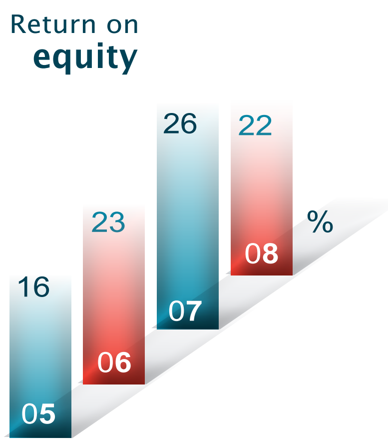
CAPITEC Bank

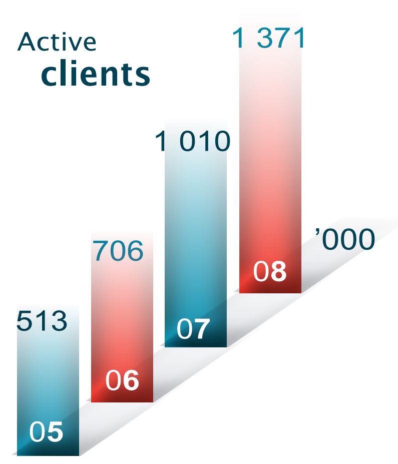
The way to bank

CAPITEC BANK HOLDINGS LIMITED
Registration Number: 1999/025903/06
Registered bank controlling company
JSE Ordinary Share Code: CPI ISIN: ZAE000035861
JSE preference Share Code: CPIP ISIN: ZAE000083838

Headline earnings up 32%

• **Headline earnings per share**	**up 16% to 259 cents**
• **Final dividend per share**	**75 cents**
• **Return on equity**	**22%**
• **Clients**	**1,37 million**
• **Shareholders' funds**	**R1,2 billion**





		2008	2007	Change 08/07	2006	2005
Profitability						
Income from operations	Rm	**1 095**	857	28%	672	491
Operating expenses	Rm	**(771)**	(614)	26%	(506)	(392)
Tax	Rm	**(95)**	(76)	25%	(51)	(32)
Preference dividend	Rm	**(17)**	(8)	123%	–	–
Earnings attributable to ordinary shareholders						
• Basic	Rm	**212**	159	33%	115	67
• Headline	Rm	**212**	160	32%	116	70
Cost-to-income ratio – banking activities	%	**58**	60	(3%)	66	74
Return on ordinary shareholders' equity	%	**22**	26	(17%)	23	16
Earnings per share						
• Attributable	Cents	**258,8**	220,9	17%	163,4	97,9
• Headline	Cents	**259,0**	222,4	16%	165,0	100,9
• Diluted attributable	Cents	**250,3**	209,5	20%	154,7	91,7
• Diluted headline	Cents	**250,5**	210,9	19%	156,2	94,5
Dividends per share						
• Interim	Cents	**25,0**	20,0	25%	–	–
• Proposed final	Cents	**75,0**	60,0	25%	45,0	30,0
Dividend cover	x	**2,6**	2,8	(7%)	3,7	3,4
Assets						
Total assets	Rm	**2 936**	2 191	34%	1 251	805
Net loans and advances	Rm	**2 019**	803	151%	455	208
Cash and cash equivalents	Rm	**618**	1 044	(41%)	582	363
Investments	Rm	**14**	112	(87%)	7	17
Other	Rm	**285**	232	23%	207	217
Liabilities						
Total liabilities	Rm	**1 719**	1 074	60%	687	332
Deposits	Rm	**1 528**	897	71%	595	281
Other	Rm	**191**	177	7%	92	51
Equity						
Shareholders' funds	Rm	**1 217**	1 117	9%	564	473
Capital adequacy ratio	%	**36**	79	(54%)	56	84
Net asset value per ordinary share	Cents	**1 297**	1 175	10%	784	672
Share price	Cents	**3 900**	3 700	5%	3 105	1 490
Market capitalisation	Rm	**3 195**	3 031	5%	2 233	1 072
Share options						
• Number outstanding	'000	**5 159**	6 191	(17%)	5 841	6 753
• Average strike price	Cents	**1 815**	1 151	58%	648	271
• Average time to maturity	Months	**24**	24	–	28	25
• Charge on settlement	Rm	**48**	22	118%	31	16
Operations						
Branches		**331**	280	18%	253	251
Employees		**2 800**	2 129	32%	1 901	1 708
Active clients	'000	**1 371**	1 010	36%	706	513
Own ATMs		**328**	264	24%	210	180
Partnership ATMs		**437**	143	206%	–	–
Mobile banking facilities		**86**	53	62%	–	–
Capital expenditure	Rm	**117**	86	36%	72	84
Sales						
Loans						
• Value of loans advanced	Rm	**5 162**	3 449	50%	2 863	2 259
• Number of loans advanced	'000	**3 155**	2 924	8%	2 650	2 486
• Average loan amount	R	**1 636**	1 180	39%	1 080	909
• Loan revenue	Rm	**1 284**	1 001	28%	768	534
• Net loan impairment expense	Rm	**231**	161	43%	96	39
• Net impairment to repayments	%	**5,10**	4,12	24%	2,85	1,45
Deposits						
• Value of savings deposits	Rm	**842**	554	52%	314	74
• Number of savings clients	'000	**783**	583	34%	375	143
• Net transaction fee Income	Rm	**79**	35	128%	15	4

