summarised audited financial results

CAPITEC BANK HOLDINGS LIMITED

for the year ended 28 February 2017

Headline earnings per share

UP 18% to 3 281 cents

Headline earnings

UP 18% to R3.8 billion

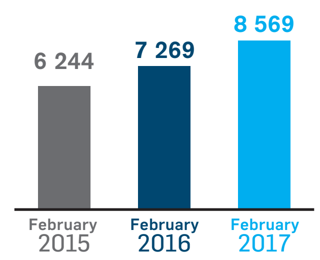
Total dividend per share

UP 18% to 1 250 cents

Return on equity | **27%**

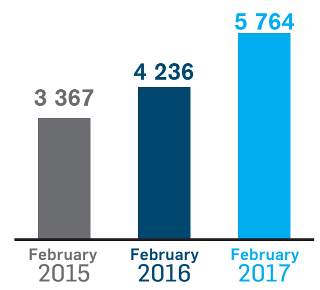
('000) Active clients

UP BY 18%



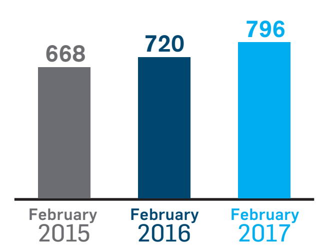
('000) Cellphone clients

UP TO 5.8m



Branches

UP TO 796



Client growth motivated by strong service and brand fundamentals

The Capitec brand has consistently stayed true to its core fundamentals of delivering simplified banking that is both affordable and easy to access through personal service. This resonates with most South Africans, especially in the current tough economic climate, giving them a sense of value and allowing them to feel in control of their money. We received recognition of this when the brand was awarded the top position in the retail banking category at the Sunday Times Top Brands Awards in August 2016.

Substantial Capitec brand acceptance, combined with the expansion of our branch, ATM and digital footprint, has resulted in a record growth of 1 300 000 new clients during the financial year and active clients totalled 8.6 million by year-end (February 2016: 7.3 million).

Primary banking clients (those clients who make regular deposits – mainly salaries) grew in line with total client growth and represent 46% of all active clients. These primary banking clients are less likely to move their banking elsewhere and, on average, do 5 times more transactions than a regular banking client.

Helping clients to help themselves

Our strategy of increasing out-of-branch transacting continued to deliver strong results. Our clients are able to perform more cost efficient transactions through our self-service terminals ('SST'), cellphone banking app ('app'), USSD and dual note recyclers ('DNR'). A DNR is where you can deposit and withdraw money, as well as get a bank statement.

Self-service banking transactions (including app, USSD, card, SSTs, DNRs and internet banking) increased 46% year-on-year to 728 million (February 2016: 499 million), while ATM and branch transactions increased 15% year-on-year to 330 million (February 2016: 287 million). As a direct result, our capacity in the branches improved and we were able to service our clients' needs faster and more efficiently.

Client centricity delivered through service

A core principle in the organisation is to act with the best interest of the client in mind. This emphasises the importance of the client experience, which is driven primarily by consistent client service that meets or exceeds expectations. We opened 76 new branches during the financial year in order to alleviate pressure in high volume areas and to grow the brand footprint in higher-end shopping malls. 301 of the 796 branches trade seven days a week and all branches are open for longer trading hours than the industry norm to ensure a highest level of client accessibility.

We are pleased once more by the recognition the organisation received for client service as the winner of the Ask Afrika Orange Index service awards in 2016, as well as the South African Consumer Satisfaction Index (SACsi) award for the top retail bank. This is however a constant reminder to continue to focus on developing and delivering a world class service experience that helps clients to feel in control of their money.

Earnings up 18%

Earnings increased by 18% to R3.8 billion from R3.2 billion a year ago. Despite weak economic conditions, there was strong year-on-year growth in net transaction fee income. Net lending and investment income increased by 14%, with a 16% increase in net loan impairment expense.

Net transaction fee income increased by 30%

The combination of the growth in our active client base, expansion of our ATM and branch network and the increasing financial awareness of our clients on the best way to bank, has resulted in a 30% year-on-year increase in net transaction (non-lending) fee income.

