Capitec Bank Holdings Limited
Registration number: 1999/025903/06
Registered bank controlling company
Incorporated in the Republic of South Africa
JSE ordinary share code: CPI ISIN code: ZAE000035861
JSE preference share code: CPIP ISIN code: ZAE000083838
("Capitec")

TRADING STATEMENT AND QUARTERLY DISCLOSURE IN TERMS OF REGULATION 43 OF THE REGULATIONS RELATING TO BANKS

The COVID-19 national lockdown resulted in increased credit impairment charges and lower loan sales and transaction volumes, and as a result, Capitec incurred a loss of R404 million for the quarter ended 31 May 2020. The impact of the lockdown on the business is detailed below.

Total lending income (including credit life insurance):
The total lending income is 7% below expectation. This is due to retail and business loan sales being 43% and 25%, respectively, below expectation.

Net funding expense:
The average deposit balance is 7% above expectation. As a result, interest income on investments was 6% above expectation. There was a decrease of 2.5% in the repo rate that led to the interest expense being 13.5% lower than expectation.

Credit impairment charge and provision:
The credit impairment charge is 145% higher than expectation. This is predominately due to R5.75 billion and R236 million in retail and business credit balances, respectively, being rescheduled or granted payment breaks due to the lockdown. These clients were in good standing at the end of February 2020 and we believe the increased risk is not as high as normally associated with rescheduled balances.

Due to our conservative approach the group provision for credit impairments increased by R3.3 billion since February 2020. The tables below show gross loans and related provisions by category for retail and business banking:

Retail banking

R'm	Stage 1	Stage 2		Stage 2 and 3*	Stage 3			Total
2021	Up-to-date	Up-to-date loans with SICR and applied for debt review more than 6 months	Up to 1 month in arrears	COVID-19 related reschedules	2 and 3 months in arrears	Rescheduled (not yet rehabilitated)	More than 3 months in arrears, legal statuses and applied for debt review less than 6 months	
Balance at 31 May 2020								
Gross loans and advances	36 624	5 680	1 557	5 749	2 236	3 675	7 971	63 492
Provision for credit impairments (ECL)	(2 531)	(1 219)	(853)	(1 593)	(1 711)	(1 827)	(6 886)	(16 620)
	34 093	4 461	704	4 156	525	1 848	1 085	46 872
ECL coverage (%)	6.9	21.5	54.8	27.7	76.5	49.7	86.4	26.2
2020								
Balance at 29 February 2020								
Gross loans and advances	48 311	4 446	1 172	-	1 550	2 601	7 358	65 438
Provision for credit impairments (ECL)	(3 304)	(1 061)	(651)	-	(1 130)	(1 022)	(6 257)	(13 425)
	45 007	3 385	521	-	420	1 579	1 101	52 013
ECL coverage (%)	6.8	23.9	55.5		72.9	39.3	85.0	20.5

**Stage 2 and 3 – reschedules from 19 March to 5 April are stage 3 (R610 million) and reschedules from 6 April are stage 2 (R5.139 billion).*

Business banking

R'm	Stage 1		Stage 2			Stage 2 and 3	Stage 3	Total
2021	Up-to-date	Up to 1 month in arrears	Up-to-date loans with SICR	2 and 3 months in arrears	Rescheduled(not yet rehabilitated)	COVID-19 related reschedules	More than 3 months in arrears, legal statuses and applied for business rescue/liquidations	
Balance at 31 May 2020								
Gross loans and advances	8 775	26	97	10	357	236	564	10 065
Provision for credit impairments (ECL)	(124)	-	(17)	(7)	(40)	(16)	(202)	(406)
	8 651	26	80	3	317	220	362	9 659
ECL coverage (%)*	1.4	0.9	17.7	66.8	11.1	6.9	35.7	4.0
2020								
Balance at 29 February 2020								
Gross loans and advances	9 230	85	124	28	297	-	581	10 345
Provision for credit impairments (ECL)	(84)	(1)	(11)	(4)	(27)	-	(188)	(315)
	9 146	84	113	24	270	-	393	10 030
ECL coverage (%)*	0.9	0.7	8.6	15.9	9.1		32.5	3.0

