec Bank Limited 31 Aug 2020	Capitec Bank Limited 29 Feb 2020
	Capital and total exposures				
20	Tier 1 capital[(1)]	**24 690 698**	24 509 036	**24 154 867**	23 839 116
21	Total exposures [(2)]	**144 709 567**	135 022 285	**132 828 359**	122 937 352
	Leverage ratio				
22	**Basel 3 leverage ratio%**	**17.1%**	18.2%	**18.2%**	19.4%

(1) The acquisition of Mercantile has a significant impact on Capitec's Tier 1 capital. In terms of the Regulations relating to banks, goodwill and intangible assets, net of related deferred tax liability, are treated as specified adjustments and are deducted from Common Equity Tier1 ("CET1") capital and reserve funds. The goodwill originating on the acquisition of Mercantile and Mercantile's intangible assets at acquisition therefore also reduce the qualifying CET1 capital of Capitec on consolidation. Mercantile's net asset value acquired amounted to R2.761 billion and the final purchase price amounted to R3.558 billion, which resulted in goodwill of R794.5 million. Intangible assets attributable to Mercantile of R155.5 million (which includes core deposit and client relationship intangibles) have been consolidated into Capitec, further reducing the group's CET1 (and Tier1) capital.

On a Capitec Bank Limited solo entity basis, the threshold deduction method in terms of regulation (38)(5)(b) relating to Banks is applied to Capitec Bank Limited's investment in Mercantile. This method will apply until the date of transfer of all the assets and liabilities of Mercantile Bank Limited, to Capitec.

(2) Mercantile is consolidated in the above disclosures. Of the total Basel III Leverage ratio exposure measure of R144.7 billion as at 31 August 2020, R14.5 billion is attributable to Mercantile.

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 31 August 2020 and 29 February 2020 respectively for Capitec Bank Holdings Limited. Mercantile Bank is consolidiated from November 2019.

Asset Class R'000	Average Gross credit exposure 31-Aug-20	Average Gross credit exposure 29-Feb-20[1]
Liquid assets	**43 752 032**	**33 267 621**
Cash and cash equivalents - Banks	28 521 009	19 144 155
Cash and cash equivalents - Sovereign	2 203 999	2 052 688
Resale agreements with banks	9 838 139	10 614 560
Resale agreements with corporates	1 931 540	259 707
Other balances with central banks	549 971	632 581
Negotiable securities	707 374	563 930
Gross loans and advances	**75 546 656**	**71 324 374**
Retail personal term loans	60 849 122	60 406 369
Retail credit card loans	6 479 329	5 349 026
Mortgage loans	5 430 725	3 508 349
Instalment sales and leases	1 596 257	1 231 012
Other advances	1 191 223	829 618
Gross other assets	**22 321 943**	**18 135 835**
Term deposit investments - Banks	193 519	1 705 151
Financial investments - Sovereign	22 076 066	16 413 155
Derivative financial assets	52 358	17 529
On-balance sheet exposure	**141 620 631**	**122 727 830**
Guarantees	516 668	495 897
Letters of credit	7 917	3 401
Committed undrawn facilities	286 817	186 936
Conditionally revocable commitments	2 694 224	1 976 404
Off Balance sheet exposure	**3 505 626**	**2 662 638**
Total credit exposure	**145 126 257**	**125 390 468**

(1) *Assets attributable to Mercantile were consolidated from November 2019.*

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.

CR1 31 Aug 2020 R'000	Month Average / Month-end exposure	Credit Exposure Value			
		Defaulted exposures[1]	Non-defaulted exposures	Impairments	Net
Stage 1		-	110 906 187	(3 491 224)	107 414 963
Retail term loans	Month-end	-	31 679 959	(2 846 644)	28 833 315
Retail revolving credit	Monthly Ave	-	5 680 609	(462 281)	5 218 328
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	-	4 377 478	(1 105 776)	3 271 702
Retail revolving credit	Monthly Ave	-	930 659	(383 609)	547 050
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	7 489 238	7 673 560	(10 763 300)	4 399 498
Retail revolving credit	Monthly Ave	632 640	103 797	(597 427)	139 010
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

6.2 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.

