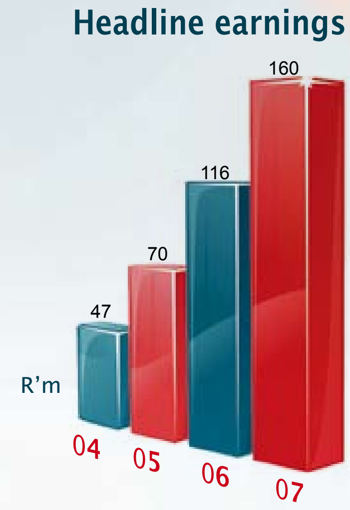
CAPITEC Bank

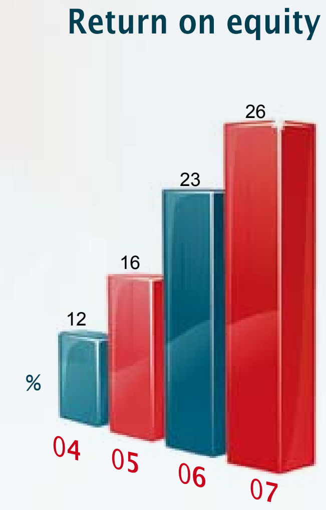
The way to bank

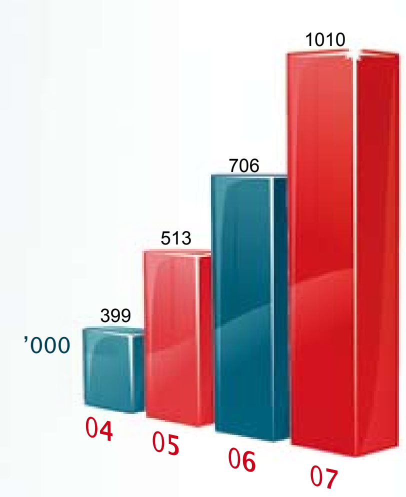
CAPITEC BANK HOLDINGS LIMITED
Incorporated in the Republic of South Africa
Registration Number: 1999/025903/06
Registered bank control company
JSE Ordinary Share Code: CPI ISIN: ZAE000035861
JSE Preference Share Code: CPIP ISIN: ZAE000083838

Financial Results 2007

Headline earnings per share	↑ **35%**
Final dividend per share	**60 cents**
Return on Equity	**26%**
Clients	**1 million**
Shareholders' funds	**R1.1 billion**







		2007	2006	% change	2005	2004
Operations						
Branches		**280**	253	11	251	265
Employees		**2 129**	1 901	12	1 708	1 402
Active clients	'000	**1 010**	706	43	513	399
Own ATMs		**264**	210	26	180	75
Partnership ATMs		**143**	-	-	-	-
Mobile banking facilities		**53**	-	-	-	-
Capital expenditure	Rm	**86**	72	19	84	44
Sales						
Loans						
Value of loans advanced	Rm	**3 449**	2 863	20	2 259	1 904
Number of loans advanced	'000	**2 924**	2 650	10	2 486	2 617
Average loan amount	R	**1 180**	1 080	9	909	728
Interest from loans advanced	Rm	**924**	768	30	534	393
Loan fee income	Rm	**77**	-		-	-
Net loan impairment expense	Rm	**161**	96	68	39	29
Net impairment to repayments	%	**4.12**	2.85	45	1.45	1.43
Deposits						
Value of savings deposits	Rm	**554**	314	76	74	4
Number of savings clients	'000	**583**	375	55	143	18
Net transaction fee income	Rm	**35**	15	133	4	-
Profitability						
Earnings attributable to ordinary shareholders						
Basic	Rm	**159**	115	38	67	45
Headline	Rm	**160**	116	38	70	47
Operating expenses	Rm	**614**	506	21	392	307
Cost to income ratio						
– banking activities	%	**60**	66	(9)	73	76
Return on ordinary shareholders equity	%	**26**	23	13	16	12
Earnings per share						
Attributable	Cents	**221**	163	36	98	67
Headline	Cents	**222**	165	35	101	70
Diluted attributable	Cents	**209**	155	35	92	63
Diluted headline	Cents	**211**	156	35	95	65
Dividends per share						
Interim	Cents	**20**	-	78	-	-
Proposed final	Cents	**60**	45		30	20
Dividend cover	X	**2.8**	3.7	(24)	3.4	3.5

Extracts from the audited financial statements for the year ended 28 February 2007

