summarised audited financial results

for the year ended 28 February 2019

CAPITEC BANK HOLDINGS LIMITED

+19%
to 4 577 cents
Headline earnings per share

+19%
to R5.292 billion
Headline earnings

+19%
to 1 750 cents
Total dividend per share

Return on equity
28%

Active clients
11.4m

Active banking app clients
2.2m

Active funeral policies
>360 000

Banking is about people, passionately delivering on clients' needs

We remain focused on delivering on our purpose: to enable clients to improve their financial lives. This is done with an unwavering commitment to the 4 fundamentals that have made Capitec so successful.

Simplicity, our brand essence, permeates through the way we design our banking solutions, pricing, digital services and communication. We believe that simplicity, delivered transparently, puts our clients in control of their money.

We are determined to deliver solutions that provide **value for money** to clients. Our cost-conscious culture and innovative processes and technology allow us to reduce the cost of banking. We pass the saving on to our clients, making banking more affordable.

We continue to make banking **accessible** through our 840 branches (14 new) and the extended trading hours of over 300 Sunday banking branches. We however also accelerated our digital banking development and are experiencing significant growth in this regard, with over 5.2 million clients using digital channels to access their money from anywhere at any time.

The Capitec brand is further differentiated by a personalised, omni-channel **client experience** that aims to build long-term relationships with our clients. We created 441 new jobs and now employ 13 774 people focused on understanding clients' needs, and developing or delivering better experiences across our physical and digital service channels.

The industry is experiencing a challenging economic climate in addition to the prospect of new competitors. Our strategy remains to focus on our clients with a combination of digital banking, a branch network, and relevant and insightful communication to help them bank better. This, combined with our ability to adapt to the changing needs of clients, new markets and new technology will remain Capitec's competitive advantage today and in the future.

Earnings up by 19%

Continued growth is testimony to staying true to our fundamentals. Clients trust a solution that they understand, which is reliable and transparent. This focus resulted in an enhanced credit offering and an increase in transactions due to sustained acquisition of banking clients.

Our client base has grown by 15% to 11.4 million clients (2018: 9.9 million). On average 127 000 clients joined us per month this year.

Easy to use and always in control

Our marketing and pricing strategy promotes transacting on our self-service solutions (including the banking app, internet banking, USSD (primarily feature phones), in-branch self-service terminals and dual note recyclers (DNRs)) which frees up capacity in branches to ensure that our clients receive more personalised service. We therefore give our clients the freedom to decide whether they want to go to a branch or whether to do their banking at the time and place that suits them.

Self-service terminal and DNR transactions have increased in volume by 111% to 18 million and 55% to 29 million respectively at the end of February 2019. Net transaction fee income grew by 26%. Clients continue to move from cash to card with 62% of value spent on card (February 2018: 59%).

The security of our clients' money and personal information is important to us and was considered in the design of our banking app. Over 2.2 million clients actively use the banking app to make payments, buy prepaid or manage their accounts on a daily basis. The volume of banking app transactions has increased by 75% to 343 million for the financial year (February 2018: 196 million). The app provides a simple, personalised user experience. We cover the cost of the data when our clients make use of the app.

Improved processes and advanced technology increased efficiency and allowed us to make digital banking more affordable by lowering our fees. On 1 March 2019, transaction fees for payments made via the banking app, internet banking or USSD were reduced from R1.60 to R1.00 and the monthly administration fee of our Global One account was reduced from R5.80 to R5.00. By taking all the digital banking fees and the monthly administration fee into consideration, we are putting R360 million back into our clients' pockets. To balance this, we increased the cost of cash withdrawal fees at ATMs for amounts over R1 000. The risk of cash handling in South Africa has increased significantly over the last few years. As an alternative, real-time clearance is a simple solution for clients to facilitate immediate payment on our banking app and internet banking. This is much safer than carrying cash around. We are leading the industry by having reduced the real-time payment fees to the other banks from R10.00 to R8.00.

Trust in our brand

Retail deposits increased by 23% to R71 billion. Clients currently earn a minimum of 5% interest per year on any positive balance on their debit or credit cards. During the 2019 financial year we paid out R3.9 billion in interest on retail call, fixed deposits and credit card accounts.

Wholesale funding decreased by 18% from R6.2 billion to R5.1 billion during 2019. The funding requirement of the loan book is met by retail fixed deposits, retained earnings and wholesale funding.

