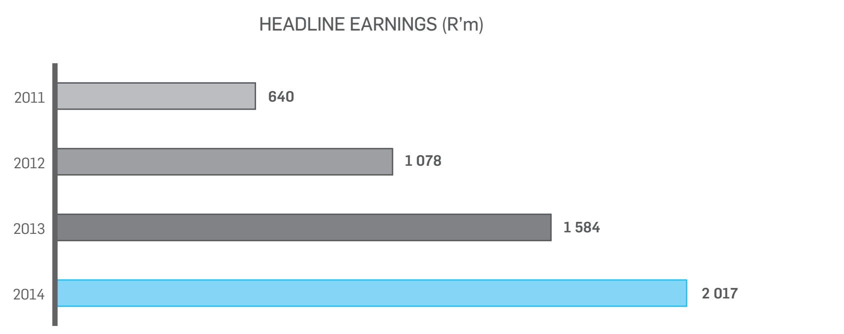
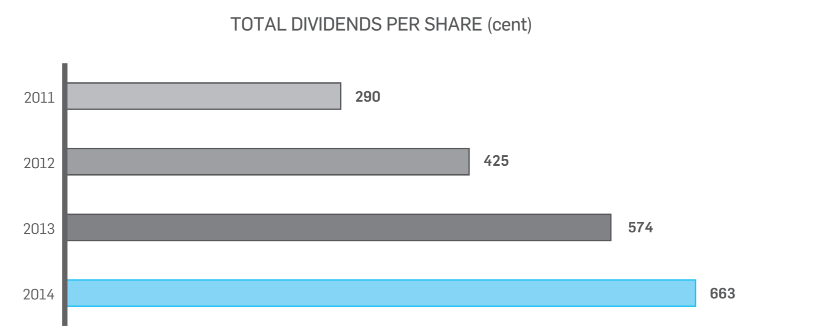
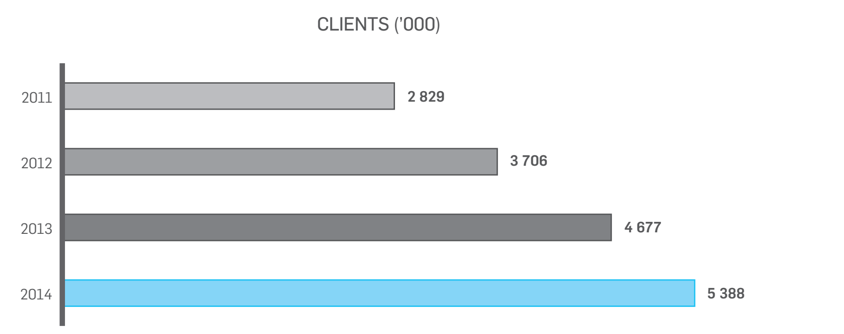
Summarised audited financial statements