Our net transaction fee income covered 72% (February 2016: 66%) of our operating expenses and contributed 37% (February 2016: 33%) of our net income.

Operating costs increased by 18%

Operating costs increased by 18% from R4.6 billion in 2016 to R5.4 billion in 2017. The cost-to-income ratio remained at 34% for 2017 (February 2016: 34%). The main reasons for the growth in expenses were, firstly, the continued increase in the number of employees and branches. Employment costs grew year-on-year by 21% or R421 million and the cost of premises grew by 18% or R76 million, as we opened new branches during the year. Secondly, IT and security costs increased significantly.

Capital expenditure for the year was R1 billion (February 2016: R704 million). The 42% year-on-year increase was mainly due to the expansion of our ATM and branch network, as well as spend on IT.

Expenditure on our staff, branch and ATM network and IT systems are critical to ensuring we continue to deliver simple and affordable financial services to our clients in an easily accessible way that is accompanied by excellent service.

Graduate placement program, learnerships and bursaries

This year saw the launching of two new further development programs for both current and future employees. Firstly, we introduced a one year learnership program (NQF4 equivalent) for staff in branches and service centres, whereby on completion they receive a certificate in banking. Secondly, we began a graduate placement program with seven new joiners starting this year. In addition, we provided 29 bursaries to second year university students studying finance and information technology ('IT'). These investments ensure our employees and future employees have the opportunity to further educate themselves and that our talent pipeline is well placed for the future growth of the company.

Leadership and staff development is important to us. 1 313 employees attended leadership courses during the financial year, while 3 915 employees participated in specific training courses. This investment in our employees will enable us to perform more effectively as a company and retain our talented leaders.

We also contributed to the Ikusasa Student Financial Aid Programme ('ISFAP') during the year. ISFAP is a pilot program, backed by government and the private sector, aimed at addressing the funding challenge of tertiary education of poor and 'missing middle' students.

Gross loans and advances increased by 10%

Gross loans and advances increased by R4.2 billion to R45.1 billion (February 2016: R40.9 billion). The impact of continued tightening of our credit granting criteria and lending to better quality clients was evident, as we granted 176 655 less loans in 2017 than in the previous year (February 2017: 3 507 819; February 2016: 3 684 474).

We granted lower-risk, higher value loans to better quality clients this year. This resulted in the value of new loans growing by 12% from R24.2 billion in 2016 to R27.2 billion in 2017. The average amount for loans less than 6 months and greater than 6 months was R1 905 (February 2016: R1 749) and R26 605 (February 2016: R25 229) respectively.

The average term of the outstanding book decreased from 40 months at February 2016 to 38 months at February 2017.

The launch of the Capitec credit card

The Capitec credit card was launched on 18 September 2016 in the Western Cape branches and nationally on 16 October 2016. So far, it has performed within our risk appetite. Clients earn interest of at least 5.35% per year on a positive balance.

Arrears as a percentage of gross loans and advances increased to 6.3%

The financial stress and economic difficulties experienced by clients during the year were evident. Debt review applications and retrenchment letters received increased by 19% and 15% respectively year-on-year. There was also an increase in clients who received their salaries late or experienced reduced or no inflows.

Management acted decisively to address the deteriorating arrears performance during the year by tightening credit granting to those segments and employers indicating financial stress. Significant changes were also implemented to the rescheduling policies. This ensures the performance and quality of the loan book remains within our risk appetite, while resulting in all rescheduled loans within the last 6 months to decrease year-on-year by 21% to R2.7 billion (February 2016: R3.4 billion).

The economic conditions and changes in rescheduling policies contributed to the 24% year-on-year increase in arrears to R2.9 billion (February 2016: R2.3 billion). Arrears and all rescheduled loans within the last 6 months to gross loans and advances decreased to 12.2% (February 2016: 13.8%), while the arrears and all rescheduled loans within the last 6 months coverage ratio increased to 107% (February 2016: 91%).

Rescheduled accounts

The performance of rescheduled accounts are monitored on a daily basis. Loans that were rescheduled from arrears within the last 6 months increased by 3% year-on-year to R1.6 billion (February 2016: R1.5 billion). We implemented rules to prevent arrears clients from rescheduling for a second or third time if their risk was too high. Loans rescheduled within the last 6 months of the year from a current status decreased by 40% to R1.1 billion (February 2016: R1.8 billion). This was due to policy changes that included preventing low risk clients from rescheduling out of a current status.