Extracts from the audited financial statements
year ended 29 February 2008

"Is it a bird? Is it a plane? No, its CAPITEC BANK!"

Suddenly Capitec Bank is everywhere. During the year we launched our first large advertising campaign and our name is now recognised in our target market as much as the weakest of the four traditional banks. We have 331 branches, one in every corner of the country, 51 more than last year and we have a network of 765 ATMs. Our internet bank is available to customers in the Eastern and Western Cape, and will soon be available everywhere. We are building an ubiquitous bank, providing all basic banking services, including those required by the young and modern. We have over 1,3 million clients, 36% more than last year.

Profit – R212 Million

Headline earnings grew by 32% to R212 million. Headline earnings per share, however, grew by 16% on 2007, but one should bear in mind that we issued 10 million new shares to our BEE partners at the end of the previous financial year. This latter percentage is the most modest growth per share since Capitec Bank's inception. Income from lending grew by 28% to R1,3 billion and transaction fee income grew by 80% to R168 million. Our expenses increased by 26%, as we invested heavily in branch expansion, system development and training of staff. Notwithstanding this, we reduced our cost-to-income ratio from 60% to 58% during the year.

At Capitec Bank we have followed a consistent approach to the high interest rates charged to consumers: in every year our rates were lower than in the previous year. This has resulted in growth in both the size of loans and number of loans, the support of higher income clients who are more credit worthy and overall lower default rates. At the same time we have had to balance a reduction in rates carefully with our cost structure, the investment needed to grow and the profit expectations of the market. During the year this approach was accelerated to comply with the price regulations in the new National Credit Act. We also introduced a new loan price structure during the 2007 financial year, comprising an initiation fee, interest and a monthly fee. The current year interest income is therefore significantly lower, with a related increase in loan fee income. We are building a bank with capacity to do much more business in future. Under the circumstances, we regard this year's profit growth as satisfactory.

Our larger capital base means that our return on capital decreased during the current year from 26% to 22%. This is temporary and will be nullified as our business grows. This time last year, we felt that the additional capital of R300 million we raised was in excess of our needs but we did the transaction to increase our BEE shareholding. We are now glad that we did. The American subprime crisis has resulted in a tightening of funding markets in South Africa, making a strong capital base a big asset.

Moody's national credit rating

During the year Moody's Investor Services upgraded the long-term national scale credit rating of Capitec Bank Limited, Capitec's banking subsidiary, by two notches to A2.za. The short-term rating at Prime-2.za remains unchanged.

