

For immediate release

Wednesday, 1 October 2008

BEGINS

Capitec Bank's model triggers explosion in client growth

Client numbers at Capitec Bank continued to grow rapidly as awareness of its attractive banking offer increased in the market. This was revealed by CEO Riaan Stassen at the announcement of the bank's interim results on Wednesday [1 October 2008]. The bank's active client base grew by 33% to over 1.5 million by end August 2008. The growth was ascribed to the bank's low-priced, core bank offer and increased price sensitivity by consumers due to the present economic climate.

Headline earnings increased by 22.7% to R119 million on the 2007 performance. This is a healthy increase compared to the performance posted recently by other players in the banking industry as market conditions and interest rate hikes have negatively influenced performance.

Income from banking operations grew by 55.3% to R916 million, of which R125 million came from transacting, up 72% on the previous year. Headline earnings per share grew by 22.2% to 145 cents and an interim dividend is proposed of 30 cents per share, up from 25 cents in 2007.

Expenses grew by 43% on 2007. Stassen said, "The bank is still on a strong expansion programme and we have opened 39 new branches over the past twelve months". He added that most of the new branches were opened during 2008 and that income from new branches was minimal in the six months to August 2008, but that client growth was rapid with every new branch location. "This means that new branches have a negative impact on income initially until sufficient new clients are acquired."

He added, "Wherever we open new branches the market has responded positively, particularly as a result of our attractively priced bank offer. We want to maintain our position as price leaders in the market and have continued to price our transacting facilities at about half that of other banks. Our innovative bank model is low-cost and this underpins our aggressive approach to pricing."

Stassen explained that the bank would continue on an expansion programme over the medium term to increase accessibility and the acquisition of salary deposit clients. "Expense increases will remain high due to the ongoing investment in advertising and new branches." He added that expenses were however in line with what was planned for the financial year.

The cost-to-income ratio declined from 60% in 2007 to 55% in 2008 and is expected to continue doing so as the utilisation of branches improve and term loans grow as a proportion of the total loan portfolio. Stassen explained that short-term loans demanded a similar level of service input as longer-term loans, but that income streams were higher on longer-term loans.

"There is continued demand for unsecured loans in the market and clients in need of credit have not been adversely affected by the present financial conditions, as has happened in the secured lending market," Stassen said. "We have not increased prices on loans, but we have applied more stringent

credit criteria as price increases on key consumer goods have definitely influenced disposable income for expenditure on discretionary items.”

The value of loans advanced for the six months to August increased by 42.8% to R3.1 billion, compared to the same period in 2007.

“Capitec Bank launched a 36-month loan product in October 2007 and it has grown to 25% of the gross outstanding loan book over the past ten months,” Stassen said. “Our 12- to 24-month loan products also continued to grow and now comprise 57% of the outstanding loan book.”

The provision for doubtful debts increased by 93% on 2007 to R236 million. Stassen explained that this disproportionate increase was due to the changing nature of the Capitec Bank book and the growth in term loans as a percentage of the total outstanding book. Net loans and advances due, as reflected on the balance sheet, increased by 117% to R2.7 billion. Stassen said a more realistic comparison of the numbers at present was the comparison of arrears as a percentage of gross loans extended. This amounted to 9.9% in 2008 compared to 9.6% for 2007. He added, “As explained at year-end, we provide more for doubtful debts on term loans in the initial months of the loan term than in the later months of the loan term. The net impairment expense ratio will therefore continue to increase as the size and tenure of the loan book increases.”

Stassen stated that the bank’s arrears are well within its risk appetite and that it had responded to the present economic conditions. “We continuously adjust our vetting criteria to address changing market conditions and we have specifically applied a more stringent approach during 2008,” he said.

The bank received an improved short-term credit rating from Moody’s to P-1.za in May this year. It successfully launched its domestic medium-term note programme in April and has raised R490 million in funding since. A further R150 million was raised in the form of term funding from Proparco, a French development agency. “We have always followed a conservative approach to liquidity, even at the expense of profitability,” Stassen stated. “Even though the present market conditions have not had any effect on us at retail depositor level, it has again emphasised the value of our funding approach and the importance of our long-term agreements with our funding partners.”

Stassen stated that the bank is on an ongoing expansion programme which includes an advertising campaign focusing on acquiring salary deposit clients, a sales drive via employers to acquire employees as bank clients and an expansion plan that entailed a further 20 new branches by the end of the financial year. “We are confident that we will continue to grow our client base aggressively given that we offer the most affordable, accessible and simplified everyday banking available in the market.”

ENDS

Issued by the Marketing and Corporate Affairs Division, Capitec Bank Limited

Enquiries

Carl Fischer

Executive: Marketing and Corporate Affairs

Telephone: 021 809 5912

Cell: 083 327 9619

E-mail: carlfischer@capitecbank.co.za