One funeral plan, more cover

We identified a need for a client-centric, affordable funeral plan. The value proposition from a pricing, benefit and service experience perspective has contributed to the market acceptance of the offering. The Capitec funeral plan has benefits such as the waiver of the waiting period if transferring existing risk cover from a registered insurer, and a new-born premium waiver benefit that celebrates additions to clients' families at no cost for up to 6 months while still enjoying cover and peace of mind.

The plan is transparent, easy to understand and is available via our 840 branches and on the banking app. 80% of the policies to date were issued in the branch. This is further evidence of how important our branch network remains to best serve clients. At financial year-end more than 360 000 policies were active. We are pleased that we could expand on our Bank Better, Live Better principle with the Capitec funeral plan, and help our clients to manage their broader financial needs.

Credit for the right reasons

When clients understand credit, they use it responsibly. This assists them in reaching their financial goals. We encourage our clients to match the term of the loan that they take to the purpose for which they require the loan. Consequently, 56% of the value of loans were at shorter terms or lower values, compared to what the client qualified for.

We have also initiated a debt alleviation program to assist clients that have experienced a loss of income outside of their control.

Extension of credit

The effect of credit optimisation strategies resulted in a decrease in the shorter term credit products and increase in longer term loans. Against the background of a lacklustre economy, and increased credit risk-taking in the unsecured credit market, we introduced further granting restrictions.
We curbed granting to clients who exhibited tendencies to frequently borrow the maximum amount on offer and we built on our prudent approach applied in affordability assessments by increasing our minimum living expenses threshold. Notwithstanding this, we grew and optimised our book through a focus on client quality and protecting the book from clients prone to go under debt review.

It is our strategy to drive the price of unsecured lending lower. Those clients with positive credit behaviour receive our best interest rates and we have a lower return on equity target for these clients. The average interest rate charged for this group was 17.5% compared to the book average of 24%. Our unsecured lending rates go as low as 12.9% and we charge credit insurance on the actual amount of outstanding debt and not on the original amount advanced. This differentiates the Capitec credit protection plan in the market.

Our credit card offer has been well-received by the market, with a monthly fee that remained unchanged at R35 and an interest rate as low as prime. With an average of 14 000 new credit card clients per month, disbursements increased by 57% to R6.2 billion. At 28 February 2019, the gross credit card book was R3.6 billion and comprises approximately 3% of the total South African retail credit card market.

Loan revenue

We implemented International Financial Reporting Standards (IFRS) 9, the revised accounting standard for financial instruments, on 1 March 2018. Under IFRS 9, once a loan rolls into stage 3 (non-performing book), the interest recognised on the loan is netted after deducting the related provision. This net interest recognition decreased total interest received on loans and the related net credit impairment charge by R1.1 billion for the current year. This aspect of the change has no impact on the overall profit, but results in increasing the cost-to-income ratio.

Loan book, impairments and bad debts written off

The loan book performed well with a strict credit extension policy applied. The total net loans and advances include 87% of up-to-date loans (1 March 2018: 84%). Loans up to 3 months in arrears decreased by 8%. From 1 March 2018, under IFRS 9, up-to-date with a significant increase in credit risk (SICR) and total up-to-date that rescheduled (not yet rehabilitated) decreased 14% and 10% respectively.

At 28 February 2018, under IAS 39, the previous accounting standard, loans and advances were written off at the earlier of when they were more than 3 months in arrears or had a legal status. Under IFRS 9, loans can only be written off when there is no reasonable expectation of recovery. We consider this point to be when a loan has a present value of future recovery of less than 5%.

A large portion of loans more than 3 months in arrears have therefore not yet been handed over or written off due to the change in write-off policy. This has resulted in a build-up of loans on the balance sheet that are more than 3 months in arrears, with an appropriate provision. Previously these loans were written off.

After transition to IFRS 9 our focus on maximising collections continues. We utilise a combination of cutting edge machine learning and regression score card techniques to complement our years of operational experience in this environment.

No receivable is recognised post write-off for any possible recoveries and any amount received post write-off will be recognised as a bad debt recovered. The expected recoveries receivable on 1 March 2018 (R906 million) represented the net present value of expected future recoveries on loans that were written off previously under IAS 39 (the receivable). Under IFRS 9, no future expected receivable is recognised post write-off. As a result, the receivable was run-down in the current period and bad debts recovered were reduced by R906 million.

The table below represents the appropriate change in write-off, related movement in credit impairment and bad debts recovered under IFRS 9 compared to the prior period under IAS 39.

