summarised audited financial results

CAPITEC BANK HOLDINGS LIMITED

for the year ended 28 February 2018

+18% to 3 858 cents
Headline earnings per share

+18% to R4.461 billion
Headline earnings

+18% to 1 470 cents
Total dividend per share

27%
Return on equity

9.9m
Active clients

264
New jobs created during this period

Steadfast fundamentals

We help clients manage their financial lives better, so they can live better. Our single financial solution, Global One, can be used in any way, from anywhere and at any time. We expect to achieve an active client base totalling 10 million by the end of this month. Our clients trust in our financial solution, delivers real value through personal service and supports continued growth. The simplicity of our solution ensures that clients know exactly what they pay for, and gives them full control of their money.

The results for the year are a reflection of the continuous focus on our fundamentals.

Earnings up 18%

Headline earnings increased by 18% from R3.8 billion to R4.5 billion, and generated a return of 27% on our shareholders' equity for the 2018 financial year.

Our diversification strategy is evident by the increased earnings generated from each income stream.

Net transactional income growth of 31%

Net transaction fee income (non-lending) increased from R3.9 billion to R5.1 billion in 2018. The net transaction fee income to operating expenses increased from 72% to 81%, which is in line with our objectives to cover all operating costs with net transaction fees by 2022.

Net transaction fee income now makes up 41% of total net income. This is a result of our focus on self-service banking, which has experienced a significant increase in transaction volumes. This investment and innovation delivers cost benefits and further efficiencies to our clients and frees up capacity for our consultants to better serve and address the needs of our clients in the branches. For the 5th consecutive year, the latest South African Customer Satisfaction Index (SAcsi) for Banking, conducted by Consulta, revealed that Capitec continues to lead with the most satisfied customers.

The increase in quality banking clients (a client becomes a quality banking client if they have stable inflows into their account and stable product usage over a consecutive 3 month period) of 18% and the continuous focus and improvement on our self-service banking transactions, increased total transaction volumes by 27%. Self-service banking transactions include the banking app, internet banking, unstructured supplementary service data (USSD – mostly used by clients who do not have smart phones), in-branch self-service terminals and dual note recyclers (DNRs).

74% of all possible transactions were performed by clients on self-service banking channels in 2018, compared to 62% in 2017. Transaction volumes for in-branch self-service terminals increased by 491%, and by 124% for DNRs in the current year.

Over 3 million clients have activated our banking app. For the month of February 2018, the app facilitated more than 20 million transactions. When our clients make use of our app, we cover the cost of the data. The banking app's wide appeal is evidenced by the fact that it is not only the most downloaded banking app in South Africa, but that it is also the 9th most downloaded app overall on the Google Play store in South Africa. This is according to the SA Social Media Landscape Report 2018 by brand intelligence organisation, Ornico, and high-tech market research consultancy, World Wide Worx.

Monthly average retail deposit growth of R800 million

Total retail fixed savings increased by 28% to R23 billion and total retail call savings increased by 16% to R35 billion for the current year. Any positive balance on our debit or credit cards earns interest of at least 5.1% per year. Our clients earned more than R3.4 billion in interest for the 2018 financial year.

Wholesale funding decreased from R7.5 billion to R6.2 billion. Wholesale funding was lowered deliberately due to the strong retail fixed deposit and earnings growth, accompanied by moderate loan book growth. Nonetheless, we will maintain a presence in the debt capital markets.

Personalised credit

Unsecured lending plays an important role in the South African credit market. The majority of South Africans, for example, live in dwellings on communal land or in townships with no title deeds. Consequently, the majority of the population is only able to build or improve their homes through accessing unsecured finance. More than 75% of South Africans do not have access to traditional secured lending to finance assets such as vehicles older than 5 years and appliances.

Our credit granting approach consistently evolves with our clients' needs and behaviour as well as our risk appetite. In line with the loan book growth, loan revenue increased by 6% for the current year and better performing loan book was achieved due to our conservative credit granting policy.

The 2018 financial year presents the first full 12 month performance of our credit card. As at 28 February 2018, 289 000 active credit cards were in issue, with a total book value of R2 billion. This represents 4.2% of the total loan book. The monthly fee on our credit card is R35. The performance is in line with our expectations.

Arrears as a percentage of gross loans and advances decreased from 6.3% to 5.7%. This includes all loans that are not up-to-date with contractual obligations. Arrears and up-to-date loans that were rescheduled from arrears (not rehabilitated – have not made 6 consecutive contractual payments) as a percentage of gross loans and advances, decreased from 9.8% to 8.3%. This is a direct result of the stricter credit granting strategy and rescheduling policy as well as the increase of clients in debt review. In terms of our bad and doubtful debt methodology, regardless of loan status, when a client goes into debt review, the outstanding loan balance is substantially written off.