for the year ended 28 February 2014

CAPITEC BANK HOLDINGS LIMITED







Headline earnings per share up 15% to 1 752 cents

Headline earnings up 27% to R2.0 billion

Final dividend per share: 460 cents

Return on equity: 23%

Active clients: 5.4 million

New jobs created: 762

Key performance indicators

		2014	2013	Change % 2014/2013	2012
Profitability					
Interest income	R'm	9 434	7 085	33	4 347
Net loan fee income	R'm	841	1 153	(27)	1 471
Net transaction fee income	R'm	1 927	1 349	43	836
Interest paid	R'm	(2 133)	(1 663)	28	(1 022)
Other banking income	R'm	(19)	–		14
Income from banking operations	R'm	10 050	7 924	27	5 646
Net loan impairment expense	R'm	(3 976)	(2 659)	50	(1 604)
Net banking income	R'm	6 074	5 265	15	4 042
Banking operating expenses	R'm	(3 242)	(2 994)	8	(2 486)
Non-banking operations	R'm	–	7		3
Tax	R'm	(795)	(673)	18	(464)
Preference dividend	R'm	(20)	(21)	(5)	(19)
Earnings attributable to ordinary shareholders					
Basic	R'm	2 017	1 584	27	1 075
Headline	R'm	2 017	1 584	27	1 078
Net transaction fee income to banking operating expense	%	59	45		34
Net transaction fee income to net banking income	%	32	26		21
Cost-to-income ratio – banking activities	%	32	38		44
Return on ordinary shareholders' equity	%	23	27		29
Earnings per share					
Attributable	cents	1 752	1 519	15	1 122
Headline	cents	1 752	1 519	15	1 125
Diluted attributable	cents	1 740	1 498	16	1 096
Diluted headline	cents	1 740	1 498	16	1 099
Dividends per share					
Interim	cents	203	169	20	125
Final	cents	460	405	14	300
Total	cents	663	574	16	425
Dividend cover	x	2.6	2.6		2.6
Assets					
Net loans and advances	R'm	30 053	27 935	8	16 863
Cash and cash equivalents and other liquid assets	R'm	14 423	9 166	57	5 750
Other	R'm	1 715	1 246	37	1 009
Total assets	R'm	46 191	38 347	20	23 622
Liabilities					
Deposits	R'm	35 449	29 000	22	17 692
Other	R'm	760	834	(9)	744
Total liabilities	R'm	36 209	29 834	21	18 436
Equity					
Shareholders' funds	R'm	9 982	8 513	17	5 185
Capital adequacy ratio	%	39	41		39
Net asset value per ordinary share	cents	8 433	7 212	17	4 962
Share price	cents	18 375	18 800	(2)	18 500
Market capitalisation	R'm	21 186	21 515	(2)	18 367
Number of shares in issue	'000	115 298	114 442	1	99 282
Share options					
Number outstanding	'000	1 503	2 177	(31)	3 087
Number outstanding to total shares in issue	%	1.3	1.9		3.1
Average strike price	cents	9 465	6 294	50	4 358
Average time to maturity	months	16	15	7	16
Operations					
Branches		629	560	12	507
Employees		9 070	8 308	9	7 194
Active clients	'000	5 388	4 677	15	3 706
ATMs					
Own		744	640	16	550
Partnership		2 174	1 914	14	1 526
Total		2 918	2 554	14	2 076
POS devices		24 329	19 955	22	16 398
Capital expenditure	R'm	549	473	16	381
Sales					
Loans					
Value of loans advanced	R'm	18 214	25 401	(28)	19 393
Number of loans advanced	'000	3 034	3 760	(19)	4 648
Average loan amount	R	6 003	6 756	(11)	4 172
Repayments	R'm	21 862	19 159	14	16 173
Gross loans and advances	R'm	33 690	30 658	10	18 408
Loans past due (arrears)	R'm	2 174	1 777	22	932
Arrears to gross loans and advances	%	6.5	5.8		5.1
Arrears and rescheduled arrears <6 months	R'm	2 921	2 402	22	
Arrears and rescheduled arrears <6 months to gross loans and advances	%	8.7	7.8		
Provision for doubtful debts	R'm	3 637	2 723	34	1 545
Provision for doubtful debts to gross loans and advances	%	10.8	8.9		8.4
Arrears coverage ratio	%	167	153		166
Loan revenue	R'm	9 841	7 983	23	5 660
Loan revenue to average gross loans and advances	%	30.6	32.5		38.6
Gross loan impairment expense	R'm	4 410	2 932	50	1 780
Recoveries	R'm	434	273	59	176
Net loan impairment expense	R'm	3 976	2 659	50	1 604
Net loan impairment expense to loan revenue	%	40.4	33.3		28.3
Net loan impairment expense to average gross loans and advances	%	12.4	10.8		10.9
Deposits					
Wholesale	R'm	11 663	11 679	–	7 162
Retail call savings	R'm	14 617	10 335	41	6 348
Retail fixed savings	R'm	8 984	6 844	31	4 015