**The provision % is calculated before rounding.*

Credit life reinsurance:
The retail bank’s reinsurance agreements expired on 30 April 2020. We self-insure claims with event dates (i.e. retrenchment notification date, date of death or date of disability) from 1 May 2020. The reinsurance cover in place up to 30 April 2020 covers all claims with an event date up to 30 April 2020. We are negotiating with reinsurance companies for death cover that provides a meaningful transfer of risk that, given the cost, would be acceptable to both parties. Our clients continue to be covered for retrenchment, death and disability. To date we have not seen any significant increase in retrenchment or death claims.

Net transaction fee and treasury foreign currency income:
The net transaction fee and treasury foreign currency income is 20% below expectation. Retail transaction volumes are 11.5% below expectation. On a monthly basis volumes were 2.7% down in March, 25.3% in April and 7.1% in May. The merchant acquiring business was 33% below expectation.

Banking client behaviour shifted to fewer, higher value transactions during the quarter and was most severely impacted during level 5 of the lockdown. Subsequent to level 5 lockdown, volumes improved but have not yet recovered to pre-lockdown levels.

Funeral insurance:
Funeral insurance income is 17% above expectation, although the number of policies issued was below expectation. The increase in income is due to an increase in the average premium, as well as collection rates being above expectation for April and May. The collection rates increased to above 80% in May 2020.

Operating expenditure:
Operating expenditure is 12% lower than planned. We will continue to apply a conservative approach in the management of operating expenditure.

Prospects:
Stricter credit granting criteria were implemented at the start of the lockdown. As the economic fallout of the lockdown is assessed, credit granting criteria will be adjusted to reflect market conditions. We anticipate reaching pre-lockdown credit sales at the start of the next financial year. We are currently focused on credit pricing and client experience to stabilise our credit market share.

Repayment of rescheduled loans and commencement of payments after payment holidays will determine whether we were too conservative or lenient in our provisioning. The first payment due at the end of June gave a positive indication, however, July and August payments will clarify the effect.

There will be continued focus on digital innovation. As the country exits the lockdown we expect transaction volume and revenue to increase, supported by growth in quality banking clients in both the business and retail banks.

We will continue to launch new products to meet the needs of our clients. We see an opportunity to grow our business banking footprint and there is still a focus on building our future business bank.

There is a reasonable degree of certainty that Capitec’s headline earnings per share and earnings per share will decline by more than 70%, or more than 1782 cents and 1784 cents, respectively, compared to the headline earnings per share of 2545 cents and earnings per share of 2549 cents for the six months ended 31 August 2019. We do, however, believe that the results for the second half of the 2021 financial year could return to normal levels.

We will provide a more specific guidance range when there is reasonable certainty of the range of headline earnings and earnings.

The financial information on which this trading statement is based has not been reviewed and reported on by Capitec's auditors.

Regulation 43:
Capitec and its subsidiaries ("the group") have complied with Regulation 43 of the Regulations relating to banks, which incorporates the requirements of Basel.

In terms of Pillar 3 of the Basel rules, the consolidated group is required to disclose quantitative information on its capital adequacy, leverage and liquidity ratios on a quarterly basis.

Both Capitec and Capitec Bank Limited ("Capitec Bank") have maintained healthy buffers above the minimum capital adequacy requirements, despite the breakout of the COVID-19 pandemic during the quarter.

The group's consolidated capital and liquidity positions at the end of the first quarter of the 28 February 2021 financial year are set out below:

	1st Quarter 2021 31 May 2020		4th Quarter 2020 29 February 2020	
	R'000	Capital Adequacy Ratio %	R'000	Capital Adequacy Ratio %
COMMON EQUITY TIER 1 CAPITAL (CET1) (1)	23 660 789	28.4	24 457 242	29.5
Additional Tier 1 capital (AT1) (2)	51 794	0.1	51 794	0.1
TIER 1 CAPITAL (T1)	23 712 583	28.5	24 509 036	29.6
General allowance for credit impairment	752 664		756 767	
TIER 2 CAPITAL (T2)	752 664	0.9	756 767	0.9
TOTAL QUALIFYING REGULATORY CAPITAL	24 465 247	29.4	25 265 803	30.5
REQUIRED REGULATORY CAPITAL (3)	8 742 528		9 525 692	