CR1 29 Feb 2020 R'000	Month Average / Month-end exposure	Credit Exposure Value			
		Defaulted exposures[1]	Non-defaulted exposures	Impairments	Net
Stage 1		**-**	**105 339 049**	**(3 389 596)**	**101 949 453**
Retail term loans	Month-end	-	43 823 110	(3 011 373)	40 811 737
Retail revolving credit	Monthly Ave	-	4 771 370	(295 417)	4 475 953
Sovereigns and their central banks	Monthly Ave	-	17 234 126	-	17 234 126
Banks	Monthly Ave	-	24 096 686	(161)	24 096 525
Corporate exposures	Both	-	9 156 372	(39 481)	9 116 891
Residential mortgage advances	Month-end	-	2 458 661	(5 036)	2 453 625
SME Secured lending	Month-end	-	3 306 343	(29 095)	3 277 248
Other Exposures (SME Unsecured lending and Public sector Entities)	Both	-	492 381	(9 033)	483 348
Stage 2		**-**	**6 072 958**	**(1 753 281)**	**4 319 677**
Retail term loans	Month-end	-	5 019 343	(1 377 335)	3 642 008
Retail revolving credit	Monthly Ave	-	621 851	(335 386)	286 465
Sovereigns and their central banks	Monthly Ave	-	-	-	-
Banks	Monthly Ave	-	-	-	-
Corporate exposures	Both	-	242 800	(21 211)	221 589
Residential mortgage advances	Month-end	-	98 666	(3 373)	95 293
SME Secured lending	Month-end	-	61 345	(7 210)	54 135
Other Exposures (SME Unsecured lending and Public sector Entities)	Both	-	28 953	(8 766)	20 187
Stage 3		**7 953 027**	**4 157 704**	**(8 597 461)**	**3 513 270**
Retail term loans	Month-end	6 893 796	4 070 152	(7 948 964)	3 014 984
Retail revolving credit	Monthly Ave	473 218	87 552	(468 034)	92 736
Sovereigns and their central banks	Monthly Ave	-	-	-	-
Banks	Monthly Ave	-	-	-	-
Corporate exposures	Both	176 283	-	(63 848)	112 435
Residential mortgage advances	Month-end	220 557	-	(36 243)	184 314
SME Secured lending	Month-end	151 597	-	(61 332)	90 265
Other Exposures (SME Unsecured lending and Public sector Entities)	Both	37 576	-	(19 040)	18 536
Debt securities		-	-	-	-
Off balance sheet items		-	**3 331 877**	-	**3 331 877**
Total		**7 953 027**	**118 901 588**	**(13 740 338)**	**113 114 277**

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 in financial distress rescheduled from up-to-date 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 significant increase in credit risk (Stage 2 exposures) and credit impaired exposures (Stage 3 exposures).

6.3 Analysis of loans in default

The table below reconciles the movement in loans classified as being in default from 29 February 2020 to 31 August 2020:

CR2 R'000	31 Aug 2020	29 Feb 2020
Defaulted loans and debt securities at end of previous reporting period[1]	**7 953 027**	6 990 807
Loans and debt securities that have defaulted since the last reporting period	**2 879 208**	2 340 451
Returned to non-defaulted status	**(98 807)**	(220 017)
Amounts written off	**(1 981 229)**	(1 211 931)
Other changes	**(35 998)**	53 717
Defaulted loans and debt securities at end of reporting period[1]	**8 716 201**	**7 953 027**

(1) *Default on retail loans include the following:*

- *loans on which clients are past due on 2 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.

31-Aug-20	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%
Multilateral development banks	-	-	-	-	-	0%
Banks[1]	26 274 917	19 952	14 193 281	40	2 950 413	11%
Securities firms	-	-	-	-	-	0%
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%
Equity	-	-	-	-	-	0%
Past-due loans	11 407 783	158	2 400 141	4	1 580 218	14%
Higher-risk categories	-	-	-	-	-	0%
Total	**138 498 123**	**3 828 388**	**112 161 347**	**480 911**	**59 746 982**	**43%**