Higher provisions were maintained for the rescheduled book in comparison to the remainder of the book.

Provisioning remains conservative and adequate

The total provisions compared to gross loans and advances increased to 13.1% at the end of the 2017 financial year (February 2016: 12.5%).

We provide 8% on current loans, 43% on loans one instalment behind, 81% for two instalments and 92% for three instalments, all statistically calculated. We provide on average 52% on clients that rescheduled any of their loans whilst in arrears within the last 6 months even though they are current in terms of their new agreement. For clients who rescheduled any of their loans whilst current we provide 15%. All provisions are based on the probability of default. All outstanding balances of clients who are 90 days in arrears on any loan are substantially provided for or written off.

The gross loan impairment expense increased by 19% to R6.2 billion (February 2016: R5.3 billion). The table below analyses this increase:

		2017	2016	Change % 2017/ 2016	2015
Write-offs	R'm	**5 447**	3 981	37	4 395
Movement in bad debt provision	R'm	**799**	1 274	(37)	221
Gross loan impairment expense	R'm	**6 246**	5 255	19	4 616

A significant portion of the 37% increase in write-offs was as a result of the change in rescheduling policies in the current year and the market deterioration of the prior year, which was provided for in 2016, that materialised in the current year. The market deterioration of the prior year, which increased the 2016 movement in bad debt provision, did not occur again in the current year. The tightening of the granting criteria and a more stable market resulted in a lower bad debt provision movement during the 2017 financial year.

Our net loan impairment expense to total lending income (excluding investment income) for the year amounted to 35.7% (February 2016: 34.3%). The net loan impairment expense to average gross loans and advances increased from 11.4% in 2016 to 11.9% this year.

A weak employment environment was prevalent during the year. We managed our book meticulously and restricted our lending to specific sectors and employers where we anticipated increased stress. The book continues to perform within our risk appetite.

Recoveries

Recoveries increased by 32% year-on-year from R854 million in 2016 to R1 125 million in 2017. The increase resulted from operational debt recovery improvements, a larger handover book and debt sales.

Continued healthy capital levels

The return on equity for the year was 27% (February 2016: 27%). The total annual dividend increased by 18% from 1 055 cents per share to 1 250 cents per share, in line with the increase in earnings.

Capitec remains well capitalised and is generating sufficient profit to fund growth in the loan book. At February 2017, the capital adequacy ratio was 34%.

Growth of deposits

Retail deposits amounted to R48.0 billion at February 2017, an increase of R10.2 billion on the prior year-end (February 2016: R37.8 billion). Retail deposits continued to grow by more than total loans and advances.

The value of wholesale deposits declined to R7.5 billion (February 2016: R10.2 billion). This is as result of managing our wholesale funding to meet the requirements of the loan book, matched against growth in retail fixed deposits and profit.

Capitec is fully compliant with the Basel 3 liquidity ratios. Our conservative liquidity policies are unchanged.

Credit regulation

The Department of Trade and Industry ('DTI') published final Credit Life Insurance Regulations under the National Credit Act on 9 February 2017. The regulations prescribe the cost, cover and benefits of credit life insurance. The regulations will come into effect on 10 August 2017 and will only affect credit agreements concluded on or after the date of implementation. We are working towards implementing the regulations by the effective date.

We continue to support appropriate regulation enhancing the sustainability of the credit industry and to reduce the cost of credit for consumers if this is done in a manner that is sustainable and achieves a balance between affordability and access to credit. We are supporting the regulator on these matters.

Prospects

We continue to grow our client numbers, branches and ATM network. This will provide us with the opportunity to offer new financial services in the future. New products will continue to have the same foundation of simplicity and affordability as our other products.

Our strategy to increase self-service and digital banking will result in improved capacity and efficiencies in the branches.

On 24 March 2017, we announced our investment in Cream Finance Holding Limited ('Creamfinance'). Creamfinance is a leading online technology-driven consumer loans company, offering multiple credit products across international markets. We will acquire an interest of 40% for €21 million in three tranches at nine-month intervals, subject to specific agreed performance measures being met. We are excited about this investment and the opportunities it presents for us as we expand our interests beyond the borders of South Africa.