Summarised consolidated balance sheet

	Audited February 2014 R'000	Audited February 2013 R'000
Assets		
Cash, cash equivalents and money market funds	9 665 611	7 143 092
Investments designated at fair value	4 757 036	2 022 906
Loans and advances to clients	30 052 850	27 934 854
Other receivables	219 596	127 297
Derivative assets	202 816	13 521
Current income tax assets	22 529	–
Interest in associate	1 850	167
Property and equipment	855 251	697 512
Intangible assets	201 319	136 380
Deferred income tax assets	212 108	270 995
Total assets	46 190 966	38 346 724
Liabilities		
Deposits and bonds at amortised cost	35 448 678	29 000 191
Other liabilities	748 726	759 083
Current income tax liabilities	–	46 007
Provisions	11 451	28 449
Total liabilities	36 208 855	29 833 730
Equity		
Ordinary share capital and premium	5 512 570	5 330 710
Cash flow hedge reserve	80 865	(15 925)
Retained earnings	4 129 707	2 939 240
Share capital and reserves attributable to ordinary shareholders	9 723 142	8 254 025
Non-redeemable, non-cumulative, non-participating preference share capital and premium	258 969	258 969
Total equity	9 982 111	8 512 994
Total equity and liabilities	46 190 966	38 346 724

Summarised consolidated income statement

	Audited Year ended February 2014 R'000	Audited Year ended February 2013 R'000
Interest income	9 432 796	7 084 752
Interest expense	(2 132 718)	(1 662 513)
Net interest income	7 300 078	5 422 239
Loan fee income	1 306 619	1 496 009
Loan fee expense	(465 916)	(343 209)
Transaction fee income	2 786 393	2 100 594
Transaction fee expense	(859 523)	(751 768)
Net fee income	2 767 573	2 501 626
Dividend income	7	9
Net impairment charge on loans and advances to clients	(3 976 170)	(2 658 923)
Net movement in financial instruments held at fair value through profit or loss	(19 083)	(298)
Other income	279	204
Sales	–	248 358
Cost of sales	–	(219 480)
Non-banking income	–	28 878
Income from operations	6 072 684	5 293 735
Banking operating expenses	(3 241 570)	(2 994 008)
Non-banking operating expenses	–	(22 451)
Operating profit before tax	2 831 114	2 277 276
Share of profit of associate	1 683	167
Income tax expense	(795 243)	(672 862)
Profit for the year	2 037 554	1 604 581
Earnings per share (cents)		
Basic	1 752	1 519
Diluted	1 740	1 498

Summarised consolidated statement of comprehensive income

	2014	2013
Profit for the year	2 037 554	1 604 581
Cash flow hedge recognised during the year	187 644	(33 430)
Cash flow hedge reclassified to profit and loss for the year	(53 219)	14 080
Cash flow hedge before tax	134 425	(19 350)
Income tax relating to cash flow hedge	(37 635)	5 345
Other comprehensive income for the year net of tax	96 790	(14 005)
Total comprehensive income for the year	2 134 344	1 590 576

Reconciliation of attributable earnings to headline earnings

	2014	2013
Net profit attributable to equity holders	2 037 554	1 604 581
Less preference dividend	(20 420)	(20 783)
Net profit after tax attributable to ordinary shareholders	2 017 134	1 583 798
Non-headline items:		
Loss/(profit) on disposal of property and equipment	80	(358)
Income tax charge – property and equipment	(23)	100
Loss on scrapping of intangible assets	–	19
Income tax charge – intangible assets	–	(5)
Loss on sale of subsidiary	–	58
Income tax charge – sale of subsidiary	–	(16)
Headline earnings	2 017 191	1 583 596