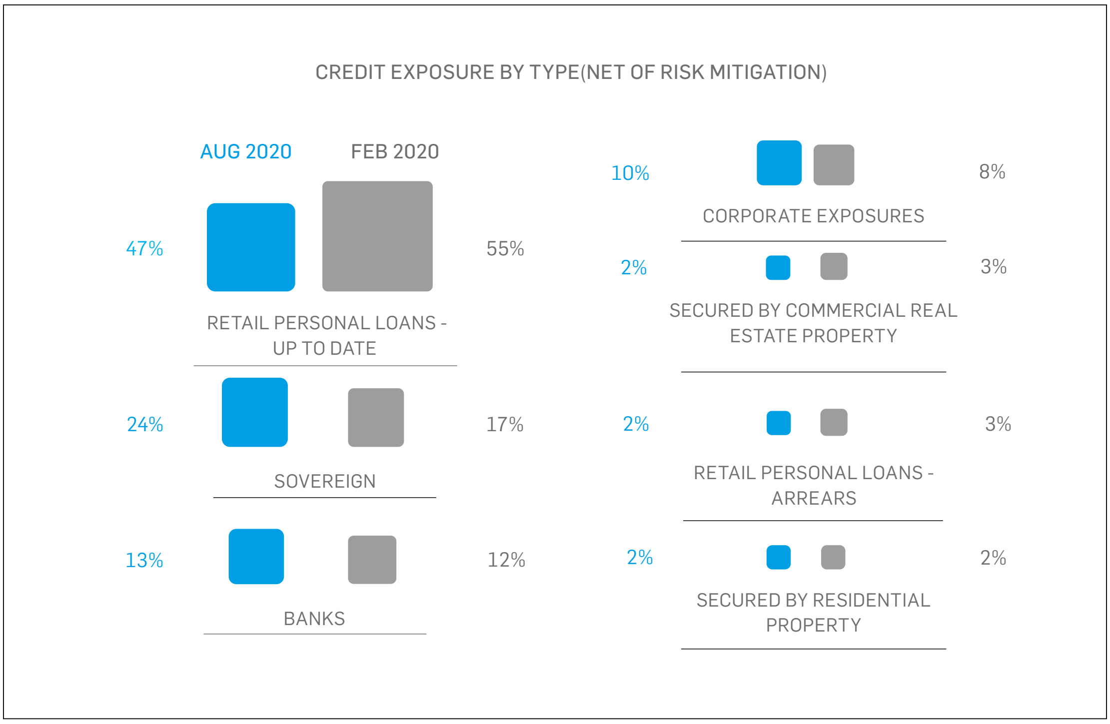
29-Feb-20	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Asset Classes R'000	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA[2]**	**RWA density**
Sovereigns and their central banks[3]	17 234 126	-	17 234 126	-	-	0%
Non-central government public sector entities	1 755	-	1 755	-	1 316	75%
Multilateral development banks	-	-	-	-	-	0%
Banks[1]	24 096 686	33 231	12 230 644	40	3 342 150	14%
Securities firms	-	-	-	-	-	0%
Corporates[1]	8 282 802	743 621	8 125 456	208 020	8 288 127	100%
Regulatory retail portfolios	58 164 188	2 274 233	57 046 934	99 724	43 153 008	74%
Secured by residential property	2 557 326	28 265	2 544 236	25 632	945 856	37%
Secured by commercial real estate	2 575 285	252 287	2 574 022	146 264	2 718 786	106%
Equity	-	-	-	-	-	0%
Past-due loans	10 610 570	240	3 093 398	-	2 092 103	20%
Higher-risk categories	-	-	-	-	-	0%
Total	**123 522 738**	**3 331 877**	**102 850 571**	**479 680**	**60 541 346**	**49%**

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 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 (Stage 1 and Stage 2) exposures while non-performing (Stage 3) exposures attract a standard 50% risk weight in the case where more than 50% of the outstanding balance has already been provided, or a 100% risk weight in the case where less than 50% of the outstanding balance has been provided for, net of allowed impairments.*

