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

UNAUDITED FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2008

- Headline earnings per share up 22.2%
- Interim dividend per share 30 cents
- Return on equity 22%
- Capital adequacy ratio 45%
- Arrears up 23%
- Clients 1.58 million

		Six months August 2008	Six months August 2007	Growth %	Twelve months February 2008
PROFITABILITY					
Income from banking operations	Rm	916	590	55.3%	1 315
Net loan impairment expense	Rm	(228)	(87)	162.1%	(231)
Banking operating expenses	Rm	(504)	(355)	42.0%	(763)
Non banking operations	Rm	3	1		3
Tax	Rm	(58)	(44)	31.8%	(95)
Preference dividend	Rm	(10)	(8)	25.0%	(17)
Earnings attributable to ordinary shareholders					
• Basic	Rm	119	97	22.7%	212
• Headline	Rm	119	97	22.7%	212
Cost to income ratio					
• banking activities	%	55	60		58
Return on ordinary shareholders equity	%	22	21		22
Earnings per share					
• Attributable	cents	145	119	22.3%	259
• Headline	cents	145	119	22.2%	259
• Diluted attributable	cents	142	114	24.7%	250
• Diluted headline	cents	142	114	24.6%	251
Dividends per share					
• Interim	cents	30	25	20.0%	25
• Final	cents				75
Dividend cover	x	4.8	4.7		2.6
ASSETS					
Total assets	Rm	4 018	2 339	71.8%	2 936
Net loans and advances	Rm	2 662	1 225	117.3%	2 019
Cash and cash					

equivalents	Rm	1 043	571	82.7%	618
Investments	Rm	17	267	(93.6%)	14
Other	Rm	296	276	7.2%	285
LIABILITIES					
Total liabilities	Rm	2 739	1 207	126.9%	1 719
Deposits	Rm	2 502	1 055	137.2%	1 528
Other	Rm	237	152	55.9%	191
EQUITY					
Shareholders' funds	Rm	1 279	1 132	13.0%	1 217
Capital adequacy ratio	%	45	49		36
Net asset value per ordinary share	cents	1 358	1 193	13.9%	1 297
Share price	cents	2 950	3 700	(20.3%)	3 900
Market capitalisation	Rm	2 443	3 031	(19.4%)	3 195
Number of shares in issue	'000	82 798	81 928	1.1%	81 928
Share options					
• Number outstanding	'000	7 468	5 679		5 159
• Average strike price	cents	2 723	1 650		1 815
• Average time to maturity	months	35	27		24
• Charge on settlement	Rm	15	35	(57.1%)	48
OPERATIONS					
Branches		346	307	12.7%	331
Employees		3 190	2 505	27.3%	2 800
Active clients	'000	1 583	1 188	33.2%	1 371
ATMs					
• Own		350	295	18.6%	328
• Partnership		520	273	90.5%	437
Capital expenditure	Rm	47	68		117
SALES					
Loans					
Value of loans advanced	Rm	3 064	2 146	42.8%	5 162
Number of loans advanced	'000	1 725	1 570	9.9%	3 155
Average loan amount	R	1 776	1 366		1 636
Gross loans and advances	Rm	2 898	1 347	115.1%	2 192
Loans past due (arrears)	Rm	288	129	122.6%	247
Loans past due to gross loans and advances	%	9.9	9.6		11.2
Provision for doubtful debts	Rm	236	122	93.4%	173
Provision for doubtful debts to gross loans & advances	%	8.1	9.1		7.9

Arrears coverage ratio	%	82	94		70
Loan revenue	Rm	933	558	67.3%	1 284
Loan revenue to gross loans and advances	%	32.2	41.4		58.6
Net loan impairment expense	Rm	228	87	162.1%	231
Net impairment expense to loan revenue	%	24.4	15.6		18.0
Net impairment to gross loan book	%	7.9	6.5		10.5
Net impairment expense to repayments	%	7.5	4.2		5.10
Deposits					
Value of savings deposits	Rm	984	701	40.4%	842
Number of savings clients	'000	923	669	38.1%	783
Net transaction fee income	Rm	63	36	75.2%	79

MARKET ACCEPTANCE AND OPERATIONS

Our core bank offer is the most affordable, accessible and simplified in the market. In the current economic climate, this has resulted in significant growth in bank clients who deposit their salaries at Capitec Bank. This growth is an indication of the acceptance of our unique banking model and the growing confidence in the Capitec Bank brand.

We have grown our client base by 33% since last year to 1.58 million clients. Our branch numbers have increased by 39, to 346 and we now employ 3 190 people.

We will maintain our position as price leaders in the market. Our pricing on transactions is generally half that of other banks. We have in most instances chosen to price our loans at levels below that prescribed in the National Credit Act. Margins and profitability per product are therefore at the levels expected for the longer term future.