Credit impairment charge		2019	2018	Change % 2019/2018
Bad debts written off	R'm	**1 268**	6 662	(81)
Movement in credit impairment*	R'm	**3 649**	(102)	
Gross credit impairment charge*	R'm	**4 917**	6 560	(25)
Bad debts recovered	R'm	**(467)**	(1 280)	(64)
Net credit impairment charge*	R'm	**4 450**	5 280	(16)

* *In the current period, under IFRS 9, the credit impairment charge is recognised on a net basis for all loans classified as stage 3, reducing interest and bad debt written off by R1 073 million for the year ended February 2019.*

The coverage of 109% for the total provision for credit impairment to stage 3 (excluding expected recoveries receivables) and stage 2 (up to 1 month in arrears) reflects that our provisioning methodology remains conservative.

Tax

Insurance income and funeral income is received from the related cell captives as a dividend after tax. In the current year, the tax attributable to the profits on cell captives was deducted from the net insurance income and funeral income and excluded from the tax expense line. This has resulted in the effective tax rate, as disclosed, decreasing to 25.2% for the current year. Together with the tax paid in the cell captives, the effective tax rate for the bank remains approximately 28%.

Credit ratings

S&P Global Ratings affirmed Capitec Bank's ratings on 22 November 2018 with a stable outlook. We have a global long-term rating of BB and a short-term global rating of B. The South African long-term national scale rating is zaAA and the short-term rating is zaA-1+. Our global long-term rating is the same as the sovereign rating, as well as those of other large South African banks.

Strong capital levels and healthy liquidity

We have sufficient capital to meet our growth requirements. At 28 February 2019 the capital adequacy ratio (CAR) was 33.9%.

The IFRS 9 transition after applying the phase-in resulted in a 0.5% decrease in the CAR based on the current year's capital and risk-weighted assets.

IFRS 16, that relates to leases, with an implementation date of 1 March 2019, will result in an estimated reduction of 1.3% to 1.5% in the CAR, for which no phase-in period is applicable. IFRS 16 brings operating leases onto the balance sheet as right-of-use assets with a corresponding liability.

We are awaiting regulatory approval for the acquisition of Mercantile Bank Holdings Limited. The transaction will be funded out of cash reserves and no additional equity will be required. The impact of this acquisition on our CAR can be met by the reallocation of assets in the investment portfolio.

Investing in growth and efficiency

Operating expenses increased by 18%, in line with earnings growth. The increase was driven by information technology, security costs, an increase in employees in the digital and credit value streams, new product offerings and salary incentives due to the 57% share price increase. We are building a new head office which we expect to be completed in 2020. The new building will increase operational efficiencies and collaboration between the business units that are currently distributed across a number of buildings.

We are implementing a new SAP general ledger, human resources and procurement system to establish high-performance support services capability, efficiencies and to assist in increasing throughput.

Prospects

Our continued investment in new payment solutions, digital development and advanced data and analytics will allow us to offer retail clients easier ways to bank and more personalised credit offers. We regard the acquisition of Mercantile Bank Holdings Limited as a strategic move to accelerate the development of a unique business banking offer for our clients.

Changes in board composition

On 28 November 2018, Daniel Petrus Meintjes was appointed as an independent non-executive director. He has comprehensive business experience and insight. We welcome him to the board.

Nonhlanhla Mjoli-Mncube will retire from the board effective 31 May 2019. We thank her for her 15 years' dedicated service to the group.

Dividend

The directors declared a final gross dividend of 1 120 cents per ordinary share (February 2018: 945 cents per ordinary share) on 27 March 2019, bringing the total dividends for the 2019 financial year to 1 750 cents per share (February 2018: 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 896 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

Last day to trade cum dividend	Monday, 15 April 2019
Trading ex-dividend commences	Tuesday, 16 April 2019
Record date	Thursday, 18 April 2019
Payment date	Tuesday, 23 April 2019

Share certificates may not be dematerialised or rematerialised from Tuesday, 16 April 2019 to Thursday, 18 April 2019, 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
28 March 2019

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 or the sponsor's registered offices 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

