Capitec Bank Holdings Limited
Registration number: 1999/025903/06
Registered bank controlling company
Incorporated in the Republic of South Africa
JSE ordinary share code: CPI ISIN Code: ZAE000035861
JSE preference share code: CPIP ISIN Code: ZAE000083838

CAPITEC BANK HOLDINGS LIMITED

Unaudited financial results for the six months ended 31 August 2010

- **Headline earnings per share up 58% to 340 cents**
- **Interim dividend per share: 85 cents**
- **Return on equity: 34%**
- **Active clients: 2.5 million**
- **Shareholders' funds: R1.9 billion**

		Six months August 2010	Six months August 2009	Growth %	Year ended February 2010
Profitability					
Income from banking operations	Rm	**1 696**	1 163	**46**	2 556
Net loan impairment expense	Rm	**(403)**	(258)	**56**	(548)
Banking operating expenses	Rm	**(873)**	(637)	**37**	(1 368)
Non-banking operations	Rm	**-**	2		2
Tax	Rm	**(131)**	(84)	**55**	(193)
Preference dividend	Rm	**(6)**	(8)	**(15)**	(14)
Earnings attributable to ordinary shareholders					
Basic	Rm	**283**	178	**59**	435
Headline	Rm	**284**	178	**59**	437
Cost to income ratio banking activities	%	**51**	55		54
Return on ordinary shareholders' equity	%	**34**	28		32
Earnings per share					
Attributable	cents	**339**	215	**58**	525
Headline	cents	**340**	215	**58**	527
Diluted attributable	cents	**325**	211	**54**	509
Diluted headline	cents	**327**	211	**55**	511
Dividends per share					
Interim	cents	**85**	55		55
Final	cents				155
Total	cents				210
Dividend cover	x	**4.0**	3.9		2.5
Assets					
Total assets	Rm	**10 997**	6 536	**68**	9 488
Net loans and advances	Rm	**7 244**	3 680	**97**	5 225
Cash and cash equivalents	Rm	**2 086**	2 234	**(7)**	2 567
Investments	Rm	**1 199**	282	**325**	1 306
Other	Rm	**468**	340	**38**	390

		Six months August 2010	Six months August 2009	Growth %	Year ended February 2010
Liabilities					
Total liabilities	Rm	**9 062**	5 031	**80**	7 760
Deposits	Rm	**8 599**	4 699	**83**	7 360
Other	Rm	**463**	332	**39**	400
Equity					
Shareholders' funds	Rm	**1 935**	1 505	**29**	1 728
Capital adequacy ratio	%	**32**	36		37
Net asset value per ordinary share	cents	**2 117**	1 627	**30**	1 896
Share price	cents	**13 350**	5 500	**143**	8 200
Market capitalisation	Rm	**11 230**	4 564	**146**	6 805
Number of shares in issue	'000	**84 122**	82 983	**1**	82 983
Share options					
Number outstanding	'000	**4 932**	5 412	**(9)**	5 322
Number outstanding to shares in issue	%	**6**	7		6
Average strike price	cents	**3 470**	2 837	**22**	2 888
Average time to maturity	months	**25**	29	**(14)**	24
Operations					
Branches		**422**	371	**14**	401
Employees		**4 726**	3 804	**24**	4 154
Active clients	'000	**2 494**	1 762	**42**	2 122
ATMs					
Own		**439**	385	**14**	417
Partnership		**939**	668	**41**	821
Capital expenditure	Rm	**145**	61	**138**	149
Sales					
Loans					
Value of loans advanced	Rm	**6 385**	3 684	**73**	8 645
Number of loans advanced	'000	**2 615**	1 793	**46**	3 861
Average loan amount	R	**2 442**	2 054	**19**	2 239
Gross loans and advances	Rm	**7 796**	3 958	**97**	5 607
Loans past due (arrears)	Rm	**361**	299	**21**	350
Arrears to gross loans and advances	%	**4.6**	7.6		6.2
Provision for doubtful debts	Rm	**552**	278	**99**	382
Provision for doubtful debts to gross loans and advances	%	**7.1**	7.0		6.8
Arrears coverage ratio	%	**153**	93		109
Loan revenue	Rm	**1 728**	1 175	**47**	2 603
Loan revenue to average gross loans and advances	%	**25.8**	32.7		58.9
Gross loan impairment expense	Rm	**447**	294	**52**	620
Recoveries	Rm	**44**	36	**22**	72
Net loan impairment expense	Rm	**403**	258	**56**	548
Net loan impairment expense to loan revenue	%	**23.3**	22.0		21.1
Net loan impairment expense to average gross loans and advances	%	**6.0**	7.2		12.4
Net loan impairment expense to repayments	%	**7.2**	7.2		6.6
Deposits					
Wholesale deposits	Rm	**3 608**	2 157	**67**	3 669
Retail call savings	Rm	**3 040**	1 582	**92**	2 346
Retail fixed savings	Rm	**1 874**	800	**134**	1 148
Net transaction fee income	Rm	**235**	126	**87**	295

