- Profits up 51% to R45 million
- Dividend of 20c per share
- A growing network of 148 bank branches nationwide

CAPITEC Bank

CAPITEC BANK HOLDINGS LIMITED

Registration number: 1999/025903/06 JSE share code: CPI ISIN code: ZAE000035861

AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 29 FEBRUARY 2004

KEY FINANCIAL INDICATORS

	2004 Rm	%	2003 Rm
• Earnings	45	51	30
• Headline earnings per share (cents)	70,2	53	46,0
• Dividend per share (cents)	20,0	5	19,0
• Shareholders' funds	428	11	386
• Market capitalisation	398	143	164
• Loans advanced [1]	1 904	29	1 477
• Bad debt (%) [1]	1,4	(46)	2,6

(1) Excludes Namibia and Botswana subsidiaries sold in 2003.

OUR VIEW OF THE BUSINESS

A profit margin of 2,4% (2003: 2,0%)
All our profits for the year are derived from short-term loans. We increased our turnover to R1,9 billion, an increase of 29% over 2003. The profit of R45 million is a satisfactory increase over last year's R30 million, but a return of only 11,6% on our capital (2003: 8,0%). Our profit is equal to 2,4% of turnover. We carry a tax loss and the R19 million tax expense was actually written off against the tax asset – in short, we generated R19 million more cash than our profit figure indicates. Much remains to be done before we can report a decent return on capital of more than 20%.

The network effect
On Sunday 22 February 2004 our branch in Idutywa was converted to a full Capitec Bank branch. This is our 148th bank branch. Since May 2003 we have been converting ten to fifteen branches a month and we plan to have over 200 bank branches throughout South Africa by July 2004. It is not possible to do retail banking out of a single branch. Banking has become an example of the network effect, and Capitec Bank has a national network.

The cost of running Capitec Bank increased by 25%
The infrastructure of a bank is very expensive. Strategically we are supporting the cost of building a bank with our small loans business. The running cost of a bank branch is 34% higher than the cost of running the same outlet as a micro lending branch. In the coming year costs will again rise sharply. Gaining bank customers will require significant expenditure on marketing.

Do affordable bank products exist?
The mass market is the market for basic, affordable bank products. Our savings accounts have the lowest cost and pay the highest interest rates in South Africa. An ATM withdrawal costs only R2, and we pay 10% interest on savings accounts with a maximum balance of R25 000. Our debit card, which carries the Maestro mark from MasterCard, gives our customers access to all Saswitch ATMs and can be used for purchases at all linked shops. At Capitec Bank a debit order costs only R2. We have few products, but those we have are the best and most affordable of their kind. We have 18 104 savings customers. Our main aim for the new year is to change the culture and the ability of the whole organisation to that of a bank and to have 60 000 bank customers by year end.

Quality customers
Last year we were proud that our arrears were only 2,6%. This year the figure has been nearly halved. At the end of February 2004 just 1,4% of payments which should have been made in November were still outstanding. These arrears will be written off after 180 days, but we believe that our losses due to poor payment will be less than 1% after legal processes. We think it is remarkable that our net bad debts (after recoveries) declined by R3 million compared to last year although our turnover increased by R430 million.

Our real strength: high-quality people
We're building an enthusiastic and loyal workforce. We are creating an action-oriented, customer-focused culture. We want to be more like a retailer than a bank. During the year we appointed 545 new employees. Our operational staff attended an average of four training courses per individual during the year. This is expensive and disruptive because our branches are spread throughout the country, but it is necessary to enable our people to move from micro lending to banking.

We manage liquidity cautiously
Since year end we have signed an agreement with Futuregrowth for funding of R50 million for five years, half of which is guaranteed by USAid. In a big bank this would be a small and routine transaction. For us it was an exciting first. Just before that, in February, we also received deposits of R35 million. We are slowly overcoming the legacy of the small bank crisis of two years ago, which prevented us from obtaining term funding. At year end we had R160 million in cash. We manage our liquidity cautiously.

Shareholders
Since year-end, about 6% of the shares in Capitec Bank were acquired by Arch Equity. This investment company is a black-controlled company after a transaction with Desmond Lockey. We welcome Arch Equity and Desmond Lockey as shareholders.

Board of directors
Michiel le Roux has retired as chief executive officer on 31 March. As a non-executive director and shareholder he will remain involved in the development of Capitec Bank. After the prescribed "cooling off" period of three years, we intend inviting him to become chairman of the bank. Riaan Stassen has been appointed as the chief executive officer. Nonhlanhla Mjoli-Mncube joined our board during the year. We appreciate it and welcome her to Capitec Bank.

Modest dividend increase
Last year we warned that our dividend cover would increase. Despite a 48% increase in profit per share, we are proposing a dividend of 20c per share. This is only 5% higher than last year's, and the dividend cover has improved to 3,4 times from 2,4 times. In future, we hope to deliver steady dividend growth with an increase in dividend cover over time.

