CAPITEC Bank

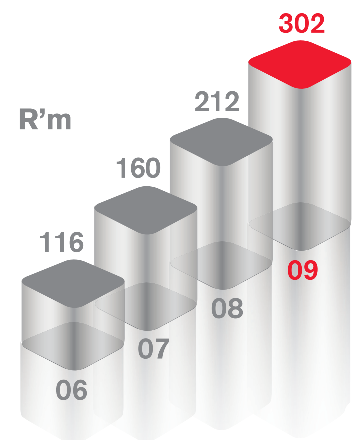
CAPITEC BANK HOLDINGS LIMITED

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

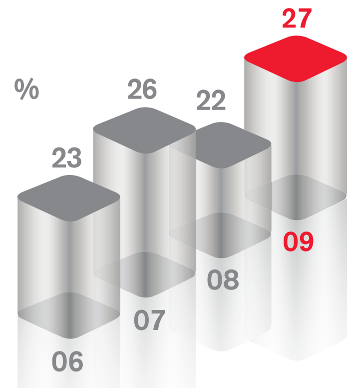
Headline earnings up 42%

Headline earnings per share	**366 cents**
Final dividend per share	**110 cents**
Return on equity	**27%**
Clients	**1.8 million**
Shareholders' funds	**R1.4 billion**

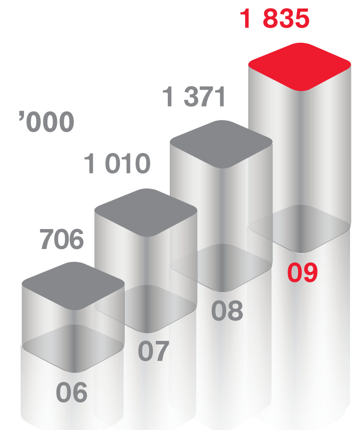
		09	08	Change % 09/08	07
PROFITABILITY					
Income from banking operations	Rm	1 983	1 315	51	1 010
Net loan impairment expense	Rm	(468)	(231)	103	(161)
Banking operating expenses	Rm	(1 065)	(763)	40	(607)
Non-banking operations	Rm	6	3	100	1
Tax	Rm	(137)	(95)	44	(76)
Preference dividend	Rm	(19)	(17)	12	(8)
Earnings attributable to ordinary shareholders					
▪ Basic	Rm	300	212	42	159
▪ Headline	Rm	302	212	42	160
Cost to income ratio					
▪ banking activities	%	54	58		60
Return on ordinary shareholders equity	%	27	22		26
Earnings per share					
▪ Attributable	cents	364	259	40	221
▪ Headline	cents	366	259	41	222
▪ Diluted attributable	cents	357	250	43	209
▪ Diluted headline	cents	359	251	43	211
Dividends per share					
▪ Interim	cents	30	25	20	20
▪ Final	cents	110	75	47	60
Dividend cover	x	2.6	2.6		2.8
ASSETS					
Total assets	Rm	4 969	2 936	69	2 191
Net loans and advances	Rm	2 982	2 019	48	803
Cash and cash equivalents	Rm	1 514	618	145	1 044
Investments	Rm	150	14	971	112
Other	Rm	323	285	13	232
LIABILITIES					
Total liabilities	Rm	3 563	1 719	107	1 074
Deposits	Rm	3 317	1 528	117	897
Other	Rm	246	191	29	177
EQUITY					
Shareholders' funds	Rm	1 406	1 217	16	1 117
Capital adequacy ratio	%	43	36		79
Net asset value per ordinary share	cents	1 512	1 297	17	1 175
Share price	cents	3 001	3 900	(23)	3 700
Market capitalisation	Rm	2 485	3 195	(22)	3 031
Number of shares in issue	'000	82 798	81 928	1	81 928
Share options					
▪ Number outstanding	'000	5 713	5 159	11	6 191
▪ Average strike price	cents	2 487	1 815	37	1 151
▪ Average time to maturity	months	25	24	4	24
▪ Charge on settlement	Rm	34	48	(29)	22
OPERATIONS					
Branches		363	331	10	280
Employees		3 414	2 800	22	2 129
Active clients	'000	1 835	1 371	34	1 010
ATMs					
▪ Own		368	328	12	264
▪ Partnership		571	437	31	143
Capital expenditure	Rm	133	117	14	86
SALES					
Loans					
Value of loans advanced	Rm	6 273	5 162	22	3 449
Number of loans advanced	'000	3 536	3 155	12	2 924
Average loan amount	R	1 774	1 636	8	1 180
Gross loans and advances	Rm	3 223	2 192	47	914
Loans past due (arrears)	Rm	326	247	32	106
Loans past due to gross loans and advances	%	10.1	11.2		11.6
Provision for doubtful debts	Rm	241	173	39	111
Provision for doubtful debts to gross loans and advances	%	7.5	7.9		12.1
Arrears coverage ratio	%	74	70		105
Loan revenue	Rm	2 054	1 284	60	1 001
Loan revenue to gross loans and advances	%	63.7	58.6		109.5
Gross loan impairment expense	Rm	514	266	94	183
Recoveries	Rm	46	35	34	22
Net impairment expense to loan revenue	%	22.8	18.0		16.1
Net impairment to gross loan book	%	14.5	10.5		17.6
Net impairment expense to repayments	%	7.2	5.10		4.12
Deposits					
Retail savings deposits	Rm	1 306	842	55	554
Retail fixed deposits	Rm	265	–		–
Number of savings clients	'000	1 129	783	44	583
Net transaction fee income	Rm	138	79	75	35