Capitec Bank provides simplified everyday money management

Capitec Bank provides innovative transacting, saving and lending products to serve the needs of all South Africans. During the six months to 31 August 2010, our business has continued to grow as we gained more clients. Capitec Bank now operates 422 branches situated throughout South Africa and services 2.5 million active clients.

Results summary

Earnings for the six months increased by 59% to R283 million.

Income from banking operations increased by 22% from the six months ended February 2010 to R1.7 billion and by 46% compared to the six months ended August 2009.

The value of loans advanced increased 73% to R6.4 billion compared to the six months ended August 2009. This is an increase of 29% compared to the six months ended February 2010. Sales of products with terms longer than 12 months account for 75% of the increase in the value of loans advanced compared to the six months ended August 2009. Sales of these products comprise 54% of total sales compared to 39% for the first six months of the 2010 financial year. The 48 month loan product which was launched in November 2009 was a major contributor to sales growth.

Net loan revenue increased to R1.7 billion compared to R1.4 billion for the six months ended February 2010 and R1.2 billion for six months ended August 2009. Loan revenue consists of interest, origination fees and monthly administration fees net of loan fee expenses. The 47% growth in loan revenue compared to the six months ended August 2009 is lower than the growth in sales. This is expected as the sales of longer-term, higher-value loans increase because yields on these loans are lower. The shift to sales of longer-term products does however have a positive effect on the annuity income derived from interest and loan fees. As a result, interest revenue on loans has grown 65% compared to the six months ended August 2009.

Net transaction fee income increased by 87% compared to the six months ended August 2009 to R235 million. This represents a 39% increase compared to the six months ended February 2010. Net transaction fee income covered 27% of banking operating expenses for the six months compared to 20% for the six months ended August 2009. As the number of banking clients continues to grow transaction volumes increase.

The cost to income ratio declined to 51% from 52% for the six months ended February 2010 and 55% for the six months ended August 2009. The increase of 46% in income from banking operations exceeded the 37% increase in operating expenses for the six months compared to the six months ended August 2009. The cost benefit of the technology and innovative processes employed in the business are continuing to manifest. Increases in operating expenditure resulted from growth in the branch network from 371 branches at the end of August 2009 to 422 branches at the end of August 2010. Employment costs comprise 55% of operating expenses compared to 51% for the six months ended August 2009 (refer to the employee costs section below).

Loan book, arrears and bad debts

The gross loan book grew by 39% compared to February 2010, and by 97% compared to August 2009, to R7.8 billion. Loans with a term longer than 12 months comprise 83% of the gross loan book compared to 72% at the end of August 2009 and 78% at the end of February 2010.

While the gross loan book has grown by R3.8 billion since August 2009 loans past due (arrears) have only grown by R62 million. Arrears to gross loans and advances declined from 7.6% at the end of August 2009 to 6.2% at the end of February 2010 and further to 4.6% at the end of August 2010 due to continued focus on credit granting criteria and collections and also because longer-term loans generally have a lower risk of arrears.

The impact that the recent strikes by government and other labour unions will have on default rates in the coming months is a concern that has been addressed by the strengthening of the incurred but not reported (IBNR) impairment assumptions. Management has also addressed the impact of the significant growth in the longer term products, where limited historical data is available, through the application of prudent impairment provisioning assumptions. The provision for doubtful debts as a percentage of the gross loan book amounted to 7.1% compared to 7.0% in August 2009 and 6.8% in February 2010.

The net loan impairment expense for the six months increased to R403 million compared to R258 million for the six months ended August 2009. Recoveries increased from R36 million to R44 million. Recoveries should continue to show an increasing trend as the value of handed over amounts increases with the loan book and higher loan values.

The gross loan impairment expense (before recoveries) for the six months increased to R447 million from R294 million for the same six months of the 2010 financial year. The increase includes R321 million due to loan book growth. The gross loan impairment expense before book growth decreased by R163 million due to an improvement in default rates and by R5 million due to the additional valuation placed on handed-over loans.

The gross loan impairment expense (before recoveries) for the six months increased R121 million compared to the expense of R326 million for the six months ended February 2010. This increase includes a R222 million increase due to loan book growth. The gross loan impairment expense before book growth decreased by R96 million due to an improvement in default rates and by R5 million due to the additional valuation placed on handed-over loans.