Our provision for doubtful debts as a percentage of gross loans and advances decreased from 13.1% to 12.2% and the provision coverage of arrears increased from 208% to 216%. The lower provision percentage and higher coverage ratio is a direct result of the better performing loan book.

The increase in bad debt written off in the current year is mostly due to the increase in the number of clients in debt review. Bad debts recovered increased due to improved collection efficiencies and initiatives.

Investing in our operations

Our operating costs increased by 17% from R5.4 billion to R6.4 billion in the current year. Our cost-to-income ratio is 36%.

The focus on self-service banking to improve efficiency and capacity in existing branches resulted in the opening of 30 new branches in strategic areas during the year. We now have 727 DNRs and 467 in-branch self-service terminals to aid in the improvement of our service and client experience – the increases of which amount to 38% and 213%, respectively. Key personnel appointments were made in business development and digital solutions to support further growth initiatives.

Insure

We believe that offering insurance solutions that are personalised and competitively priced will deliver value to our clients and disrupt the insurance market in a similar way to what we do in banking.

Save. Transact. **Insure**. Credit

The unique funeral traditions in South Africa often result in clients who earn an income being responsible for the considerable costs of a funeral for either a direct family member or a dependant in their broader community.

We aim to launch the Capitec Funeral Plan, underwritten by Sanlam, in May 2018, as part of Insure, the new addition to our Global One Solution. This is an opportunity to further diversify our business and expand our product offering to clients to improve their financial lives.

Our funeral cover solution ensures that clients will only contribute what they can afford. A single contract can benefit up to 21 dependants. The voluntary pause option will allow policyholders to put their policy on hold for a maximum of 6 months if they are under financial strain. The new-born premium waiver benefit celebrates additions to clients' families at no cost for up to 6 months while still enjoying cover and peace of mind. Should an unnatural death or accident occur, the life assured will be covered immediately at twice the amount.

We believe that this solution will provide our clients with financial means to cover expenses during a period when they need someone they can trust and rely on.

Strong capital, low liquidity risk, excess funds

Capitec remains well capitalised with a capital adequacy ratio of 36%. The bank continues to meet all prudential requirements.

We comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 1 878% and NSFR is 206% as a result of the conservative liquidity strategy we implemented since the inception of the bank.

We manage our clients' funds in a diligent and conservative manner. Client deposits are invested in simple and easy to understand interest-bearing investments such as South African National Treasury Bills. These investments are, on average, for periods shorter than 3 months, with no single investment longer than 1 year. We use our equity, the wholesale funds received from institutions and, the bulk of fixed-term client deposits, to lend out to individual clients. We have a conservative approach to credit, price appropriately in compliance with the National Credit Act, Act 34 of 2005, for the risk and make adequate provisions for bad debt. Our approach to capital is consistent with our approach to liquidity and credit, and our capital levels are well above that which is required. This policy will continue to be applied as consistently as it has been since inception. Through deliberately maintaining substantial levels of capital, we protect client deposits should a major unforeseen event, such as a global financial crisis, occur.

Credit ratings

The South African sovereign rating was downgraded on 24 November 2017. In its ratings report, S&P Global indicated that it does not rate financial institutions in South Africa above the foreign currency sovereign ratings. Consequently, S&P Global lowered its ratings on 6 financial institutions operating in South Africa, including Capitec Bank.

Capitec Bank's global long-term rating was lowered to "BB" from "BB+". The global short-term rating remains at "B". These ratings carry a stable outlook. While, the national long-term rating was lowered to "zaAA-", the national short-term rating was affirmed at "zaA-1+". Capitec Bank carries the same long-term foreign currency rating as the South African sovereign.

Thank you

We will continue to help people better manage their financial lives. We want to thank our clients for their continued support and for the confidence they place in us.

Our solutions for our clients would not be possible without the great drive from the entire Capitec family. As colleagues with individual strengths and skills, we make a strong team because of shared goals and commitment. We thank every member of the team for their part in what we have achieved, and are excited to pursue the goals we have set for ourselves.

Prospects

Sustained focus on our fundamentals will keep us on course to become the best retail bank in the world.