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



6.5 Credit Risk mitigation techniques

31 Aug 20 **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

6.5 Credit Risk mitigation techniques (Continued)

29 Feb 20 R'000	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which secured amount
Total Net Loans and Advances	**105 803 614**	**21 051 001**	**13 194 886**
Retail term loans	59 702 340	118 961	78 244
Retail revolving credit	7 609 290	-	-
Sovereigns and their central banks	17 234 126	-	-
Banks	11 547 358	12 582 559	12 612 794
Corporate exposures	7 488 313	2 981 634	276 069
Residential mortgage advances	109 631	2 696 518	18 890
SME Secured lending	1 261 517	2 671 329	208 889
Other Exposures (SME Unsecured lending)	851 039	-	-
Debt Securities	-	-	-
Total	**105 803 614**	**21 051 001**	**13 194 886**
Of which defaulted (Net of credit impairment)	1 187 796	494 102	3 624

6.6 Standardised approach - exposure by asset classes and risk weights

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

31-Aug-20 Risk weight/ Asset Classes R'000	0%	10%	20%	35%	50%	75%	100%	150%	Others	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
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
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
Equity	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	1 365 557	687 744	277 043	69 801	-	2 400 145
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Total	26 356 551	-	13 876 604	2 447 286	2 327 213	51 326 629	15 958 535	349 440	-	112 642 258

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

29-Feb-20 Risk weight/ Asset Classes R'000	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure amount post CRM and CCF
Sovereigns and their central banks	17 234 126	-	-	-	-	-	-	-	-	17 234 126
Non-central government public sector entities	-	-	-	-	-	1 755	-	-	-	1 755
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
Banks	-	-	12 197 811	-	15 456	40	17 327	50	-	12 230 684
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	90 696	-	8 242 780	-	-	8 333 476
Regulatory retail portfolios	-	-	-	-	261 673	55 701 865	913 436	269 684	-	57 146 658
Secured by residential property	-	-	-	2 464 478	-	82 408	22 982	-	-	2 569 868
Secured by commercial real estate	-	-	-	-	-	6 000	2 714 286	-	-	2 720 286
Equity	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	1 519 641	1 173 970	295 750	104 037	-	3 093 398
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Total	**17 234 126**	**-**	**12 197 811**	**2 464 478**	**1 887 466**	**56 966 038**	**12 206 561**	**373 771**	**-**	**103 330 251**

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 31 August 2020, with the six month period which ended on 29 February 2020.

R'000	6 months 31 Aug 2020	6 months 29 Feb 2020
Net impairment charge on loans and advances:		
Bad debts (write-offs)	**2 894 479**	3 073 333
Net Movement in impairment allowance	**3 666 937**	(139 000)
Bad debts recovered	**(475 294)**	(575 520)
Net impairment charge	**6 086 122**	**2 358 813**

6.8 Analysis of counterparty credit risk by approach (CCR)

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.

31-Aug-20 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**

29-Feb-20 R'000	Replacement cost	Potential future exposure	EAD Post - CRM	RWA
SA-CCR for derivatives	37 440	19 555	47 985	60 672
Simple Approach for credit risk mitigation (for SFTs)	12 733 675	12 011 376	722 299	149 085
Total	**12 771 115**	**12 030 931**	**770 284**	**209 757**

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

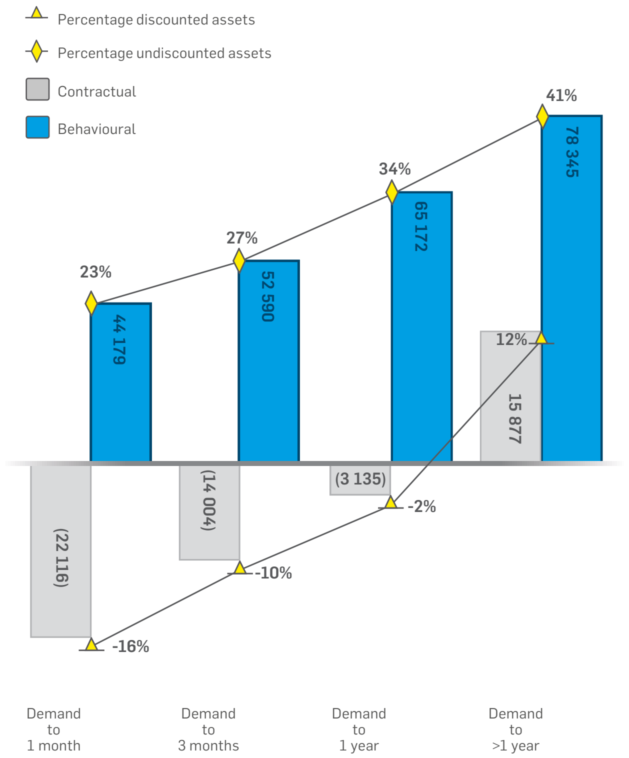
Both the contractual and behavioural mismatches benefit positively from the high component of equity funding. This creates a greater surplus of asset cash flows over liability cash flows than at banks with lower capital ratios.