INCOME AND EXPENSE ANALYSIS

Income from banking grew by 55% year-on-year to R916 million. Transaction income now contributes R125 million to this figure and grew by 72% year-on-year. This was as a result of our growing client base, the increasing use of debit cards and our attractive transaction fee offering. Although expenses also increased due to our ongoing expansion programme, the cost to income ratio continued to decrease. Most of the additional branches were established during the early part of 2008. This increased expenses disproportionately over the first six months of this year, with only a small profit contribution by these branches. All new branches are, however, growing rapidly and are profitable within a few months. We expect the expense to income ratio to continue to decrease as volumes pick up and our infrastructure is used more efficiently.

We are in the process of improving efficiencies in branches and further standardising the paperless processes. This has the initial effect of increasing expenses, but will deliver cost savings and improved capacity over the long term.

LOANS ADVANCED AND IMPAIRMENTS

All our loans are at fixed rates which means clients are not exposed to interest rate fluctuations on our loans. We continuously adjust our credit vetting criteria to address the changing environment and to manage arrears and default rates. We specifically applied more stringent criteria in this period to address inflationary increases in the cost of living and reduced personal disposable income due to down-scaling and retrenchments.

The value of loans advanced (sales) grew by 43% to R3.1 billion, whilst the balance sheet gross advances grew by 115% to R2.9 billion. The main contributor to the growth was the new 36 month loan product which was launched in October 2007. The 36 month product now amounts to 25% of our gross outstanding loan book. Despite the fact that we have tightened our credit criteria, the other medium term loan products, ranging from 12 to 24 months, also showed strong growth and now comprise 57% of the gross outstanding loan book.

Loan revenue, consisting of interest, origination fees and monthly administration fees, grew by 67% to R933 million. This growth is higher than the growth in loans advanced (sales) due to the annuity income of the longer term products over the term of the loan. The loan impairment expense, however, grew by 162% to R228 million. This growth is higher than the growth in loan revenue due to a continuous decrease in our margins (the cost of credit to our clients), an increase in arrears and the rollout of longer term products. These products have lower bad debts, compared to the short term products and require clients to spend less time in the branches resulting in a lower cost to income ratio.

Arrears deteriorated by 23% year-on-year and by 11% compared to the six month period to February 2008. We do not expect further deterioration as we have adjusted our credit parameters in anticipation of continued tough market conditions. Compared to the gross loans, arrears have increased from 9.6% a year ago to 9.9% and are well within our risk appetite and targets. We do, however, expect this ratio to increase as the products with a longer tenure increase in proportion to the total loan book mix. R95 million of the year-on-year increase in the net loan impairment expense from R87 million in August 2007 to R228 million in August 2008 is due to book growth. The balance of R46 million is due to an increase in arrears on the short and medium term products and the refinement of our models as more history becomes available on the new products. Compared to the six month period to February 2008, R60 million of the R84 million (February 2008’s full year expense less first 6 months of previous year) increase can be attributed to book growth and R24 million to an increase in arrears on the short and medium term products.

We write off all debts older than 90 days in arrears and are therefore comfortable with the provision for doubtful debts to arrears coverage ratio of 82%. All our provisions are calculated on a discounted cash flow model and as explained at year end, we provide at a much higher rate earlier in the loan lifecycle than at the end. The net impairment expense ratio as a percentage of repayments will therefore continue to increase as the size and tenure of the book increase.

FUNDING

Capitec Bank was listed in 2001, at the time of the small bank crisis in South Africa. We have therefore always followed a conservative approach to liquidity, even at the expense of profitability.

The growth in our loan book increased our funding requirements and despite the present tight liquidity conditions in the market we successfully launched our domestic medium term note (DMTN) programme in April and raised term funding of R490 million. A portion of the DMTN issue was done at variable rates and we have swapped this to fixed rates to match our fixed rate loan book. We also secured term funding from PROPARCO, the French development agency, of R150 million. Retail deposits increased to R984 million and we will continue to regard this as a significant source of funding.

MOODYS NATIONAL CREDIT RATING

Capitec Bank’s short term credit rating improved to P-1.za in May this year. The bank’s long term rating remained unchanged at A2.za and has a stable outlook.

BASEL II AND CAPITAL ADEQUACY

We successfully implemented the alternative standardised approach (ASA) to quantify operational risk capital, a component in calculating our capital adequacy ratio. This method for the calculation of operational risk is based on balance sheet size instead of gross margin and requires risk management processes to be formalised and documented. The approval by the Reserve Bank of this method led to a reduction in the calculated operational risk capital and an improvement in our capital adequacy ratio. With a capital adequacy ratio of 45%, the bank is well capitalised and will remain so for the foreseeable future.