Summarised consolidated statement of changes in equity

	2014	2013
Equity at the beginning of the year	8 512 994	5 185 350
Total comprehensive income for the year	2 134 344	1 590 576
Ordinary dividend	(698 458)	(467 460)
Preference dividend	(20 420)	(20 783)
Employee share option scheme: Value of employee services	8 398	9 037
Shares issued and acquired for employee share options at cost	(181 970)	(244 422)
Proceeds on settlement of employee share options	32 787	37 850
Tax effect on share options	12 576	18 571
Shares issued	181 970	2 491 915
Share issue expenses	(110)	(87 640)
Equity at the end of the year	9 982 111	8 512 994

Unaccustomed modesty

After ten years of growing our headline earnings at an exceptional average rate of 49% per year, the growth rate moderated to 27% this year. Earnings grew to R2 017 million. As a result of new share issues, the headline earnings per share growth is lower at 42% for the period 2003 to 2013, and 15% for the year to February 2014.

The results were buoyed by positive transaction banking and good control over costs. Net transaction fee income now covers 59% of operating costs, up from 45% in the previous year. The cost-to-income ratio was down from 38% last year to 32%.

The lending business was tough with new loan sales decreasing and net loan impairment expense increasing.

Tough year for our lending business

Our unsecured credit business is based on the future ability of salary-earners to repay loans. Credit cycles correlate to the up- and down-turns in the economy and are exacerbated by the fact that many South Africans only gained access to credit in 2007, with the implementation of the National Credit Act.

This year has seen deterioration in the quality of our loan book as reflected in the performance ratios. Our loan impairment expense (bad debts plus provisions less recoveries) increased from R2.7 billion last year to R4 billion this year. The net loan impairment expense to loan revenue increased from 33% in 2013 to 40% this year. The net loan impairment expense to average gross loans and advances increased from 10.8% in 2013 to 12.4% this year.

An increase in arrears and loan impairment expense was foreseen at the launch of our fixed term credit product in May 2012 and the pricing of the product took this into consideration. Loans written in 2012 are however performing worse than expected but on average are still within our original risk appetite. From the early evidence available we can see that the newer loans are performing in line with expectations and our lower risk appetite. This is a result of the actions taken to mitigate the deterioration in book quality.

We significantly tightened our credit criteria. Major rule changes were implemented in November 2012 and June 2013. As a result of these actions, the value of new loans advanced ('loan sales') has declined to R18 billion this year from R25 billion last year.

Tightening our rules means we approve fewer loans, decrease loan sizes and shorten the repayment terms. During the 2014 financial year we approved 44% of all clients for credit. Of these clients, 66% decided to take up our offer and received a loan.

The number of loans sold decreased 19% to 3 034 154 and the average loan size is now smaller at R6 003 (2013: R6 756). The average term for loans sold was 37 months against 48 months previously.

All our loans are priced at a fixed interest rate so that a client's monthly repayment amount will remain the same over the life of the loan. During the year we increased our pricing formula by 2% per year for new loans, to provide for the current greater repayment uncertainty. Our average pricing remains below that of our competitors.

The lack of maturity in the credit market means that we as lenders cannot place excessive reliance on historical data although this is the basis of credit granting and provisioning. Many borrowers have never managed significant credit over an extended period and this adds to repayment uncertainty. For these reasons we have consistently supplemented our provisioning models with additional provisions based on management's insight into our clients' behaviour, even when such behaviour had not yet manifested itself statistically. These supplements now turn out to have been necessary and prudent.

Our provisioning model remains conservative. When we make a new loan, we provide 7% on average against the value of the loan. When a single loan payment is missed, we classify all the client's loan balances as in arrears and provide 46% against the total balance. At the end of the second and third months the provision is increased to 74% and 88% respectively. After the third payment has been missed, we consider the loan bad and write it off. Our provisions are larger than our loans in arrears at 167% of arrears ('arrears coverage ratio').