The main difference between the behavioural and contractual mismatches relates to the treatment of retail call deposits. 91.98% (Feb 2020: 92.53%) 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.

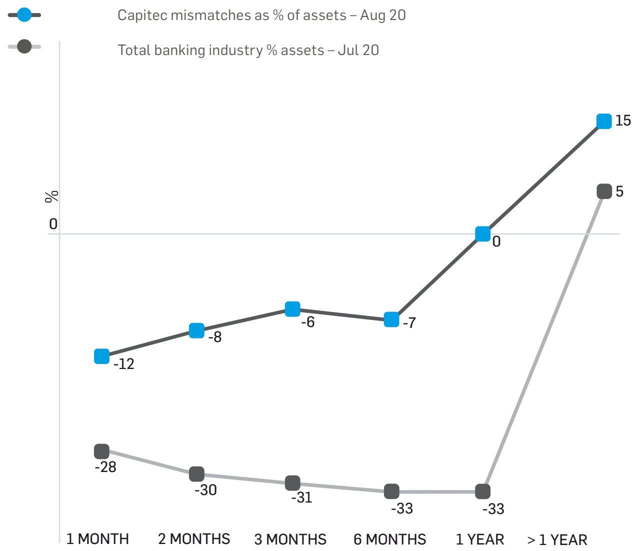
Industry comparison
The industry comparison shows that Capitec's contractual mismatch as a percentage of assets is prudent relative to the total industry mismatch. The source data is as reported on the SARB BA 300 returns, which exclude the impact of loan impairments.

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)

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
- 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) R'000	Demand to one month	One to three months	Three months to one year	More than one year	Non - contractual	Adjustment	Total
AUG 2020							
Undiscounted assets							
Cash and cash equivalents - sovereigns	2 016 109	-	-	-	-	-	2 016 109
Cash and cash equivalents - banks	45 656 726	4 203 587	-	-	-	(2 325)	49 857 988
Financial assets at FVTPL	2 048 777	-	-	-	-	-	2 048 777
Money markets unit trusts - corporate other	23 917	-	-	-	-	-	23 917
Financial investments	542 750	7 280 300	14 415 460	-	-	(8 382)	22 230 128
Term deposit investments	-	-	965 930	-	-	-	965 930
Financial assets - equity instruments at FVOCI	-	-	-	70 479	-	-	70 479
Loans and advances - Retail	2 649 720	5 224 303	21 226 816	61 550 785	8 043 209	(371 301)	98 323 532
Loans and advances - Business other	1 446 586	225 804	948 146	2 803 698	295 276	-	5 719 510
Loans and advances - Mortgages	88 612	176 418	657 216	6 613 393	316 653	-	7 852 292
Other receivables	1 388 789	24	550 142	38 228	25 258	-	2 002 441
Net insurance receivable	-	-	796 438	-	-	-	796 438
Derivative assets	4 423	5 344	10 826	57	-	-	20 650
Current income tax asset	-	-	8 131	-	-	-	8 131
Undiscounted assets	55 866 409	17 115 780	39 579 105	71 076 640	8 680 396	(382 008)	191 936 322
Adjustments for undiscounted assets	(807 215)	(2 156 273)	(8 585 587)	(27 041 535)	-	-	(38 590 610)
Discounted assets							
Loan impairment provision	(896 300)	(514 593)	(2 220 720)	(7 299 658)	(7 405 350)	-	(18 336 621)
Total discounted assets	54 162 894	14 444 914	28 772 798	36 735 447	1 275 046	(382 008)	135 009 091
Undiscounted liabilities							
Retail deposits	74 013 599	5 775 214	17 136 526	17 016 894	-	-	113 942 233
Wholesale funding	356 868	653 392	1 093 538	792 191	-	-	2 895 989
Lease liability	27 985	63 046	382 705	3 276 900	-	-	3 750 636
Current income tax liabilities	-	18 376	-	-	-	-	18 376
Trade and other payables	1 895 042	11 512	241 535	211 318	115 754	-	2 475 161
Derivative liabilities	4 919	20 735	25 794	35 541	-	-	86 989
Provisions	17 234	-	23 558	78 229	-	-	119 021
Undiscounted Liabilities	76 315 647	6 542 275	18 903 656	21 411 073	115 754	-	123 288 405
Adjustments for undiscounted liabilities	(38 543)	(209 162)	(1 000 176)	(3 685 888)	-	-	(4 933 769)
Total discounted liabilities	76 277 104	6 333 113	17 903 480	17 725 185	115 754	-	118 354 636
Undiscounted Net liquidity excess /(shortfall)	(21 345 538)	10 058 912	18 454 729	42 365 909	1 159 292	(382 008)	50 311 296
Undiscounted Cumulative liquidity excess/(shortfall)	(21 345 538)	(11 286 626)	7 168 103	49 534 012	50 693 304	50 311 296	50 311 296