Dividend

The directors declared a final gross dividend of 945 cents per ordinary share on 26 March 2018, bringing the total dividends for the 2018 financial year to 1 470 cents per share. There are 115 626 991 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 20%, is 756 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade cum dividend	Tuesday, 17 April 2018
Trading ex-dividend commences	Wednesday, 18 April 2018
Record date	Friday, 20 April 2018
Payment date	Monday, 23 April 2018

Share certificates may not be dematerialised or rematerialised from Wednesday, 18 April 2018 to Friday, 20 April 2018, both days inclusive.

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

On behalf of the board

Riaan Stassen
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
27 March 2018

This short-form press announcement is the responsibility of the directors. The information in this short-form announcement has been extracted from, and is only a summary of, the audited information in the full announcement published on SENS and on the Capitec Bank website, but this announcement itself is not audited and does not contain full or complete details. Investment decisions should be based on a review of the full SENS announcement. The full announcement is also available for inspection at the company's registered office during normal business hours at no charge. Copies of the full announcement may be requested from the company by emailing enquiries@capitecbank.co.za.

Key performance indicators

		2018	2017	Change % 2018/2017	2016
Profitability					
Interest income	R'm	**15 474**	14 934	4	13 413
Net loan fee income[(1)]	R'm	**1 380**	495	179	(83)
Total lending, investment and insurance income	R'm	**16 854**	15 429	9	13 330
Interest expense	R'm	**(4 184)**	(3 552)	18	(2 884)
Net lending, investment and insurance income	R'm	**12 670**	11 877	7	10 446
Net transaction fee income	R'm	**5 127**	3 923	31	3 020
Other	R'm	**(1)**	–		(1)
Income from operations	R'm	**17 796**	15 800	13	13 465
Net provision for doubtful debts charge	R'm	**(5 280)**	(5 121)	3	(4 401)
Net income	R'm	**12 516**	10 679	17	9 064
Income from associates	R'm	**3**	–		–
Operating expenses	R'm	**(6 364)**	(5 439)	17	(4 591)
Income before tax	R'm	**6 155**	5 240	17	4 473
Tax	R'm	**(1 685)**	(1 434)	18	(1 244)
Preference dividend	R'm	**(12)**	(16)	(25)	(16)
Earnings attributable to ordinary shareholders					
Basic	R'm	**4 458**	3 790	18	3 213
Headline	R'm	**4 461**	3 793	18	3 222
Net transaction fee income to net income	%	**41**	37		33
Net transaction fee income to operating expenses	%	**81**	72		66
Cost-to-income ratio	%	**36**	34		34
Return on ordinary shareholders equity	%	**27**	27		27
Earnings per share					
Attributable	cents	**3 855**	3 278	18	2 779
Headline	cents	**3 858**	3 281	18	2 787
Diluted attributable	cents	**3 843**	3 267	18	2 773
Diluted headline	cents	**3 846**	3 270	18	2 781
Dividends per share					
Interim	cents	**525**	450	17	375
Final	cents	**945**	800	18	680
Total	cents	**1 470**	1 250	18	1 055
Dividend cover	x	**2.6**	2.6		2.6
Assets					
Net loans and advances	R'm	**41 814**	39 205	7	35 760
Cash, cash equivalents and other liquid assets	R'm	**39 400**	30 605	29	24 989
Other	R'm	**3 743**	3 548	5	2 196
Total assets	R'm	**84 957**	73 358	16	62 945
Liabilities					
Retail deposits and wholesale funding	R'm	**64 030**	55 582	15	47 940
Other	R'm	**2 035**	1 658	23	1 346
Total liabilities	R'm	**66 065**	57 240	15	49 286
Equity					
Shareholders' funds	R'm	**18 892**	16 118	17	13 659
Capital adequacy ratio	%	**36**	34		35
Net asset value per ordinary share	cents	**16 241**	13 809	18	11 663
Share price	cents	**83 246**	72 500	15	47 400
Market capitalisation	R'm	**96 255**	83 830	15	54 807
Number of shares in issue	'000	**115 627**	115 627		115 627
Share options					
Number outstanding	'000	**777**	963	(19)	868
Number outstanding to shares in issue	%	**0.7**	0.8		0.8
Average strike price	cents	**38 561**	31 755	21	28 520
Average time to maturity	months	**19**	20		27
Operations					
Branches		**826**	796	4	720
Employees		**13 333**	13 069	2	11 440
Active clients	'000	**9 868**	8 569	15	7 269
ATMs and DNRs					
Own		**1 895**	1 653	15	1 236
Partnership		**2 750**	2 371	16	2 469
Total		**4 645**	4 024	15	3 705
Capital expenditure	R'm	**829**	1 000	(17)	704
Credit sales					
Value of total loans advanced	R'm	**28 292**	27 226	4	24 228
Number of total loans advanced[(2)]	'000	**3 947**	3 508	13	3 684
Average of total loans advanced	R	**7 168**	7 761	(8)	6 577
Average loans advanced less than or equal to 6 months[(2)]	R	**2 078**	1 905	9	1 749
Average loans advanced greater than 6 months	R	**32 133**	26 605	21	25 229
Credit book					
Gross loans and advances	R'm	**47 642**	45 135	6	40 891
Average loan size at year end less than or equal to 6 months	R	**2 621**	2 736	(4)	2 636
Average loans size at year end greater than 6 months	R	**36 302**	31 123	17	30 901
Arrears – past due (not up-to-date with contractual obligations)	R'm	**2 700**	2 855	(5)	2 297
Arrears to gross loans and advances	%	**5.7**	6.3		5.6
Up-to-date that rescheduled from arrears (not rehabilitated[(3)])	R'm	**1 277**	1 583	(19)	1 542
Arrears and up-to-date that rescheduled from arrears (not rehabilitated[(3)]) to gross loans and advances	%	**8.3**	9.8		9.4
Up-to-date that rescheduled from up-to-date (not rehabilitated[(3)])	R'm	**1 085**	1 088	(0)	1 818
Arrears and all rescheduled (not rehabilitated[(3)]) to gross loans and advances	%	**10.6**	12.2		13.8
Provision for doubtful debts	R'm	**5 828**	5 930	(2)	5 131
Provision for doubtful debts to gross loans and advances	%	**12.2**	13.1		12.5
Provision for doubtful debts to arrears coverage	%	**216**	208		223
Provision for doubtful debts to arrears and rescheduled loans from arrears (not rehabilitated[(3)]) coverage	%	**147**	134		134
Provision for doubtful debts to arrears and all rescheduled loans (not rehabilitated[(3)]) coverage	%	**115**	107		91
Repayments[(4)]	R'm	**35 974**	33 236	8	29 388
Gross provision for doubtful debts charge	R'm	**6 560**	6 246	5	5 255
Bad debts recovered	R'm	**1 280**	1 125	14	854
Net provision for doubtful debts charge	R'm	**5 280**	5 121	3	4 401
Net provision for doubtful debts charge to average gross loans and advances	%	**11.4**	11.9		11.4
Total lending and insurance income (excluding investment income)[(5)]	R'm	**15 008**	14 362	4	12 837
Total lending and insurance income (excluding investment income)[(5)] to average gross loans and advances	%	**32.4**	33.4		33.2
Net provision for doubtful debts charge to total lending and insurance income (excluding investment income)[(5)]	%	**35.2**	35.7		34.3
Loan revenue[(6)]	R'm	**14 596**	13 720	6	12 145
Loan revenue[(6)] to average gross loans and advances	%	**31.5**	31.9		31.5
Retail deposits and wholesale funding					
Wholesale funding	R'm	**6 206**	7 543	(18)	10 154
Retail call savings	R'm	**34 909**	30 117	16	24 152
Retail fixed savings	R'm	**22 915**	17 922	28	13 634