The loan impairment expense as a percentage of repayments, by product, compared as follows against last year:

	August 2010 %	February 2010 %	August 2009 %
1 month	**1.2**	1.4	1.7
3 month	**3.1**	3.8	3.3
6 month	**4.1**	5.2	6.1
12 month	**9.2**	10.9	11.7
18 month	**10.4**	10.8	12.0
24 month	**12.3**	11.5	12.4
36 month	**13.2**	14.4	19.4
48 month	**40.3**	50.8	-
Weighted average	**8.0**	7.5	8.2
Recoveries	**(0.8)**	(0.9)	(1.0)
Net bad debts	**7.2**	6.6	7.2

The impairment charge is calculated by using the historical data that is available on loan products to produce a vintage graph. The impact of a missed instalment on a longer-term loan is more severe at the beginning of a loan repayment period, as the full loan amount may be at risk. Therefore the provision as a percentage of instalments due is higher for a new and growing loan book. Over time every new product reverts to a predictable distribution. The impairment expense of the 36 month loans indicates this trend. It is expected that the level of impairment on the 36 month loans will continue to reduce as the product matures. The product is currently 34 months old but the average age of loans on this book is only 22 months. The average age of the 48 month loan book is 6 months although the product is currently 10 months old.

The best measurement of arrears and impairments on the short-term products is against instalments due and not outstanding balances because a large part of the short-term loans is repaid before month-end/year-end and is therefore not reflected on the balance sheet. Computations based on the outstanding balance therefore distort this ratio on short-term products.

Employee costs

Employment costs contributed R156 million (66%) of the increase in operating expenses compared to the six months ended August 2009 and have increased by R124 million compared to the six months ended February 2010. Employee numbers increased by 922 (24%) since August 2009 and have grown by 572 (14%) since February 2010. The increase in remuneration includes an accrual for an incentive for all Capitec Bank employees in terms of a scheme based on growth in headline earnings as well as management incentives and share-based payments.

In financial years prior to 2009 executive and senior management participated in a share option scheme that was equity-settled. Since the 2009 financial year the scheme consisted of cash-settled share appreciation rights and share options in equal proportions. From the 2010 financial year the scheme was restricted to strategic management while senior management qualify for a cash-settled performance bonus scheme. This scheme rewards managers based on the growth in headline earnings and in order to foster a long-term approach by management the amount is paid out over a three-year period.

Management incentive schemes contributed R63 million to the increase in remuneration costs. The share appreciation rights expense accounts for a significant portion of this increase. This expense increases in line with the increase in the share price which has moved from R55.00 per share at the end of August 2009 to R133.50 at the end of August 2010. The share option expense is equity-settled at group level but has increased significantly in Capitec Bank where it is cash-settled.

Funding

Retail call savings deposits increased to R3.0 billion from R1.6 billion at the end of August 2009 and R2.3 billion at the end of February 2010. The increase reflects the growth in client numbers as well as an increase in the average savings balance.

Retail fixed savings increased to R1.9 billion, an increase of 134% on the balance at the end of August 2009. The balance increased R726 million from February 2010. Retail fixed-term funding comprised 34% of total (retail and wholesale) term funding compared to 27% at the end of August 2009. Retail fixed savings terms extend up to 60 months at competitive interest rates.

Wholesale deposits increased by R1.5 billion year-on-year to R3.6 billion. Between August 2009 and August 2010 wholesale funding was obtained through Domestic Medium Term Note Programme issues in the amount of R1.2 billion as well as foreign and local bilateral funding agreements. The term of the funding obtained varied from three years to 12 years.

The mix of funding available to the business makes it possible to manage liquidity conservatively and ensures that funding is not a constraint on growth. As at 31 August 2010 and on average throughout the six months it would have been possible to repay all deposits due within one day.

The growth in funding resulted in a year-on-year increase of R149 million in the interest expense to R353 million. Surplus funding is invested in treasury bills, debentures and money market instruments in order to minimise the net carrying cost. This resulted in the increase in investments to R1.2 billion from R0.3 billion in August 2009. Interest received on cash and investments increased by R25 million compared to the six months ended August 2009.

Capital

The risk-weighted capital adequacy ratio is 32% compared to 36% at the end of August 2009 and 37% at the end of February 2010. The decline in the capital adequacy ratio is principally due to the increase in risk-weighted assets that resulted from the growth in the loan book. The capital adequacy ratio remains well above the required minimum level. The disclosure in terms of Regulation 43 of the Banks Act is available on the Capitec Bank website.