Risks and opportunities
Every year seems to be a critical year for Capitec Bank. We have achieved our target of becoming a retail bank. In a year's time we will know our customers' reaction to our bank offer. We believe that the number of customers and our business will continue to grow in the coming year.

On behalf of the board

Jannie Mouton
Chairman

Riaan Stassen
Chief executive officer

Michiel le Roux
Director

Stellenbosch

31 March 2004

DISTRIBUTION TO SHAREHOLDERS

The directors propose a dividend of 20 cents per share, subject to approval at the shareholders' meeting on 26 May 2004.

To comply with the requirements of STRATE, the following dates are applicable:

Last day to trade cum dividend	Friday, 4 June 2004
Trading ex dividend commences	Monday, 7 June 2004
Record date	Friday, 11 June 2004
Date of payment	Monday, 14 June 2004

Share certificates may not be dematerialised or rematerialised between Monday, 7 June 2004, and Friday, 11 June 2004, both days inclusive.

GROUP INCOME STATEMENT

	2004 R'000	%	2003 R'000
Interest on loans advanced	393 177	22	323 144
Interest on cash and cash equivalents	5 555	71	3 253
Interest expense	(3 518)	3	(3 402)
Net interest income	395 214	22	322 995
Net bad debts	(28 791)	(12)	(32 818)
Income from lending activities	366 423	26	290 177
Other operating income	1 392		54
Non-banking gross profit (note 4)	4 057	–	–
Turnover	92 206	–	–
Cost of sales	(88 149)	–	–
Income from operations	371 872	28	290 231
Operating expenses	(300 143)	23	(243 088)
Non-banking operating expenses (note 4)	(4 831)	–	–
Operating profit	66 898	42	47 143
Exceptional items (note 3)	(1 993)		(56)
Profit before tax	64 905	38	47 087
Tax	(19 523)	14	(17 064)
Net profit attributable to ordinary shareholders	45 382	51	30 023

EARNINGS PER SHARE

	2004 R'000	%	2003 R'000
Earnings per share (cents)			
– Basic attributable	67,7	48	45,6
– Basic headline	70,2	53	46,0
– Diluted attributable (note 6)	63,1	42	44,3
– Diluted headline (note 6)	65,4	46	44,8
Number of shares (thousands)			
– Issued	68 743	9	63 190
– Weighted average	67 028	2	65 808
– Diluted (note 6)	71 868	6	67 709
Proposed dividend per share (cents) (note 5)	20,0	5	19,0

RECONCILIATION OF ATTRIBUTABLE EARNINGS TO HEADLINE EARNINGS

	2004 R'000	2003 R'000
Net profit attributable to ordinary shareholders	45 382	30 023
Exceptional items after tax:		
– Profit on disposal of foreign subsidiaries (note 3)	(357)	(5 333)
– Impairment of goodwill on revaluation of tax loss	–	3 730
– Impairment of goodwill on acquisition (notes 3, 4)	1 206	1 171
– Loss on disposal of other assets (note 3)	801	713
Headline earnings	47 032	30 304

GROUP STATEMENT OF CHANGES IN EQUITY

	2004 R'000	2003 R'000
Ordinary shareholders' funds at beginning of the period	385 933	391 248
Change in accounting policy (note 2)	345	–
Restated balance at beginning of period	386 278	391 248
Share repurchases (note 6)	(3 145)	(16 339)
Net income for the period	45 382	30 023
Cash flow hedge (note 2)	45	–
Dividend paid (note 5)	(407)	(18 999)
Ordinary shareholders' funds at end of the period	428 153	385 933

GROUP CASH FLOW STATEMENT

	2004 R'000	2003 R'000
Cash flow from operating activities	100 400	50 041
Cash generated from operations	85 723	74 236
Increase in loans and advances	(15 440)	(34 681)
Increase in other liabilities, provisions, loans and deposits	31 147	34 586
Tax paid	(623)	(5 101)
Dividends paid (note 5)	(407)	(18 999)
Cash flow from investment activities	(41 528)	(22 358)
Net investment in fixed assets	(44 142)	(31 111)
Disposal of subsidiaries	357	8 252
Decrease in other investing activities	2 257	501
Cash flow from financing activities		
Share repurchases (note 6)	(3 145)	–
Increase in cash and cash equivalents	55 727	27 683
Cash and cash equivalents at beginning of period	104 076	76 393
Cash and cash equivalents at end of period	159 803	104 076

COMMITMENTS

	2004 R'000	2003 R'000
Guarantees		
– Issued to banking institutions	–	4 000
– Other	1 949	3 848
Capital commitments approved by the board		
– Contracted for	16 446	12 530
– Not contracted for	39 991	38 632
Operating lease commitments		
< 1 year	34 874	26 497
1 to 5 years	50 704	33 220