Headline earnings



Return on equity



Active clients

GROUP BALANCE SHEET	09	08
	R'000	R'000
ASSETS		
Cash and cash equivalents	1 513 989	617 901
Investments at fair value	150 044	14 424
Loans and advances	2 981 685	2 019 200
Inventory	22 120	17 741
Other receivables	20 114	19 347
Property and equipment	240 134	196 173
Intangible assets		
– banking system	27 669	37 619
Deferred income tax assets	13 667	13 967
Total assets	4 969 422	2 936 372
LIABILITIES		
Loans and deposits at amortised cost	3 298 897	1 475 696
Loans and deposits held at fair value	17 916	52 425
Trade and other payables	229 910	143 368
Current income tax liabilities	16 498	47 456
Total liabilities	3 563 221	1 718 945
EQUITY		
Ordinary share capital and premium	674 369	647 363
Non distributable reserves	(23 873)	–
Retained earnings	601 099	415 458
Ordinary shareholders' funds	1 251 595	1 062 821
Non-redeemable, non-cumulative, non-participating preference shares	154 606	154 606
Total equity	1 406 201	1 217 427
Total equity and liabilities	4 969 422	2 936 372

GROUP INCOME STATEMENT	09	08
	R'000	R'000
Interest on loans advanced	1 156 514	709 166
Interest on cash and cash equivalents	56 382	30 897
Interest expense	(269 621)	(101 449)
Net interest income	943 275	638 614
Net fee income	1 035 709	653 400
Loan fee income	897 502	574 584
Transaction fee income	281 548	168 361
Transaction fee expense	(143 341)	(89 545)
Dividend income	1 099	15 392
Net impairment charge on loans and advances	(467 727)	(230 879)
Net movement in financial instruments held at fair value	2 197	7 818
Other income	280	8
Non-banking gross profit	18 218	10 938
Non-banking sales	208 915	159 122
Non-banking cost of sales	(190 697)	(148 184)
Income from operations	1 533 051	1 095 291
Banking operating expenses	(1 063 672)	(762 540)
Non-banking operating expenses	(12 696)	(8 405)
Operating profit before tax	456 683	324 346
Income tax expense	(137 351)	(95 281)
Net profit attributable to equity holders	319 332	229 065

RECONCILIATION OF ATTRIBUTABLE EARNINGS TO HEADLINE EARNINGS	09	08
	R'000	R'000
Net profit attributable to equity holders	319 332	229 065
Less preference dividend	(19 127)	(17 011)
Net profit attributable to ordinary shareholders	300 205	212 054
Items excluded from headline earnings after tax:		
▪ Loss on disposal of fixed assets	1 666	145
Headline earnings	301 871	212 199

Summarised extracts from the financial statements for the year ended 28 February 2009

1. Simplicity is the ultimate sophistication

The banking systems of the most sophisticated financial nations on earth remain in intensive care, but Capitec Bank has hardly been affected at all. How is this possible?

The answer is surprisingly simple: Although we use plenty of sophisticated technology, the Capitec Bank model is a very old-fashioned one. We borrow long and lend short. We avoid complex products. We have plenty of capital. We manage arrears zealously. These are the main reasons for our stability in turbulent times.

In the equity markets, stability and success are often seen as opposites. We are immodest enough to believe that Capitec Bank is now a growing success and this success combines with stability. There are more reasons for our success than just for our stability. We define our market narrowly and concentrate exclusively on this market. Our management knows our market well. We have few products, but they are all the best available to our clients and offered at the lowest prices in the market.