When a delinquent client undertakes to resume payment in accordance with a new repayment plan, such a client is reclassified from arrears to current. During the year we created an extra disclosure for such higher-risk clients for the first six months after rehabilitation. Although we have always maintained higher provisions for these higher-risk clients, we increased the extra provisions during this year. At year-end this additional provision amounted to R103 million.

We do not sell retail credit insurance to our clients. We purchase insurance that protects us from credit losses arising in the unfortunate event that a client dies, or where a client is retrenched. We will therefore not be affected by a proposal from the National Credit Regulator to cap insurance premiums.

Our fundamental philosophy is to attract those clients who have choices because they can afford credit and wish to repay it. Access to credit is more than a privilege; its importance is comparable to electricity or garbage removal without which modern life is inconceivable. It is Capitec Bank's mission to provide all responsible South Africans with easy access to affordable credit.

Net transaction fee income up by 43%

Our transactional banking continues its rapid growth. We have 711 000 more active clients than a year ago. Our net transaction fee income grew by 43% and is now approaching R2 billion. We have more clients using more of our services. In the latest independent AMPS survey, 12.7% of banking clients indicated that they consider us their primary bank. It is our ambition to continue increasing this market share.

Our client philosophy is to strive for simplicity and transparency, giving clients greater control over their banking. Our fees are transparent and easy to understand. We don't have different packages which confuse clients or which give some clients a better deal than others.

Enhancing service delivery

We developed and implemented a new front-end banking system during the year. This was a massive and expensive effort, entailing the training of 6 823 employees. As part of this development we introduced 'side-by-side' consulting, a Capitec first, where the client and consultant both face the computer screen. The client is treated as a participant in the process.

Uniquely in banking, all our products are delivered in real-time. New clients who apply and qualify for a loan, receive the funds before they leave the Capitec Bank branch.

Our commitment to client service is not just talk. In the just released 2013 South African customer satisfaction index we obtained the highest overall customer satisfaction rating of all South African banks, with a score of 81.5%. In another recent survey by Intellidex, published by the *Business Times*, Capitec was awarded overall bank of the year. This includes best online/mobile banking, best notice/fixed deposits, best savings and transaction accounts.

We opened a record 69 branches this year and now have 629 branches. Our ATM network, including partnership ATMs, increased 14% to 2 918. During the year the bank handled 60 million ATM transactions, processing an average of two transactions per second.

We created 762 new jobs during the year. Total permanent employees at year-end was 9 070 (2013: 8 308). We appointed 1 895 school leavers and 437 people with post matric qualifications during the year. We promoted 925 employees within the organisation.

Growth of deposits

Our clients receive a minimum of 4.40% interest on small balances in their transaction accounts from where it steps up for value and term invested. Retail deposit funding was R23.6 billion at 28 February 2014, an increase of R6.4 billion on the prior year. No volatility in balances was experienced during the year.

With the strong growth of retail deposits and a moderate demand for funding, we decided not to retain all wholesale deposits as they matured, but only competitively priced money. We maintain a healthy reserve of longer dated wholesale deposits to match our assets and liabilities.

Liquid assets increased 57% year on year due to the strong retail deposit growth, and slower loan growth, together with the proceeds from the 2012 rights issue.

Capitec maintained a healthy liquidity position, in line with our conservative policy, throughout the year. We exceed the Basel 3 liquidity standards. At the end of the year our net stable funding ratio was 132% (2013: 116%) and our liquidity coverage ratio was 1 689% (2013: 1 534%). Both measures require a 100% minimum.

Capital

Capitec remains well capitalised, with a capital adequacy ratio of 39.0%. Retained earnings are funding the capital needs for current levels of loan growth. There is a small decline in the percentage since last year, due to applying Basel 3 phase-out rules, mainly to subordinated debt. The return on equity remained at the 23% reported at August 2013. It is lower than the 27% reported for 2013, due to the rights issue dilution and weaker credit performance. The total annual dividend increased by 16% from 574 cents per share to 663 cents per share.