We continue to pursue our strategy to be the best retail bank.

Dividend

The directors declared a final gross dividend of 800 cents per ordinary share on 27 March 2017, bringing the total dividends for the year to 1 250 cents per share. There are 115 626 991 ordinary shares in issue.

The final dividend meets the definition of a dividend in terms of the Income Tax Act (Act 58 of 1962). The dividend amount net of South African dividend tax of 20% is 640.00000 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade cum dividend	Tuesday, 18 April 2017
Trading ex-dividend commences	Wednesday, 19 April 2017
Record date	Friday, 21 April 2017
Payment date	Monday, 24 April 2017

Share certificates may not be dematerialised or rematerialised from Wednesday, 19 April 2017 to Friday, 21 April 2017, both days inclusive.

The chief financial officer's review is available at www.capitecbank.co.za

On behalf of the board

Riaan Stassen
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
28 March 2017

Key performance indicators

		2017	2016	Change % 2017/ 2016	2015
Profitability					
Interest income	R'm	**14 934**	13 413*	11	11 487*
Loan fee income	R'm	**1 137**	607*	87	542*
Total lending and investment income	R'm	**16 071**	14 020	15	12 029
Interest expense	R'm	**(3 552)**	(2 884)	23	(2 426)
Loan fee expense	R'm	**(642)**	(690)	(7)	(627)
Total lending and investment expenses	R'm	**(4 194)**	(3 574)	17	(3 053)
Net lending and investment income	R'm	**11 877**	10 446	14	8 976
Net transaction fee income	R'm	**3 923**	3 020	30	2 608
Other income	R'm	**–**	(1)		22
Income from operations	R'm	**15 800**	13 465	17	11 606
Net loan impairment expense	R'm	**(5 121)**	(4 401)	16	(4 014)
Net income	R'm	**10 679**	9 064	18	7 592
Operating expenses	R'm	**(5 439)**	(4 591)	18	(4 031)
Non-banking operations	R'm	**–**	–		(1)
Income before tax	R'm	**5 240**	4 473	17	3 560
Tax	R'm	**(1 434)**	(1 244)	15	(995)
Preference dividend	R'm	**(16)**	(16)		(18)
Earnings attributable to ordinary shareholders					
Basic	R'm	**3 790**	3 213	18	2 547
Headline	R'm	**3 793**	3 222	18	2 547
Net transaction fee to net income	%	**37**	33		34
Net transaction fee to operating expenses	%	**72**	66		65
Cost-to-income ratio	%	**34**	34		35
Return on ordinary shareholders equity	%	**27**	27		25
Earnings per share					
Attributable	cents	**3 278**	2 779	18	2 209
Headline	cents	**3 281**	2 787	18	2 209
Diluted attributable	cents	**3 267**	2 773	18	2 206
Diluted headline	cents	**3 270**	2 781	18	2 206
Dividends per share					
Interim	cents	**450**	375	20	246
Final	cents	**800**	680	18	590
Total	cents	**1 250**	1 055	18	836
Dividend cover	x	**2.6**	2.6		2.6
Assets					
Net loans and advances	R'm	**39 205**	35 760	10	32 484
Cash, cash equivalents and other liquid assets	R'm	**30 605**	24 989	22	19 755
Other	R'm	**3 548**	2 196	62	1 678
Total assets	R'm	**73 358**	62 945	17	53 917
Liabilities					
Deposits and bonds	R'm	**55 582**	47 940	16	41 181
Other	R'm	**1 658**	1 346	23	1 172
Total liabilities	R'm	**57 240**	49 286	16	42 353
Equity					
Shareholders' funds	R'm	**16 118**	13 659	18	11 564
Capital adequacy ratio	%	**34**	35		36
Net asset value per ordinary share	cents	**13 809**	11 663	18	9 822
Share price	cents	**72 500**	47 400	53	41 000
Market capitalisation	R'm	**83 830**	54 807	53	47 407
Number of shares in issue	'000	**115 627**	115 627		115 627
Share options					
Number outstanding	'000	**963**	868	11	710
Number outstanding to shares in issue	%	**0.8**	0.8		0.6
Average strike price	cents	**31 755**	28 520	11	19 403
Average time to maturity	months	**20**	27		28
Operations					
Branches		**796**	720	11	668
Employees		**13 069**	11 440	14	10 261