Instant gratification

The customer walks into a shop, buys a can of beans, and walks out. What's the big deal? This is exactly what we do: the client walks into Capitec Bank, applies for a loan, and walks out with the money. If it's a new client, we have to open an account, issue a card and make the loan accessible via the card. What's the big deal? The big deal is that no private bank in South Africa does this, not even for a client of thirty years' standing.

At traditional banks, a client request results in the opening of a file (in modern banks an electronic file) which will wind its way through various departments and committees, before the bank will respond to the client. We regard the client's request as an opportunity to complete the transaction. If we need credit bureau information, that information is immediately retrieved electronically. If we need to verify information, that verification is done immediately. This is not only what the client wants, it is also a very efficient way of doing business. Every file with unfinished business represents an impediment to the flow of new business.

We are the only bank with no administrative back office in every branch. Everything is done on-line, the client is never required to fill in forms and every transaction is verified by the electronic fingerprint of a consultant.

We look carefully at what our clients require. The first ATM transaction that our clients do, is to check the balance on their account. We offer it free, on the first screen that opens on our ATMs.

We are building a bank that will provide banking to all South Africans who need basic banking products. Doing banking the Capitec way should be as painless as buying bread.

Our fees are low and easy to understand. For instance: our new internet banking has no monthly fee and we charge R1,75 for a payment, irrespective of size. Our banking products offer the best value in the market.

Our people

Not many of our consultants worked in the bank industry before being employed by us. We recruit for potential and train for skill. Every new recruit goes through a two-week training assignment in branches, a two-week intensive training course in Stellenbosch and a three-week apprentice period in the branch before being certified as a consultant. We spent R19,2 million on training our staff in 2008, 28% higher than our expenditure last year and 9% of our total operations salary bill.

Millions of clients

When we started we believed we needed two million clients to be a success. We have more than 1,3 million clients and in a good month we open 45 000 new accounts. Many of the targets we set ourselves seem easy by the time we attain them and our target now is many more than two million clients.

The value of retail savings deposits increased by 52% on last year to R842 million at year-end. The number of active savings clients increased by 200 000.

We introduced a 36 month loan product in October 2007 with a maximum size of R50 000. The market response to this has been very good, even though we set high credit standards for clients to qualify for such loans.

The value of all loans advanced during the year increased by 50% from R3,4 billion to R5,2 billion. We made 3,2 million individual loans during the year. Our total loan book at year-end (that is the value of loans still outstanding at that date), grew by 151% from R803 million to R2,0 billion in 2008.

Bad and doubtful debts

Credit scoring and affordability measures are continuously being improved to limit delinquency on loans. We are cautious in granting longer-term loans as the economy slows down.

Our loan impairment expense as a percentage of instalments due by product compared as follows against last year:

		2008	2007
1 month	%	**1.05**	1.61
3 month	%	**3.83**	3.16
6 month	%	**5.14**	6.85
12 month	%	**10.18**	13.13
18 month	%	**12.99**	24.30
24 month	%	**15.78**	21.65
36 month	%	**29.37**	–
Gross bad debt	%	**5.86**	4.69
Recoveries	%	**(0.76)**	(0.57)
Net bad debt	%	**5.10**	4.12

We measure arrears and impairments against instalments due and not outstanding balances because a large part of our short-term loans are repaid before month-end and are therefore not reflected on our balance sheet at month-end or year-end.

All loans are written off 90 days after a loan goes into arrears. For short-term loans the write-offs reflect a current reality, but need to be carefully interpreted as an impairment of 1,05% on a one-month loan means that we expect to write off 12 times that percentage over a 12 month period.

Longer term loans are more complex and provisioning against these loans contains less certainty. The impact of a missed instalment is more severe at the beginning of a loan, as the full loan amount may be at risk. Therefore the provision as a percentage of instalments is higher for a new and growing loan book. Over time every new product reverts to a normal distribution of arrears. This is why the impairment expense of 18 and 24 month loans has improved significantly and why the new 36 month loans start with a high level of impairment. We expect the 36 month figure to reduce significantly towards maturity.

We consider the current provisions to be adequate, given our clients' payment history and the current economic environment.