		2007	2006	% change	2005	2004
Assets						
Total assets	Rm	**2 191**	1 251	75	805	512
Net loans and advances	Rm	**803**	455	76	208	135
Cash and cash equivalents	Rm	**1 044**	582	79	363	160
Investments	Rm	**112**	7	-	17	-
Other	Rm	**232**	207	12	217	217
Liabilities						
Total liabilities	Rm	**1 074**	687	56	332	86
Deposits	Rm	**897**	595	51	281	49
Other	Rm	**177**	92	92	51	37
Equity						
Shareholders' funds	Rm	**1 117**	564	98	473	426
Capital adequacy ratio	%	**84**	56	50	84	98
Net asset value per ordinary share	Cents	**1 175**	784	50	672	619
Share price at 28 February	Cents	**3 700**	3 105	19	1 490	580
Market capitalisation at 28 February	Rm	**3 031**	2 233	36	1 072	399
Number of share options outstanding	'000	**6 191**	5 841	6	6 753	7 860
Average share option strike price	Cents	**1 151**	648	78	271	153
Average share option time to maturity	Months	**24**	28	(14)	25	22
Charge on settlement of share options	Rm	**22**	31	(29)	16	2
Number of ordinary shares						
At year end	'000	**81 928**	71 928	14	70 442	68 743
Weighted average	'000	**72 120**	70 555	2	68 860	67 028
Diluted weighted average	'000	**76 043**	74 534	2	73 536	71 868

Basic banking

At Capitec Bank we focus relentlessly on basic bank products. This does not mean that we offer hand-written savings books. Our products are all electronically delivered and easy to use. We offer the highest interest rate on savings and the most affordable bank and loan products in the country. Our branches are close to our clients and our bank hours are longer than those of any other bank. With "basic banking" we simply mean that we do not offer products like cheque accounts, foreign currency or corporate banking.

It is not particularly easy to focus on basic banking. We are a clearing bank, which means that together with the big banks we manage the flow of money through the banking system. Our cards are accepted worldwide. We have been in the forefront of developing new realtime clearing products, which means that a client can transfer money immediately from one bank to another. Previously, even electronic transfers between banks took place overnight.

We have a nationwide network of 280 branches, many in remote parts of our country. During the past year we opened 29 new branches, less than the 50 we had planned because of the time involved in obtaining good sites. Our ATM network has grown faster than the increase in our branch numbers. Accessible banking means that we place our bank facilities where clients live, shop, commute and work. We have expanded our ATM network in partnership with two independent service providers by over 140, bringing our total network at our branches and in retail shopping areas to over 400.

To help clients use debit cards with confidence we place balance readers in supermarkets where clients can verify their balance before making a purchase. We offer zero fees on purchases with our debit card and the number of card transactions continues to grow exponentially.

One million clients and beyond

We have prior to February 2007, not invested in advertising. We have relied on word of mouth and strong communication through our branches to attract clients. Notwithstanding this, we managed to increase our client numbers to over one million by the end of February 2007.

We acquired nearly one thousand new savings clients per day and grew our total number of savings clients from 375 000 to 583 000 by year end. The balance of retail deposits increased from R314m to R554m and a large proportion of savings are in fact held in Focus Save accounts, a savings account that clients can name themselves. The fact that Capitec Bank has consistently offered a 10% interest rate on savings, has obviously contributed to this growth.

Results

Headline earnings grew to R160 million for the financial year. This was primarily through income from lending of R1 billion and income from bank fees of R94 million.

Personal loans remain the main source of Capitec Bank's income. Six years ago we started with small, one month loans. We have now added loans with a fixed term of up to twenty four months. The value of all loans disbursed during the year increased by 20% to R3,4 billion. The value of three month loans has declined slightly, while all other loans grew on a year on year basis. Because of the longer average term of our loans, our net loan book has increased from R455 million a year ago to R803 million.

During the year we introduced a new lower loan price structure which conforms to the National Credit Act. This means that a portion of our revenue, previously charged as interest income is now charged as a loan origination fee and a monthly loan administration fee. This however, has a VAT impact. The fact that the new price structure was introduced in October 2006 means that the current year's results are a mixture of the old and new price structures.

Eighteen and 24 month loans were launched during October 2006. These made up 39% of the net outstanding loan book at year end. The advantage of the longer term products is that our branch infrastructure is used less frequently and we receive revenue and recover loan granting expenses over a longer period. The increase in revenue from loans therefore exceeded the increase in the value of loans disbursed, but was lower than the increase in the outstanding book.

The impact of errors during the loan granting and collection process is far more severe on the longer term products and we manage this carefully. We introduced strict credit scoring and affordability calculations on these products, combined with continuous refinement of our instalment collection and follow up procedures.

We currently receive electronic credits of approximately R750 million per month (mainly due to receipts of client salaries) and the flow of these funds through our deposit book led to significant growth in our transaction fee income. The cost of processing electronic banking transactions such as debit card transactions, electronic fund transfers, debit orders and stop orders are mainly fixed and the underlying systems are in place, which places us in a strong position for revenue growth from these products. We believe that the increasing levels of sophistication in our target market create the opportunity to move away from expensive cash based transactions to more profitable electronic banking. Our association with large retailers such as Shoprite, Checkers and Pick 'n Pay supports this concept.