Active clients	'000	**8 569**	7 269	18	6 244
ATMs					
Own		**1 653**	1 236	34	941
Partnership		**2 371**	2 469	(4)	2 477
Total		**4 024**	3 705	9	3 418
Capital expenditure	R'm	**1 000**	704	42	414
Sales					
Loans					
Value of loans advanced	R'm	**27 226**	24 228	12	19 417
Number of loans advanced	'000	**3 508**	3 684	(5)	2 820
Average loan amount	R	**7 761**	6 577	18	6 887
Average loan amount less than or equal to 6 months	R	**1 905**	1 749	9	1 668
Average loan amount greater than 6 months	R	**26 605**	25 229	5	27 441
Repayments	R'm	**32 983**	28 689	15	23 787
Gross loans and advances	R'm	**45 135**	40 891	10	36 341
Loans past due (arrears)	R'm	**2 855**	2 297	24	1 964
Arrears to gross loans and advances	%	**6.3**	5.6		5.4
Arrears rescheduled within 6 months	R'm	**1 583**	1 542	3	883
Arrears and arrears rescheduled within 6 months to gross loans and advances	%	**9.8**	9.4		7.8
Rescheduled from current within 6 months	R'm	**1 088**	1 818	(40)	1 130
Arrears and all rescheduled within 6 months to gross loans and advances	%	**12.2**	13.8		10.9
Provision for doubtful debts	R'm	**5 930**	5 131	16	3 857
Provision for doubtful debts to gross loans and advances	%	**13.1**	12.5		10.6
Arrears coverage ratio	%	**208**	223		196
Arrears and arrears rescheduled within 6 months coverage ratio	%	**134**	134		135
Arrears and all rescheduled within 6 months coverage ratio	%	**107**	91		97
Total lending income (excluding investment income)	R'm	**14 362**	12 837	12	11 287
Total lending income (excluding investment income) to average gross loans and advances	%	**33.4**	33.2		32.2
Gross loan impairment expense	R'm	**6 246**	5 255	19	4 616
Recoveries	R'm	**1 125**	854	32	602
Net loan impairment expense	R'm	**5 121**	4 401	16	4 014
Net loan impairment expense to total lending income (excluding investment income)	%	**35.7**	34.3		35.6
Net loan impairment expense to average gross loans and advances	%	**11.9**	11.4		11.5
Deposits and bonds					
Wholesale deposits	R'm	**7 543**	10 154	(26)	11 152
Retail call savings	R'm	**30 117**	24 152	25	19 298
Retail fixed-term savings	R'm	**17 922**	13 634	31	10 731

* *Loan origination fees previously included in loan fee income was restated and included in interest income of the Income statement.*

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This short-form press announcement is the responsibility of the directors. The information in this short-form announcement has been extracted from, and is a summary of, the audited information in the full announcement published on SENS and on the Capitec Bank website, but this announcement itself is not audited. Investment decisions should be based on a review of the full SENS announcement. The full announcement is also available for inspection at the company's registered office during normal business hours no charge. Copies of the full announcement may be requested from the company by emailing enquiries@capitecbank.co.za

Company secretary and registered office Yolande Mouton: M.Sc, 1 Quantum Street, Techno Park, Stellenbosch 7600, PO Box 12451, Die Boord, Stellenbosch 7613
Transfer secretaries Computershare Investor Services Proprietary Limited (Registration number: 2004/003647/07), Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196, PO Box 61051, Marshalltown 2107 **Sponsor** PSG Capital Proprietary Limited (Registration number: 2006/015817/07)
Directors R Stassen (Chairman), GM Fourie (CEO)*, AP du Plessis (CFO)*, MS du P Le Roux, NS Mashiya (Exec: Risk Management)*, JD McKenzie, NS Mjoli-Mncube, PJ Mouton, CA Otto, JP Verster * *Executive*

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