Funding

The growth in the loan book significantly reduced our excess funds during the second half of the year. We disposed of our investment in listed preference shares, where some of our excess funds were placed and we successfully obtained additional wholesale funds through the issue of commercial paper. We recently obtained a rand-based loan from PROPARCO (the French development agency) after year-end and plan to continue to approach the corporate market for further funding. We continue to manage liquidity cautiously.

Basel II and capital adequacy

The Basel II requirements changed the way in which the capital adequacy of a bank is calculated. We successfully completed the implementation on 1 January 2008. We are one of the first banks in South Africa to publish capital figures in terms of the amended Banks' Act and related Regulations as part of the year end reporting process.

It is our intention to implement the Alternative Standardised Approach for the calculation of the operational risk capital requirement in order to enhance capital efficiency. Our application to the South African Reserve Bank is following the normal regulatory approval process.

The board of directors

Jannie Mouton has been our chairman since Capitec Bank was founded in 2001. Jannie was an early and staunch supporter of the Capitec Bank revolution. Without his support and the support of the PSG Group (of which he is the founder and chairman and which remains our largest shareholder), Capitec Bank would never have come into being. A year ago I took over as chairman from Jannie, at his request. Since then Jannie has also retired as a director of Capitec Bank.

At the same time Jacobus van Zyl Smit retired as director. He was chairman of the audit committee, and also a constant source of advice, given his vast experience and knowledge.

We thank Jacobus van Zyl Smit and Jannie Mouton for their loyalty and wisdom.

During the year four new members were appointed to our board: Tshepo Mahloele (CEO of Pan African Infrastructure Development Fund and Deputy chairman of Circle Capital Ventures), Piet Mouton (Managing director of Thembeka Capital), Pieter van der Merwe (after his retirement as Executive Director of Absa responsible for Group Administration, IT, Information management, Credit and Risk) and Kevin Hedderwick (Chief Operating Officer of Famous Brands, well-known for its Steers and Wimpy restaurants). They bring a wide range of experience with them.

It is the management of the bank who are responsible for the amazing story of Capitec Bank that we report on and we remain in awe of what they have achieved.

The future

Over the past four months world sentiment in financial markets has swiftly turned negative. This does not impact on our customers at present, but it may make access to funding more difficult.

We support the principle of the new National Credit Act to provide credit on the basis of the ability of borrowers to pay, an approach we have always applied. The Act has brought stability and responsibility to the market. We support the legislation regarding debt mediation and trust that sufficient infrastructure will be put in place to regulate the industry and support clients where necessary.

We see great opportunity in the expansion of our product range, our branch network and our transaction platform in the coming year. Capitec Bank will continue to revolutionise banking in South Africa.

Dividends

An interim dividend of 25c was paid in December and the directors declared a final dividend of 75c per share, an increase of 25% over last year.

The following dates apply for participation in the dividend payment:

Last day to trade cum dividend	Friday, 6 June 2008
Trading ex dividend commences	Monday, 9 June 2008
Record date	Friday, 13 June 2008
Payment date	Tuesday, 17 June 2008

Share certificates may not be dematerialised or rematerialised between Monday 9 June 2008 and Friday 13 June 2008, both days inclusive.

On behalf of the board

Michiel le Roux	**Riaan Stassen**
Chairman	Chief Executive Officer
Stellenbosch	1 April 2008

Registered office
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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
M S du P le Roux (Chairman), R Stassen (CEO)*, A P du Plessis (CFO)*, K A Hedderwick, T D Mahloele, Prof M C Mehl, Ms N S Mjoli-Mncube, P J Mouton, C A Otto, J G Solms, J P van der Merwe *Executive

Sponsor
PSG Capital (Pty) Limited (Registration number: 2006/01587/07)

Annual general meeting
28 May 2008 at 12h00, at L' Avenir Estate, Gran Vin Hall,
R44 Klapmuts Road, Stellenbosch

Audited summarised consolidated Financial Statements available at: **www.capitecbank.co.za**

Capitec Bank is an authorised financial services provider

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