2. Profits of R302 million

Increasing profits by 42% to R302 million in current circumstances is very satisfactory, even if only to illustrate the difference between our banking model and traditional banking.

- We gained 464 000 new clients during the year and now have 1.8 million active clients, 34% up on last year.
- Our sales during the year – the total value of loans granted – increased by 22% to R6.3 billion. The number of loans granted increased by 12% to 3.5 million. The average loan amount increased to R1 774.
- Sales of the three-year loan, launched in October 2007, grew by 128%. This made a significant contribution to the growth of our total book by 48% to R3.0 billion.
- Net transaction income grew by 75% and represents 9% of our revenue, the other 91% deriving from loans.
- We concentrate exclusively on personal banking. We have no business clients and do no treasury trading.
- Operating expenditure grew by 40%. We opened 32 new branches and plan to open another 40 in the next twelve months.
- We employ 3 414 employees (22% more than in 2008) and we have 368 ATMs.
- The cost-to-income ratio for the year was 54%, compared to 58% in 2008.
- We remain extremely cost conscious. At Capitec Bank, nobody flies business class.
- Included in headline earnings is an adjustment of R11.3 million representing the present value of future recoveries (see arrears and bad debts below). Without this adjustment the headline earnings growth would have been 37%.

3. Arrears and bad debts

Capitec Bank adjusted the loan criteria for clients during the year in anticipation of the market changes.

The gross loan impairment expense (before recoveries) for the year increased by R248 million compared to last year. The increase comprised R206 million due to loan book growth and R76 million due to increased default rates. This was offset by R18 million due to improved data history and R16 million due to the valuation placed on handed-over loans. All loan impairments are calculated using actual experience.

This is higher than we would like it to be and the major impact of recessionary times on our business. Another way of comparing bad debt performance in a changing business is to look at arrears as a percentage of gross loans extended. This figure has deteriorated from 8.3% last year to 9.1% this year.

- Our bad debt ratio is very sensitive to retrenchments and strikes. We are prepared for further bad news on this front.
- We write off all arrears after three months, and in the case of a term loan the full outstanding balance is written off after three months. This is a conservative but realistic approach. That is why we use the terms "bad debts" and "arrears" pretty much as meaning the same thing.
- We have tightened our lending criteria. We channel more risky clients to the shorter-term products.
- Our longer-term products are more profitable on a risk-weighted basis than the short-term loans. At the same time we provide more for doubtful debts on term loans in the initial months of the loan term than in the later months. The bad debt ratio will therefore increase rapidly as a new product is launched and the new book starts growing.
- One of the reasons for the international credit crunch was a false complacency within banks that they fully understood the risks inherent in their products. At Capitec Bank we know we can never relax.
- The growth in the book resulted in a substantial growth in recoveries of the handed-over book and we therefore had to start taking the future value of recoveries into consideration. We determined the increase in the present value of the expected cash flow of loans which have been written off, which resulted in an increase of R11.3 million after tax in our headline earnings.

4. Liquidity

In a year of tight market liquidity, the bank has improved its liquidity position whilst growing the asset book. Our liquidity philosophy remains extremely conservative. We will continue to manage our liquidity position conservatively and balance book growth and arrears appetite against available funding. At year-end we would have been able to repay all our saving deposits immediately and on average throughout the year, within two weeks. Internationally, retail savings deposits are considered to be least likely to disappear be withdrawn in a crisis.

- We launched an innovative fixed-term savings plan (6 months to 24 months) in November 2008 and raised R265 million in four months. This is an ideal form of funding due to the distributed funding base, rolling maturities and the fact that we can manage the uptake on the product.
- We have been successful in increasing our wholesale contractual deposits by a total of R1.1 billion over the year. A domestic medium term note programme was launched in May 2008 and raised R490 million with a maturity of three years.

Why has Capitec Bank been so prudent? We obtained our banking licence in 2001. At the time a small-banks crisis was occurring in a small country at the southern tip of Africa. Hardly anybody else remembers it, but we do. We saw how small banks went under overnight when markets lost confidence and the banks were caught in a liquidity trap. Even before that, in 1997, we saw how a financial crisis in Asia could rock banks in Africa. When we started our own bank, we decided that Capitec Bank should never put itself in a position where a bad day in the markets can destroy a bank built up over a lifetime.

5. Capital

The amount of capital that a bank has is the measure of its ability to withstand shocks. Banks are highly geared. The bank's own capital absorbs any unexpected losses.