(1) *Loan fee income, loan fee expense and net insurance income*
(2) *Includes credit card. For a number of loans advanced, a month in which the credit card is utilised is counted*
(3) *Not rehabilitated – Clients are deemed to be rehabilitated once they have made contractual payments for 6 consecutive months. Once rehabilitated, the loan is classified as up-to-date*
(4) *Includes bad debts recovered and early settlements where a subsequent loan is taken, the last repayment does not lead to an outflow – prior years are restated to include this*
(5) *Interest received on loans, initiation fees, monthly service fee and net insurance income*
(6) *Interest received on loans, initiation fees, monthly service fee, net insurance income and loan fee expense*

804205_BRN

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: ZAE000035861 **JSE preference share code:** CPIP **ISIN:** ZAE000083838
('Capitec' or 'the Company' or 'the Group')
Company secretary and registered office Yolande Mouton
1 Quantum Street, Techno Park, Stellenbosch 7600; PO Box 12451, Die Boord, Stellenbosch 7613

Transfer secretaries Computershare Investor Services Proprietary Limited (Registration number: 2004/003647/07), Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg 2196; PO Box 61051, Marshalltown 2107
Sponsor PSG Capital Proprietary Limited (Registration number: 2006/015817/07)
Directors R Stassen (Chairman), GM Fourie (CEO)*, LA Dlamini, AP du Plessis (CFO)*, MS du P le Roux, K Makwane, NS Mashiya*, JD McKenzie, NS Mjoli-Mncube, PJ Mouton, CA Otto, JP Verster * Executive