The disclosure in terms of Regulation 43 of the Banks Act is available on our website.

PROSPECTS

We will continue to monitor the difficult trading conditions which we expect to remain for the foreseeable future. Due to the size and tenure of the loans we grant, we have the ability to change the granting parameters immediately. We do not expect further deterioration in arrears and bad debts.

The bank is well capitalised and this is very useful in these tough economic conditions. We will continue to manage our expansion and growth in the branches within our ability to grow the funding base. We are not exposed to liquidity problems should additional funding not materialise.

The recent advertising and promotional campaigns and the sales effort by our employer sales team are driving awareness of the unique value of our banking offer. Client growth has been very positive and we are confident that we will continue to grow our client base given that we offer the most accessible, affordable and simplified everyday banking available.

INTERIM DIVIDEND

The directors approved an interim ordinary dividend of 30 cents per share payable on Monday, 1 December 2008.

The following dates apply:

Last date to trade cum dividend	Friday, 21 November 2008
Trading ex dividend commences	Monday, 24 November 2008
Record date	Friday, 28 November 2008
Date of payment	Monday, 1 December 2008

Share certificates may not be dematerialised or rematerialised between Monday, 24 November and Friday, 28 November 2008, both days inclusive.

The preference dividend of 571.13 cents per share for the six months to 31 August was declared on 29 August and was paid on 22 September 2008.

GROUP BALANCE SHEET

	Unaudited August 2008 R'000	Unaudited August 2007 R'000	Growth %	Audited February 2008 R'000
ASSETS				
Current assets				
Cash and cash equivalents	1 043 440	571 349	82.6	617 901
Investments at fair value	17 355	267 306	(93.5)	14 424
Loans and advances	1 909 290	1 041 723	83.3	1 493 597
Inventory	16 980	11 756	44.4	17 741
Other receivables	24 719	18 496	33.6	19 347
Non-current assets				
Loans and advances	753 162	183 599	310.2	525 603
Property and equipment	197 173	188 819	4.4	196 173
Intangible assets				
– banking system	37 981	40 149	(5.4)	37 619
Deferred income tax assets	18 287	15 593	17.3	13 967
Total assets	4 018 387	2 338 790	71.8	2 936 372
LIABILITIES				
Current liabilities				
Deposits at amortised cost	1 563 810	745 555	109.8	1 314 722
Deposits held at fair value	40 899	13 314	207.2	35 496
Trade and other payables	183 768	104 865	75.2	128 733
Current income tax liabilities	39 608	32 250	22.8	47 456
Provisions	-	3 850	(100.0)	-
Non-current liabilities				
Trade and other payables	14 162	11 118	27.4	14 635
Deposits at amortised cost	896 893	256 425	249.8	160 974
Deposits held at fair value	-	39 773	(100.0)	16 929
Total liabilities	2 739 140	1 207 150	126.9	1 718 945
EQUITY				
Ordinary share capital and premium	674 368	647 363	4.2	647 363
Non distributable reserves	(10 972)	2 439	(549.9)	-
Retained earnings	461 245	327 232	41.0	415 458
Ordinary shareholders' funds	1 124 641	977 034	15.1	1 062 821
Non-redeemable, non-cumulative, non-participating preference shares	154 606	154 606	-	154 606
Total equity	1 279 247	1 131 640	13.0	1 217 427
Total equity and liabilities	4 018 387	2 338 790	71.8	2 936 372

GROUP INCOME STATEMENT

	Unaudited Six Months ended August 2008 R'000	Unaudited Six Months ended August 2007 R'000	Growth %	Audited Year ended February 2008 R'000
Interest on loans advanced	508 321	345 786	47.0	709 166
Interest on cash and cash equivalents	20 481	19 882	3.0	30 897
Interest expense	(105 481)	(42 137)	150.3	(101 449)
Net interest income	423 321	323 531	30.8	638 614
Net fee income	487 887	247 933	96.8	653 400
Loan fee income	425 000	212 074	100.4	574 584
Transaction fee income	124 706	72 481	72.1	168 361
Transaction fee expense	(61 819)	(36 622)	68.8	(89 545)
Dividend income	1 070	10 969	(90.2)	15 392
Net impairment charge on loans and advances	(228 085)	(87 084)	161.9	(230 879)
Net movement in financial instruments held at fair value	4 019	7 569	(46.9)	7 818
Other income	147	-	-	8
Non-banking gross profit	8 499	4 997	70.1	10 938
Non-banking sales	97 144	68 686	41.4	159 122
Non-banking cost of sales	(88 645)	(63 689)	39.2	(148 184)
Income from operations	696 858	507 915	37.2	1 095 291
Banking operating expenses	(504 681)	(354 471)	42.4	(762 540)
Non-banking operating expenses	(5 362)	(3 863)	38.8	(8 405)
Operating profit before tax	186 815	149 581	24.9	324 346
Income tax expense	(58 109)	(44 280)	31.2	(95 281)
Net profit attributable to equity holders	128 706	105 301	22.2	229 065