			2019	2018	Change % 2019/2018	2017	2016
Profitability							
Interest income(2)		R'm	**15 501**	15 474	0	14 934	13 413
Net loan fee and insurance income(3)		R'm	**1 507**	1 380	9	495	(83)
Total lending, investment and insurance income less loan fee expense(2)(3)		R'm	**17 008**	16 854	1	15 429	13 330
Interest expense		R'm	**(4 510)**	(4 184)	8	(3 552)	(2 884)
Net lending, investment and insurance income(2)(3)		R'm	**12 498**	12 670	(1)	11 877	10 446
Net transaction fee income		R'm	**6 464**	5 127	26	3 923	3 020
Other		R'm	**3**	(1)		–	(1)
Funeral income(4)		R'm	**54**	–		–	–
Income from operations(2)(3)(4)		R'm	**19 019**	17 796	7	15 800	13 465
Credit impairment charge(2)(8)		R'm	**(4 450)**	(5 280)	(16)	(5 121)	(4 401)
Net income(2)(3)(4)(8)		R'm	**14 569**	12 516	16	10 679	9 064
Income from associates		R'm	**2**	3	(33)	–	–
Operating expenses		R'm	**(7 494)**	(6 364)	18	(5 439)	(4 591)
Income before tax(2)(3)(4)(8)		R'm	**7 077**	6 155	15	5 240	4 473
Tax(3)(4)		R'm	**(1 781)**	(1 685)	6	(1 434)	(1 244)
Preference dividend		R'm	**(9)**	(12)	(25)	(16)	(16)
Discount on repurchase of preference shares		R'm	**(2)**	–		–	–
Earnings attributable to ordinary shareholders							
Basic		R'm	**5 285**	4 458	19	3 790	3 213
Headline		R'm	**5 292**	4 461	19	3 793	3 222
Net transaction fee income to net income		%	**44**	41		37	33
Net transaction fee income to operating expenses		%	**86**	81		72	66
Cost-to-income ratio(2)		%	**39**	36		34	34
Return on ordinary shareholders equity		%	**28**	27		27	27
Earnings per share							
Attributable		cents	**4 571**	3 855	19	3 278	2 779
Headline		cents	**4 577**	3 858	19	3 281	2 787
Diluted attributable		cents	**4 562**	3 843	19	3 267	2 773
Diluted headline		cents	**4 568**	3 846	19	3 270	2 781
Dividends per share							
Interim		cents	**630**	525	20	450	375
Final		cents	**1 120**	945	19	800	680
Total		cents	**1 750**	1 470	19	1 250	1 055
Dividend cover		x	**2.6**	2.6		2.6	2.6
Assets							
Net loans and advances		R'm	**44 515**	40 927(1)	9	39 205	35 760
Financial instruments at amortised cost(5)		R'm	**49 208**	39 387(1)	25	30 605	24 989
Financial assets – equity instruments at FVOCI (Available-for-sale financial assets)		R'm	**100**	100	0	100	
Other		R'm	**4 723**	3 139	50	2 988	1 794
Current income tax asset		R'm	**286**	–(1)		–	53
Deferred income tax asset		R'm	**1 596**	1 168(1)	37	460	349
Total assets		R'm	**100 428**	84 721(1)	19	73 358	62 945
Liabilities							
Retail deposits and wholesale funding		R'm	**76 443**	64 030	19	55 582	47 940
Other		R'm	**2 309**	2 447(1)	(6)	1 658	1 346
Total liabilities		R'm	**78 752**	66 477(1)	18	57 240	49 286
Equity							
Shareholders' funds		R'm	**21 676**	18 244(1)	19	16 118	13 659
Capital adequacy ratio		%	**34**	35(1)		34	35
Net asset value per ordinary share		cents	**18 676**	15 681(1)	19	13 809	11 663
Share price		cents	**130 621**	83 246	57	72 500	47 400
Market capitalisation		R'm	**151 033**	96 255	57	83 830	54 807
Number of shares in issue		'000	**115 627**	115 627		115 627	115 627
Share options							
Number outstanding		'000	**640**	777	(18)	963	868
Number outstanding to shares in issue		%	**0.6**	0.7		0.8	0.8
Average strike price		cents	**50 644**	38 561	31	31 755	28 520
Average time to maturity		months	**18**	19		20	27
Operations							
Branches			**840**	826	2	796	720
Employees			**13 774**	13 333	3	13 069	11 440
Active clients		'000	**11 386**	9 868	15	8 569	7 269
ATMs and DNRs							
Own			**2 090**	1 895	10	1 653	1 236
Partnership			**2 921**	2 750	6	2 371	2 469
Total			**5 011**	4 645	8	4 024	3 705
Capital expenditure		R'm	**1 141**	829	38	1 000	704
Credit sales							
Value of credit card disbursements/drawdowns		R'm	**6 193**	3 949	57	864	
Value of term loans advanced		R'm	**24 775**	24 343	2	26 362	24 228
Value of total loans advanced(10)		R'm	**30 968**	28 292	9	27 226	24 228
Number of total loans advanced(6)		'000	**4 889**	3 947	24	3 508	3 684
Average of total credit card disbursements/drawdowns		R	**1 974**	2 296	(14)	3 703	–
Average of total term loans advanced		R	**14 145**	10 934	29	8 051	6 577
Average of total loans advanced		R	**6 334**	7 168	(12)	7 761	6 577
Credit book							
Gross loans and advances		R'm	**54 879**	47 642	15	45 135	40 891
Up-to-date	Stage 1	R'm	**41 587**	37 165(1)	12	39 076	34 527
Up-to-date with SICR	Stage 2	R'm	**3 765**	4 401(1)	(14)		
Total up-to-date		R'm	**45 352**	41 566(1)	9	39 076	34 527
Arrears – up to 1 month in arrears	Stage 2	R'm	**1 087**	1 003	8	1 641	1 458
Arrears – 2 and 3 months in arrears	Stage 3	R'm	**1 389**	1 697(11)	(18)	1 214	839
Total arrears up to 3 months		R'm	**2 476**	2 700	(8)	2 855	2 297
Application for debt review within 6 months	Stage 3	R'm	**70**	108(1)(11)	(35)		
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)(7)	Stage 3	R'm	**856**	1 085	(21)	1 088	1 818
Up-to-date that rescheduled from arrears (not yet rehabilitated)(7)	Stage 3	R'm	**1 272**	1 277	(0)	1 583	1 542
Total up-to-date that rescheduled (not yet rehabilitated)(7)		R'm	**2 128**	2 362	(10)	2 671	3 360
More than 3 months in arrears and legal status	Stage 3	R'm	**4 853**	–		–	–
Expected recoveries receivable(8)	Stage 3	R'm	**–**	906	(100)	533	707
Total provision for credit impairment		R'm	**10 364**	6 715(1)	54	5 930	5 131
Net loans and advances		R'm	**44 515**	40 927(1)	9	39 205	35 760
Total provision for credit impairment to Stage 3 (excluding expected recoveries receivable) and Stage 2 (up to 1 month in arrears) coverage		%	**109**	130(1)		107	91
Repayments		R'm	**38 100**	35 974	6	33 236	29 388
Gross credit impairment charge(2)		R'm	**4 917**	6 560	(25)	6 246	5 255
Bad debts recovered(8)		R'm	**467**	1 280	(64)	1 125	854
Net credit impairment charge(2)		R'm	**4 450**	5 280	(16)	5 121	4 401
Net credit impairment charge(2) to average gross loans and advances		%	**8.7**	11.4		11.9	11.4
Total lending and insurance income (excluding investment income)(2)(3)(9)		R'm	**14 448**	15 008	(4)	14 362	12 837
Net credit impairment charge(2) to total lending and insurance income (excluding investment income)(2)(3)(9)		%	**30.8**	35.2		35.7	34.3
Retail deposits and wholesale funding							
Wholesale funding		R'm	**5 078**	6 206	(18)	7 543	10 154
Retail call savings		R'm	**45 141**	34 909	29	30 117	24 152
Retail fixed savings		R'm	**26 224**	22 915	14	17 922	13 634