The return on ordinary shareholders' equity increased to 34% compared to 28% for the six months ended August 2009 and 32% for the year ended February 2010.

Prospects

We will continue to open new branches, acquire more clients and grow our advances book while managing our capital requirements.

Interim dividend

The directors approved an interim ordinary dividend of 85 cents per share on 29 September 2010. The dividend will be payable on Monday, 6 December 2010.

Last day to trade cum dividend	Friday, 26 November 2010
Trading ex dividend commences	Monday, 29 November 2010
Record date	Friday, 3 December 2010
Payment date	Monday, 6 December 2010

Share certificates may not be dematerialised or rematerialised between Monday, 29 November 2010 and Friday, 3 December 2010, both days inclusive.

Group balance sheet

	Unaudited August 2010 R'000'	Unaudited August 2009 R'000	Growth %	Audited February 2010 R'000
Assets				
Cash and cash equivalents	**2 085 502**	2 233 903	**(7)**	2 566 588
Investments at fair value through profit or loss	**1 199 274**	282 169	**325**	1 306 298
Loans and advances to clients	**7 244 385**	3 680 300	**97**	5 225 139
Inventory	**22 697**	23 466	**(3)**	26 067
Other receivables	**37 159**	28 206	**32**	41 127
Property and equipment	**357 073**	247 697	**44**	281 610
Intangible assets	**32 854**	28 567	**15**	22 211
Deferred income tax assets	**17 848**	11 757	**52**	19 183
Total assets	**10 996 792**	6 536 065	**68**	9 488 223
Liabilities				
Loans and deposits at amortised cost	**8 599 271**	4 698 761	**83**	7 360 325
Trade and other payables	**422 358**	254 566	**66**	358 352
Current income tax liabilities	**28 312**	77 487	**(63)**	34 452
Provisions	**11 693**	-	**100**	7 117
Total liabilities	**9 061 634**	5 030 814	**80**	7 760 246
Equity				
Ordinary share capital and premium	**796 852**	682 219	**17**	682 219
Cash flow hedge reserve	**(10 882)**	(21 127)	**(48)**	(15 839)
Retained earnings	**994 582**	689 553	**44**	906 991
Share capital and reserves attributable to ordinary shareholders	**1 780 552**	1 350 645	**32**	1 573 371
Non-redeemable, non-cumulative, non-participating preference share capital and premium	**154 606**	154 606	**-**	154 606
Total equity	**1 935 158**	1 505 251	**29**	1 727 977
Total equity and liabilities	**10 996 792**	6 536 065	**68**	9 488 223

Group income statement

	Unaudited six months ended August 2010 R'000'	Unaudited six months ended August 2009 R'000	Growth %	Audited year ended February 2010 R'000
Interest income	**1 267 576**	780 310	**62**	1 763 966
Interest expense	**(353 389)**	(204 581)	**73**	(490 636)
Net interest income	**914 187**	575 729	**59**	1 273 330
Loan fee income	**607 145**	480 498	**26**	1 038 905
Loan fee expense	**(59 521)**	(20 510)	**190**	(52 706)
Transaction fee income	**389 321**	212 314	**83**	507 438
Transaction fee expense	**(154 175)**	(85 868)	**80**	(212 064)
Net fee income	**782 770**	586 434	**33**	1 281 573
Dividend income	**540**	485	**11**	519
Net impairment charge on loans and advances to clients	**(403 089)**	(257 718)	**56**	(547 731)
Net movement in financial instruments held at fair value through profit or loss	**(382)**	(50)	**664**	1 011
Non-banking gross profit	**11 230**	10 789	**4**	20 750
Non-banking sales	**111 903**	108 866	**3**	208 604
Non-banking cost of sales	**(100 673)**	(98 077)	**3**	(187 854)
Other income	**2**	41	**(95)**	43
Income from operations	**1 305 258**	915 710	**43**	2 029 495
Banking operating expenses	**(873 214)**	(637 138)	**37**	(1 368 324)
Non-banking operating expenses	**(11 192)**	(8 419)	**33**	(18 815)
Operating profit before tax	**420 852**	270 153	**56**	642 356
Income tax expense	**(131 126)**	(84 429)	**55**	(193 132)
Profit for the period	**289 726**	185 724	**56**	449 224
Earnings per share (cents)				
Basic	**339**	215	**58**	525
Diluted	**325**	211	**54**	509