At year-end Capitec had R1.4 billion of equity and R3.5 billion in assets, excluding cash. Our risk-weighted capital adequacy ratio was 43% at year- end. We have plenty of capital and this is a source of comfort to our depositors.

Such security does not come cheap. Our return on capital would double should we halve our capital. This is not a thought to entertain under current circumstances, yet shareholders should appreciate that, like all good things in life, enhanced bank security comes at a price.

The return on ordinary shareholders' equity for 2009 was 27%, compared to 22% last year.

6. Management remuneration

In the popular press bankers' bonuses have been identified as a culprit in the international bank crisis. We agree that the structure of management remuneration is important and that bonuses to achieve short-term goals can distort behaviour. In the past we used modest short-term bonuses to reward management for achieving specific goals. Such bonuses tend to be open-ended, and exceptional performance by management meant that a modest scheme suddenly produced not so modest bonuses. We now focus on an incentive scheme that is driven by share options which rewards longer-term sustained profit growth. This is the way we intend to go forward: with a substantial salary, reflecting the importance of the challenge and the size of the achievements, but no, or a modest, short-term bonus.

7. Credit rating

In May 2008, Moody's Investors Service upgraded the short-term national scale credit rating for Capitec Bank Limited, Capitec's banking subsidiary, to P-1.za (from P-2.za).The bank's long-term national scale rating of A2.za remains unchanged and has a stable outlook. According to Moody's, the upgrade reflects Capitec Bank's demonstrated ability to cautiously manage its liquidity and funding over the past few years.

The long-term rating reflects a good long-term credit quality and the short-term rating a superior ability to repay short-term debt obligations.

Internationally, many banks have seen their ratings slashed and it is an unusual tribute to our stability to see our rating upgraded.

8. Innovation and growth

Innovation is the foundation on which Capitec Bank was built. For this reason we appreciated the recent review provided by the asset management company RE:CM. They concluded that over the past 15 to 20 years there have been only five "true" entrepreneurs listed on the JSE: Aspen, Capitec, Discovery, MTN and City Lodge Hotels. We thank them for this recognition. We always aim to be truly entrepreneurial.

9. Thanks

Regulators have a thankless task. We want to thank the registrar of banks, Mr Errol Kruger, for creating a stable environment in South Africa when stability has evaporated elsewhere.

We have a relatively small group of committed shareholders and wish to thank them for their loyal support during the past difficult year. PSG Group is our major shareholder and we want to thank them for guidance and support in difficult times.

Our success is due to our people: all our employees, but particularly our far-sighted executive management team. As shareholders, we appreciate their dedication.

10. Prospects

Caution and prudence are necessary under the present conditions. However, plenty of opportunities exist in the market and we are well placed to capitalise on the difficult economic conditions. We will continue to invest in expansion. We plan to open a further 40 branches in the next year and expect to obtain much better retail locations due to the market downturn. Our credit policy will be adjusted as conditions change to ensure the ideal balance between growth through new client acquisition and bad debts. The cloud on the horizon could be the ability of our clients to keep on servicing their loans. Wholesale and retail funding growth has been very gratifying and we do not anticipate changes in our ability to access loan capital.

We expect that the 2010 financial year will be another one of growth and success.

11. Dividends

We declared a final dividend of 110 cents per share. Together with the interim dividend this gives a total dividend for the year of 140 cents per share.

We believe the interim dividend is too small a portion of the total dividend and will increase the size of the interim dividend in relation to the final dividend in future years.

Last day to trade cum-dividend	Friday, 5 June 2009
Trading ex-dividend commences	Monday, 8 June 2009
Record date	Friday, 12 June 2009
Payment date	Monday, 15 June 2009

Share certificates may not be dematerialised or rematerialised, both days inclusive, between Monday, 8 June 2009 and Friday, 12 June 2009.

On behalf of the board

Michiel le Roux
Chairman

Riaan Stassen
Chief executive officer

Stellenbosch
1 April 2009

Registered office
10 Quantum Road, Techno Park, Stellenbosch 7600, PO Box 12451, Die Boord, 7613

Transfer secretaries
Computershare Investor Services (Pty) Limited
(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 (FD)*, 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
Notice is hereby given that the annual general meeting of the shareholders of Capitec Bank Holdings Limited will be held at "The Venue at Webersburg", Webersburg Wines, Annandale Road, Stellenbosch, on Friday, 29 May 2009 at 12:00.

GREYMATTER & FINCH # 4615