Maturities of financial assets and liabilities (tables reflect discounted cash flows) R'000	Demand to one month	One to three months	Three months to one year	More than one year	Non - contractual	Adjustment	Total
FEB 2020							
Undiscounted assets							
Cash and cash equivalents - sovereigns	1 888 217	-	-	-	-	-	1 888 217
Cash and cash equivalents - banks	32 480 607	7 952 820	-	-	-	(2 031)	40 431 396
Financial assets at FVTPL	1 504 262	-	-	-	-		1 504 262
Money markets unit trusts - corporate other	25 374	-	-	-	-	-	25 374
Financial investments - sovereigns & banks	1 524 950	3 305 000	12 917 250	-	-	(8 406)	17 738 794
Term deposit investments	-	-	-	-	-	-	-
Financial assets - equity instruments at FVOCI	-	-	-	101 139	-	-	101 139
Loans and advances - Retail	3 614 359	5 793 821	23 033 645	62 048 967	7 280 001	(500 502)	101 270 291
Loans and advances - Business other	1 704 903	225 190	911 908	2 605 084	268 710	-	5 715 795
Loans and advances - Mortgages	95 312	189 920	741 683	7 710 254	311 822	-	9 048 991
Other receivables	1 310 923	144 021	315 253	37 129	-	-	1 807 326
Net insurance receivable	-	-	217 423	-	-	-	217 423
Derivative assets	16 894	9 736	7 940	2 870	-	-	37 440
Current income tax asset	-	-	4 554	-	-	-	4 554
Undiscounted assets	44 165 801	17 620 508	38 149 656	72 505 443	7 860 533	(510 939)	179 791 002
Adjustments for undiscounted assets	(1 200 605)	(2 434 247)	(9 437 411)	(27 824 391)	-	-	(40 896 654)
Discounted assets							
Loan impairment provision	(575 772)	(413 147)	(1 728 497)	(4 635 711)	(6 387 052)		(13 740 179)
Total discounted assets	42 389 424	14 773 114	26 983 748	40 045 341	1 473 481	(510 939)	125 154 169
Undiscounted liabilities							
Retail deposits	65 978 611	4 627 016	15 794 182	17 187 494	-	-	103 587 303
Wholesale funding	50 113	1 044 589	985 133	2 029 294	-	-	4 109 129
Lease liability	45 898	88 979	400 514	3 592 629	-	-	4 128 020
Current income tax liabilities	-	14 345	-	-	-	-	14 345
Trade and other payables	1 773 693	500 971	13 541	156 582	-	85 261	2 530 048
Derivative liabilities	11 655	16 973	21 024	13 673	-	-	63 325
Provisions	17 234	44 175	-	109 801	-	-	171 210
Undiscounted Liabilities	67 877 204	6 337 048	17 214 394	23 089 473	-	85 261	114 603 380
Adjustments for undiscounted liabilities to depositors	(35 827)	(233 542)	(1 208 567)	(4 211 428)	-		(5 689 364)
Total discounted liabilities	67 841 377	6 103 506	16 005 827	18 878 045	-	85 261	108 914 016
Undiscounted Net liquidity excess /(shortfall)	(24 287 175)	10 870 313	19 206 765	44 780 259	1 473 481	(596 200)	51 447 443
Undiscounted Cumulative liquidity excess/(shortfall)	(24 287 175)	(13 416 862)	5 789 903	50 570 162	52 043 643	51 447 443	51 447 443