Our balance sheet structure changed with the issue of perpetual preference shares to the value R154 million in August 2006. Dividends attributable to preference shareholders therefore have to be subtracted from the income statement figure to arrive at the profit attributable to ordinary shareholders. The preference shares enabled us to increase the gearing on ordinary share capital without weakening our capital adequacy ratio, which remains highly conservative.

We also invested R90 million of our excess cash in listed perpetual preference shares issued by other banks.

Our tax loss was fully utilised by the end of the last financial year, placing us in a tax paying position for the future. This will have an impact on the cash flow generated by the business.

Regulatory risk

Regulatory risk could make us vulnerable as a result of our focus on the market for basic banking. In June 2007, the National Credit Act will come into force. The Act aims to protect credit consumers. The main way to achieve this is to enforce transparency. Whilst we support the aims of the Act, it unfortunately also prescribes maximum price levels, which will have an effect on our profitability. Increased efficiency and volumes will partly counter this impact.

People: recruit for potential and train for skill

Finding the right people in the banking industry is not easy. Systems, controls and procedures are rigid and demand a high level of training before staff can be fully operational. Our approach is to recruit for potential and train for skill. Few of our consultants worked in the bank industry before we appointed them. Every month staff from across the country attend a two week intensive training course in Stellenbosch. This process is preceded by a three week training assignment in branches and is concluded by a three week apprentice period before a consultant is certified as competent to serve clients. The expense is quite staggering: in the past year 1 883 people attended training at a cost of R15 million. We spend 10% of our operations salary bill on training.

Our shareholders

Just before year-end shareholders approved a transaction in terms of which Capitec Bank Holdings issued 10 million new shares at R30 – then market price – to a consortium of black companies, trusts and individuals. Funds of R285 million were provided by the IDC. The Capitec Bank Group Employee Empowerment Trust acquired a 5% interest in the consortium for R15 million. This share transaction amounts to 12% of Capitec. In total 16% of our shares are now held by black shareholders.

The R300 million capital which we raised is in excess of our current needs. Together with retained earnings, our shareholders' funds have increased from R564 million last year to R1,1 billion. Our return on equity, as a result, will drop in the new financial year. Our return for the current year would have been 19% instead of 26% if this transaction had been done at the beginning of the year.

Investing for future growth

The business model provides a low cost platform from which to expand our aggressively priced bank offer. We shall invest a significant amount, in our terms, in the next financial year to expand our service offering and client base in the future.

We shall continue to expand our product portfolio, distribution channels and branch platform. We believe we are at a stage of our overall product and service offering, which warrants building awareness in the market place. We therefore have invested in an advertising campaign for the first time. Over R20 million will be spent on television and print communication to convey our unique positioning and product offering to our target market.

Our distribution platform will be expanded by a further 65 branches and 300 ATMs by February 2008, resulting in a service infrastructure of 345 branches and in excess of 700 ATMs. This wider level of access to transacting, will be enhanced by 100 additional balance card readers and an expanded point-of-sale transacting network at retailers. Our mobile banking facilities will be expanded to 100 units to support clients with access to bank products and services at the workplace. Our employer sales and support team will increase, by over 40%, to grow and improve service at employers.

Our confidence in our business model means we will be aggressive in the execution of our expansion plans. However, we remain careful in the planning of the expansion, as uncertainties regarding the reaction of competitors to the changing regulatory environment exist. This, together with the prescription of maximum price levels, has resulted in us budgeting for lower growth for next year. Capitec Bank continues to pursue its ambition to revolutionise banking in and beyond South Africa.

Dividends

An interim dividend of 20c was paid in December and the Directors declared a final dividend of 60c per share, an increase of 78% over last year.

The following dates apply for participation in the dividend payout:

Last day to trade cum dividend	Friday, 8 June 2007
Trading ex dividend commences	Monday, 11 June 2007
Record date	Friday, 15 June 2007
Payment date	Monday, 18 June 2007

Share certificates may not be dematerialised or rematerialised between 11 June 2007 and 15 June 2007, both days inclusive.

On behalf of the board

Jannie Mouton Chairman	**Riaan Stassen** Chief executive officer
Stellenbosch	28 March 2007

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Transfer secretaries
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(Registration number: 2004/003647/07)
Ground Floor, 70 Marshall Street, Johannesburg 2001
PO Box 61051, Marshalltown 2107

Company secretary
Christian George van Schalkwyk, BComm, LLB, CA(SA)

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

Sponsor
PSG Capital (Pty) Limited

Annual general meeting
30 May 2007 at 12:00
Grand Ballroom, NH The Lord Charles,
Corner of Main Road and R44, Somerset West

For summarised financial statements visit: **www.capitecbank.co.za**