GROUP BALANCE SHEET

	2004 R'000	2003 R'000
Assets		
Current assets		
Cash and cash equivalents	159 803	104 076
Loans and advances	134 878	115 770
Inventory	9 141	–
Other receivables	11 255	5 663
Non-current assets		
Group loans receivable	–	4 700
Fixed assets	146 755	135 773
Deferred tax	48 652	68 448
Total assets	510 484	434 430
Liabilities		
Current liabilities		
Deposits	11 897	18 077
Other liabilities (non-interest bearing)	31 709	21 920
Provisions (non-interest bearing)	1 746	740
Non-current liabilities		
Deposits	36 979	7 760
Total liabilities	82 331	48 497
Shareholders' equity		
Share capital and premium	323 731	326 878
Retained earnings	103 677	59 055
Reserves	745	–
Total shareholders' equity	428 153	385 933
Total shareholders' equity and liabilities	510 484	434 430
Net asset value per share (cents)	623	611
Tangible net asset value per share (cents)	552	502
Share price (cents)	580	260

SEGMENTAL RESULTS

	Banking R'000	Wholesale distribution (note 4) R'000	Total R'000
2004			
Revenues	400 124	92 206	492 330
Headline earnings	48 532	(1 500)	47 032
Assets	499 786	10 698	510 484
2003			
Revenues	326 451	–	326 451
Headline earnings	30 304	–	30 304
Assets	434 430	–	434 430

NOTES

1. ACCOUNTING POLICIES
The accounting policies applied in the preparation of these summarised consolidated financial statements conform to South African Statements of Generally Accepted Accounting Practice and are consistent with the accounting policies applied in the prior year, with the exception of the implementation of AC 133. The balance sheet was analysed between current and non-current assets. The leave pay provision has been reclassified from provisions to other liabilities on the balance sheet. The Share Incentive Trust was consolidated into the results of the group for the year. At the end of 2003, the trust did not hold any shares in the group and did not have material assets or liabilities outside the group.

The unmodified audit reports from PricewaterhouseCoopers Inc. on the annual financial statements for the year ended 29 February 2004 and the summarised financial results contained herein are available for inspection at the registered office of the company.

2. EFFECT OF AC 133 ON RESULTS
The effect of implementing AC 133 on the results for the period is limited due to the short-term nature of the loan book.

Comparative figures are not restated and opening adjustments are accounted for directly to opening retained earnings in terms of AC 133, which is applied prospectively. Interest-free intergroup loans with a fixed maturity date were revalued by R0,4 million at the beginning of the year. The general doubtful debt provision of R1 million (R0,7 million after tax) was reclassified to statutory provisioning reserve account, as AC 133 does not allow for any general debtors provisions.

Profits on forward exchange contracts relating to cash flow hedges of R0,1 million (before tax) have been accounted for directly to equity and relate mainly to the planned import of equipment and systems development work.

3. EXCEPTIONAL ITEMS
Exceptional items include R0,4 million additional proceeds on the disposal of subsidiaries, mainly relating to disposal of the Namibian arrears book, after the company disposed of its Namibian subsidiaries during the previous financial year. Fixed assets scrapped amounted to R1,1 million before tax and R0,6 million was impaired against goodwill on the acquisition of Key Distributors, as noted under 4. A goodwill impairment of R0,6 million relating to the acquisition of Curerisk last year is also included in exceptional items, as the purchase price increased in line with the higher collection rates of the acquired arrears book.

4. ACQUISITION OF KEY DISTRIBUTORS
The company acquired Key Distributors from PSG Group in the first half of the financial year. Key Distributors is a wholesale distribution company and is considered of strategic importance for market penetration in the provision of loans to small businesses. Key Distributors is currently operating at a loss but is expected to break even in the foreseeable future. Accordingly the goodwill on acquisition of Key Distributors was impaired as stated in note 3.

5. SCRIP DIVIDEND
The scrip dividend option offered in June 2003 was accepted by 97% of shareholders.

6. SHARE OPTIONS
The diluted number of shares and diluted earnings per share are calculated as if all 7 859 925 outstanding options with an average strike price of 153 cents (8 079 205 in February 2003) were exercised at the average market price for the period. The share repurchases related mainly to the settlement of options for the share incentive scheme of R2,1 million as well as shares held by the trust and other options settled during the year.

No share options were granted to directors during the period under review.

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Directors
JF Mouton (*Chairman*), CJ Borstlap*, AP du Plessis*, MS du P le Roux, Prof MC Mehl, Ms NS Mjoli-Mncube, CA Otto, JG Solms, R Stassen*, Dr J van Zyl Smit **Executive*

Sponsor
PSG Capital Limited (Registration number: 2002/017362/06)

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