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 2020	Total Adjusted Value 29 Feb 2019
21	Total HQLA	**37 955 609**	32 989 868
22	Total Net Cash Outflows[1]	**2 051 309**	1 944 872
23	**Liquidity Coverage Ratio (%)**	**1 850%**	**1 696%**

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.

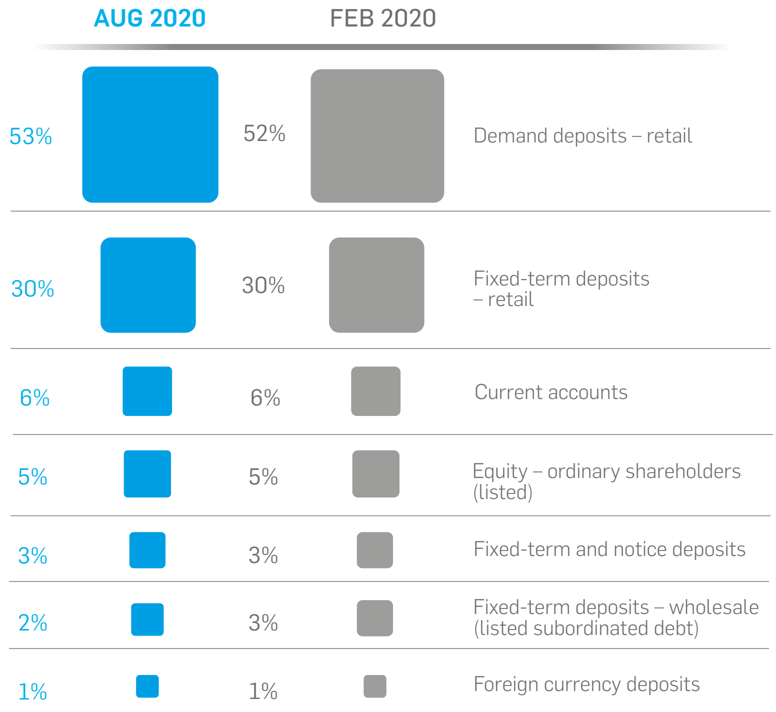
(1) As Capitec has a net cash inflow after applying the run-off factors, outflows for the purpose of the ratio are deemed to be 25% of gross outflows.

7.5.1 Composition of high-quality liquid assets

R'000	31 Aug 2020	29 Feb 2019
Cash	**3 140 306**	3 284 463
Qualifying central bank reserves	**1 879 983**	1 734 281
Specified debt securities issued in Rand by the central government of the RSA or the Reserve Bank	**25 097 679**	18 606 596
Specified marketable securities from sovereigns, central banks, public sector entities, multilateral development banks and development banks	**7 837 641**	9 364 528
Total level one qualifying high-quality liquid assets[1]	**37 955 609**	**32 989 868**

(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)

NSFR	31 Aug 2020	29 Feb 2020
NSFR%	**219**	196
Available stable funding (R'm)	**130 457**	121 041
Required stable funding (R'm)	**59 504**	61 884

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. Securitisation exposure in the banking book

The group previously held exposure to securitised rental assets to the value of R494 million in Compass Securitisation (RF) Ltd, However, on 8 June 2020 the group settled all note holders and, post settlement, all securitised assets were resold to Mercantile Rental Finance (Pty) Ltd.

10. 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 R4.5 million in market risk capital in terms of the standardised approach for the calculation of capital.

R'000	31 Aug 2020 RWA	29 Feb 2020 RWA
RWA		
- Foreign exchange risk	**43 225**	14 500
Total	**43 225**	14 500

11. 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 2020	29 Feb 2020
200 basis points shift		
Increase	**(760 432)**	(808 959)
Decrease	**748 109**	809 604

12. 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 29 February 2020, 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**