(1) ***Transition to IFRS 9 Financial Instruments on 1 March 2018. These figures as at 28 February 2018 were adjusted accordingly. Please refer to the audited transitional report on our website that illustrates the impact of implementing IFRS 9 on 1 March 2018. (https://resources.capitecbank.co.za/Capitec_-_IFRS9_transitional_report.pdf)***

(2) *In the current year, under IFRS 9, interest income and credit impairment charge are recognised on a net basis for all loans classified as Stage 3 (R1 073 million netting reversal for the year ended February 2019)*

(3) *Insurance profit is received from the cell captive as a dividend after tax. The tax expense on insurance profit is included in the net insurance income line for the financial year ended February 2019*

(4) *Funeral income is received from the cell captive as a dividend after tax. The tax expense is included in funeral income*

(5) *Cash, cash equivalents, money market funds, term deposits and other financial investments*

(6) *Includes credit card. For the number of loans advanced, every month in which the credit card is utilised is counted*

(7) *Not yet 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*

(8) *Under IFRS 9, no future expected receivable is recognised post write-off. The R906 million receivable was run-down in the current year and reduced bad debts recovered*

(9) *Interest received on loans, initiation fees, monthly service fee and net insurance income*

(10) *Net of loans settled through loan consolidations*

(11) *In the transition report application for debt review within 6 months and arrears – 2 and 3 months in arrears were aggregated*

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 (CRO)*, JD McKenzie, DP Meintjes, NS Mjoli-Mncube, PJ Mouton, CA Otto, JP Verster *Executive

MM004/E_SAFR BD