Regulation

The Reserve Bank co-ordinated a banking industry review of ATM and card charges. Changes to ATM charges will be implemented on 1 April 2014 and do not have a material impact on Capitec. Changes to the card fees, including debit card fees, will be made public shortly. The changes will reduce future interchange fees, but continued volume growth will offset this.

The regulation on the removal of adverse credit information and information relating to paid-up judgements was published towards the end of February 2014. Credit bureaux have until 1 April 2014 to remove details relating to adverse credit information and paid-up judgements. (This action was widely misunderstood as being the removal of all of a consumer's negative credit information, which is not the case). Even though Capitec has made preparations, there are some outstanding issues which were raised throughout the credit industry. We are co-operating with all stakeholders to resolve them.

We support the National Credit Regulator's efforts to develop industry affordability guidelines. The guidelines should be clear, well defined and simple to implement and police. Hand-in-hand with implementation should be increased activity to curtail the activities of unregistered or reckless credit providers.

Contingent liability

In last year's integrated report the board reported that a notice had been received from the National Credit Regulator alleging contraventions of the National Credit Act. The board reported that it had taken legal advice and believed the matter would be resolved satisfactorily through due process. The matter was heard by the National Consumer Tribunal on 13 March 2014 and judgement was reserved. As reported previously, due to uncertainties that currently exist, we are unable to estimate the financial effect of any possible outcome.

A new chief executive officer

Riaan Stassen, the major driver of Capitec Bank's success, retired at the end of 2013 after he turned 60. He had led the company since its inception and remains a non-executive director.

Gerrie Fourie who succeeded Riaan as CEO on 1 January 2014, was the head of operations since inception. He leads a strong and experienced management team.

Prospects

Our bank is young and we are building a bank to last. Business cycles come and go. We are committed to providing simple, accessible and affordable banking, delivered with personal service. We have not seen a positive turn in the economy yet. In the year ahead the retail credit market will remain tough. We will continue to create value while limiting risk. We see opportunities in transaction banking. Our management team is enthusiastic and will deliver growth in this part of the business.

Dividends

The directors declared a gross final dividend of 460 cents per ordinary share on 24 March 2014 for the year ended 28 February 2014, bringing the total dividends for the year to 663 cents per share. There are 115 297 995 ordinary shares in issue.

The final dividend meets the definition of a dividend in terms of the Income Tax Act (Act 58 of 1962). The dividend amount net of South African dividend tax of 15% is 391 cents per share. The distribution is made from income reserves and no secondary tax on companies (STC) credits were applied against the dividend. Capitec's tax reference number is 9405/376/84/0.

Last day to trade cum dividend	Thursday, 10 April 2014
Trading ex- dividend commences	Friday, 11 April 2014
Record date	Thursday, 17 April 2014
Payment date	Tuesday, 22 April 2014

Share certificates may not be dematerialised or rematerialised between Friday, 11 April 2014, and Thursday, 17 April 2014, both days inclusive.

The chief financial officer's review is available at www.capitecbank.co.za.

On behalf of the board

Michiel le Roux
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
26 March 2014

The information in this press announcement has been extracted from the audited information published on SENS, but this announcement itself is not audited.

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Transfer secretaries Computershare Investor Services Proprietary Limited (Registration number: 2004/003647/07), Ground Floor, 70 Marshall Street, Johannesburg 2001, PO Box 61051, Marshalltown 2107 **Sponsor** PSG Capital Proprietary Limited (Registration number: 2006/015817/07)
Directors MS du P le Roux (Chairman), GM Fourie (CEO)*, AP du Plessis (CFO)*, Ms RJ Huntley, JD McKenzie, Ms NS Mjoli-Mncube, PJ Mouton, CA Otto, G Pretorius, R Stassen, JP van der Merwe **Executive*

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