RECONCILIATION OF ATTRIBUTABLE EARNINGS TO HEADLINE EARNINGS

	Unaudited Six Months ended August 2008 R'000	Unaudited Six Months ended August 2007 R'000	Growth %	Audited Year ended February 2008 R'000
Net profit attributable to equity holders	128 706	105 301	22.2%	229 065
Less preference dividend	(9 619)	(8 122)	18.4%	(17 011)
Net profit attributable to ordinary shareholders	119 087	97 179	22.5%	212 054
Items excluded from headline earnings after tax:				
• Loss on disposal of fixed assets	42	101	(58.6%)	145
Headline earnings	119 129	97 280	22.5%	212 199

GROUP CASH FLOW STATEMENT

	Unaudited Six months ended August 2008 R'000	Unaudited Six months ended August 2007 R'000	Audited Year ended February 2008 R'000
Cash flow from operating activities	535 249	(154 091)	(260 872)
• Cash flow from operations	295 072	184 522	445 732
• Increase in loans and advances	(705 846)	(432 534)	(1 277 943)
• Increase in other liabilities, provisions and deposits	1 007 725	173 075	680 986
• Tax paid	(61 702)	(79 154)	(109 647)
Cash flow from investment activities	(45 272)	(219 053)	(12 709)
• Net investment in equipment and software	(47 148)	(68 004)	(116 071)
• Decrease(increase) in other investing activities	1 876	(151 049)	103 362
Cash flow from financing activities	(64 438)	(99 253)	(152 264)
• Dividends paid	(70 987)	(49 157)	(85 378)
• Shares issued and acquired and options settled	6 549	(50 096)	(66 886)
Increase(decrease) in cash and cash equivalents	425 539	(472 397)	(425 845)
Cash and cash equivalents at beginning of period	617 901	1 043 746	1 043 746
Cash and cash equivalents at end of period	1 043 440	571 349	617 901

GROUP STATEMENT OF CHANGES IN EQUITY

	Six months ended August 2008 R'000	Six months ended August 2007 R'000	Year ended February 2008 R'000
Equity at beginning of period	1 217 427	1 117 457	1 117 457
Net profit attributable to equity holders	128 706	105 301	229 065
Ordinary shares issued	27 006	-	-
Loss on settlement of share options net of share based staff costs	(15 511)	(47 595)	(59 877)
Tax on settlement of share options	4 308	13 756	17 432
Cash flow hedge net of taxation	(10 972)	-	-
Dividends declared	(71 717)	(57 279)	(86 650)
Equity at end of period	1 279 247	1 131 640	1 217 427

SEGMENTAL RESULTS

	Banking R'000	Wholesale Distribution R'000	Total R'000
Unaudited			
Six months ended August 2008			
Revenues	1 079 725	97 144	1 176 869
Headline earnings	116 632	2 497	119 129
Assets	3 991 697	26 690	4 018 387
Unaudited			
Six months ended August 2007			
Revenues	661 192	68 686	729 878
Headline earnings	96 515	765	97 280
Assets	2 318 788	20 002	2 338 790
Audited			
Year ended February 2008			
Revenues	1 498 408	159 122	1 657 530
Headline earnings	210 513	1 686	212 199
Assets	2 913 528	22 844	2 936 372

COMMITMENTS

	Unaudited August 2008 R'000	Unaudited August 2007 R'000	Audited February 2008 R'000
Guarantees			
• Non-banking institutions	-	7 500	7 500
Capital commitments approved by the board			
• Contracted for	39 732	11 878	43 030
• Not contracted for	101 583	95 684	132 852
Operating lease commitments			
< 1 year	73 292	55 364	69 462
1 to 5 years	159 949	144 219	158 489
> 5 years	3 943	5 671	6 665

INTERIM FINANCIAL REPORTS

The abridged interim consolidated financial statements are prepared in accordance with IAS 34 – Interim Financial Reporting and the accounting policies applied conform to IFRS. The accounting policies applied in the preparation of the interim consolidated financial statements are consistent with the policies applied in the previous year.

On behalf of the board

Michiel le Roux Riaan Stassen
Chairman Chief executive officer

Stellenbosch 1 October 2008

www.capitecbank.co.za
Capitec Bank Limited is an authorised financial services and credit provider.

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