(1) Capitec incurred a loss during the 1st Quarter of 2021 which amounted to R404.1 million. Also included in the movement in Common Equity Tier 1 Capital for the quarter is the additional phase-in of IFRS 9 in accordance with Directive 5 of 2017, which amounted to R162.0 million, and amounts arising from unused tax losses which amounted to R267.8 million. The remainder of the movement for the quarter relates to movements in intangible assets and other reserves, which include the cash flow hedge reserve, foreign currency translation reserve and the net impact of the share option scheme for the group.

(2) Starting in 2013, the non-loss absorbent AT1 and T2 capital is subject to a 10% per annum phase-out in terms of Basel 3.

[3] This value is currently 10.500% (February 2020: 11.500%)of risk-weighted assets, being the Basel global minimum requirement of 8.000% and the Capital Conservation Buffer of 2.500%, disclosable in terms of a SARB November 2016 directive in order to standardise reporting across banks. In terms of the regulations relating to banks the Individual Capital Requirement ("ICR") is excluded. The Prudential Authority issued Directive 2 of 2020 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 the 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.

	1st Quarter 2021 31 May 2020 R'000	4th Quarter 2020 29 February 2020 R'000
LIQUIDITY COVERAGE RATIO (LCR)		
High-Quality Liquid Assets[1]	37 327 479	32 989 868
Net Cash Outflows[2]	2 085 404	1 944 872
Actual LCR Ratio	1 790%	1 696%
Required LCR Ratio[3]	80%	100%

[1] As at 31 May 2020, R987.9 million (29 Feb 2020: R1.15 billion) of the total High-Quality Liquid Assets is attributable to Mercantile Bank Limited ("Mercantile Bank").

[2] Capitec has a net cash inflow after applying the run-off weightings, therefore outflows for the purpose of the ratio are deemed to be 25% of gross outflows. As at 31 May 2020, R563.6 million (29 Feb 2020: R550.7 million) of the total net cash outflows is attributable to Mercantile Bank.

[3] The Prudential Authority issued Directive 1 of 2020 on 31 March 2020 and decreased the minimum LCR requirement from 100% to 80% effective from 1 April 2020. The decrease is attributable to the current financial market turmoil which has decreased market liquidity, and the expectation that banks will remain under increased pressure to comply with the currently prescribed LCR requirements.

	1st Quarter 2021 31 May 2020 R'000	4th Quarter 2020 29 February 2020 R'000
NET STABLE FUNDING RATIO ("NSFR")		
Total Available Stable Funding[1]	126 572 021	121 040 963
Total Required Stable Funding[2]	59 955 245	61 883 875
Actual NSFR Ratio	211.1%	195.6%
Required NSFR Ratio	100%	100%

[1] As at 31 May 2020, R9.7 billion (29 Feb 2020: R9.5 billion) of the Total Available Stable Funding is attributable to Mercantile Bank.

[2] As at 31 May 2020, R8.1 billion (29 Feb 2020: R7.9 billion) of the Total Required Stable Funding is attributable to Mercantile Bank.

	1st Quarter 2021 31 May 2020 R'000	4th Quarter 2020 29 February 2020 R'000
LEVERAGE RATIO		
Tier 1 Capital	23 712 583	24 509 036
Total Exposures[1]	140 850 287	135 022 285
Leverage Ratio	16.8%	18.2%

[1] As at 31 May 2020, R14.1 billion (29 Feb 2020: R14.5 billion) of the total exposures is attributable to Mercantile Bank.

For the detailed LCR, NSFR and leverage ratio calculations refer to the "Banks Act Public Disclosure" section on our website at www.capitecbank.co.za/investor-relations

By order of the Board
Stellenbosch
3 July 2020
Sponsor - PSG Capital Proprietary Limited