Group statement of comprehensive income

	Unaudited six months ended August 2010 R'000'	Unaudited six months ended August 2009 R'000	Growth %	Audited year ended February 2010 R'000
Profit for the period	**289 726**	185 724	**56**	449 224
Other comprehensive income for the period net of tax	**4 957**	2 746	**81**	8 034
Cash flow hedge before tax	**6 885**	3 814	**81**	11 158
Income tax relating to cash flow hedge	**(1 928)**	(1 068)	**81**	(3 124)
Total comprehensive income for the period	**294 683**	188 470	**56**	457 258

Reconciliation of attributable earnings to headline earnings

	Unaudited six months ended August 2010 R'000'	Unaudited six months ended August 2009 R'000	Growth %	Audited year ended February 2010 R'000
Net profit after tax	**289 726**	185 724	**56**	449 224
Less preference dividend	**(6 411)**	(7 586)	**(15)**	(14 163)
Net profit attributable to ordinary shareholders	**283 315**	178 138	**59**	435 061
Non-headline items				
Loss on disposal of assets	**1 478**	214		2 287
Income tax charge	**(413)**	(47)		(640)
Headline earnings	**284 380**	178 305	**59**	436 708

Group statement of changes in equity

	Unaudited six months ended August 2010 R'000'	Unaudited six months ended August 2009 R'000	Audited year ended February 2010 R'000
Equity at the beginning of the period	**1 727 977**	1 406 201	1 406 201
Net profit for the period	**289 726**	185 724	449 224
Cash flow hedge net of taxation	**4 957**	2 746	8 034
Ordinary dividend	**(130 308)**	(91 281)	(136 921)
Preference dividend	**(6 411)**	(7 586)	(14 163)
Share-based employee costs	**5 902**	5 040	12 186
Shares issued and acquired for employee share options at cost	**(3 973)**	(11 243)	(12 591)
Realised loss on settlement of employee share options less participants' contributions	**21 184**	14 693	16 538
Tax effect on settlement of share options	**26 161**	982	(506)
Share issue expenses	**(57)**	(25)	(25)
Equity at the end of the period	**1 935 158**	1 505 251	1 727 977

Group statement of cash flows

	Unaudited six months ended August 2010 R'000'	Unaudited six months ended August 2009 R'000	Audited year ended February 2010 R'000
Cash flow from operating activities	**(322 777)**	1 010 700	2 504 635
Cash flow from investing activities	**(38 578)**	(193 422)	(1 302 307)
Cash flow from financing activities	**(119 731)**	(97 364)	(149 729)
Net (decrease)/ increase in cash and cash equivalents	**(481 086)**	719 914	1 052 599
Cash and cash equivalents at the beginning of the period	**2 566 588**	1 513 989	1 513 989
Cash and cash equivalents at the end of the period	**2 085 502**	2 233 903	2 566 588

Commitments

	Unaudited August 2010 R'000'	Unaudited August 2009 R'000	Audited February 2010 R'000
Capital commitments approved by the board			
Contracted for	**14 557**	30 314	41 510
Not contracted for	**184 871**	142 161	287 961
Operating lease commitments			
Future aggregate minimum lease payments			
Within one year	**115 525**	98 621	105 086
From one to five years	**299 722**	255 406	267 967
After five years	**33 364**	21 423	18 566
Total future cash flows	**448 611**	375 450	391 619
Straight lining accrued	**(22 381)**	(17 050)	(19 778)
Future expenses	**426 230**	358 400	371 841

Segment analysis

	Banking R'000'	Wholesale distribution R'000	Intra-segment R'000	Total R'000
Unaudited six months ended August 2010				
Segment revenue	**2 264 990**	111 903	**(406)**	2 376 487
Segment earnings after tax	**290 239**	(513)	**-**	289 726
Unaudited six months ended August 2009				
Segment revenue	**1 473 648**	108 866	**(320)**	1 582 194
Segment earnings after tax	**183 514**	2 210	**-**	185 724
Audited year ended February 2010				
Segment revenue	**3 311 532**	208 604	**(661)**	3 519 475
Segment earnings after tax	**448 205**	1 019	**-**	449 224

The group has two operating segments which conduct business within the Republic of South Africa.

The wholesale distribution segment's contribution to depreciation, amortisation, interest expenses and other non-cash items is not material.

Interim financial reports

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

On behalf of the board

Michiel le Roux
Chairman

Riaan Stassen
Chief executive officer

Stellenbosch, 29 September 2010

Company secretary and registered office
Christian George van Schalkwyk: *BComm, LLB, CA(SA)*
1 Quantum Street, Techno Park, Stellenbosch 7600, PO Box 12451
Die Boord, Stellenbosch 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
Sponsor
PSG Capital (Pty) Limited (Registration number: 2006/015817/07)

www.capitecbank.co.za