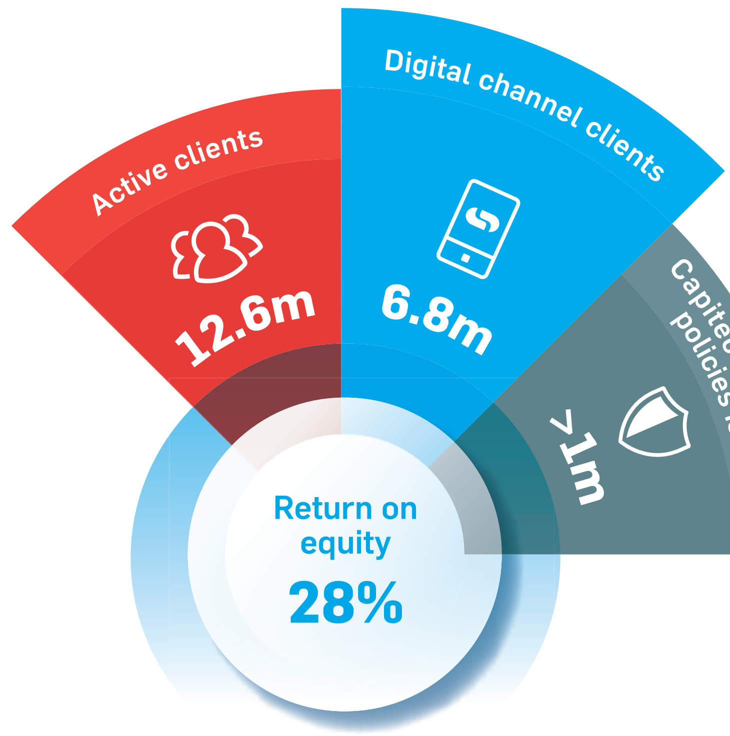
unaudited financial results

for the 6 months ended 31 August 2019

+20% to 2 545 cents **Headline earnings per share**

+20% to R2.943 billion **Headline earnings**

+20% 755 cents **Interim dividend per share**



A bank for all

Our philosophy is to offer equal access to affordable banking that is simple to understand, transparent and that helps our clients improve their financial lives. We make no distinction between our clients and give everyone the opportunity to bank where and when they want, whether digital or in a branch.

The South African banking landscape has evolved rapidly over the past couple of years. Digitalisation has resulted in approximately 6.8 million clients now making use of our digital channels (banking app and USSD (primarily for feature phones)) up from 4.7 million at the end of August 2018. Our dedication to satisfying our clients' digital banking needs was affirmed when we were voted as South Africa's best digital bank of 2019 by Columinate's SITEisfaction® survey.

Branches are an essential need and are relevant to our clients. We have 834 branches across the country in convenient locations and approximately 6 million clients visit our branches every month. We have converted 122 branches where we have removed the cashier and implemented a full self-help functionality. This enabled us to add an additional consultant workstation for further capacity in the branch. Altogether 21 new branches are scheduled to open during the second half of this financial year.

The delivery on clients' needs through **personalised service** has resulted in an average client growth of almost 200 000 per month over the last 6 months. We now have 12.6 million active clients. Since February 2019, 149 employees have joined our team and we now employ 13 923 people. We have had no retrenchments and do not plan any either.

Through our commitment to providing solutions that are **simple, accessible** and **affordable**, we continue to make a meaningful contribution to the financial well-being of our clients and the sustainability of our business.

20% growth in earnings

Headline earnings increased to R2.94 billion for the 6-month period ended August 2019 from R2.46 billion for the period ended August 2018. Return on shareholders' equity for the current period is 28% (August 2018: 27%).

Net transaction income growth of 12%

On 1 March 2019, transaction fees for payments made via the banking app, internet banking or USSD and the monthly administration fee on our Global One account were reduced. Our philosophy is to give back to clients as digital channel usage increases efficiency.

Despite decreasing the transaction fees to clients, the net transaction fee income grew by 12% due to a switch from branch to digital transacting and an increased use of cards as opposed to cash. This behaviour shift towards digital banking is in line with our strategy, and created capacity in our branch network to accommodate the strong growth in clients, credit applications and the issue of Capitec funeral plans.

Our net transaction fee and funeral income cover 91% of operating expenses (August 2018: 90%). We did not see a decrease in operational expenses because of the uptake in the Capitec funeral plan and an increase of 2 million in our client base in the last 12 months. Transaction and funeral income comprise 46% of our net income (August 2018: 47%). Total net transaction fee income increased from R3.15 billion to R3.53 billion due to the change in client behaviour.

The net fee income from our digital channels has increased by 10% from R344 million to R380 million. Approximately 2.9 million clients actively use the banking app (August 2018: 1.8 million). An increase in the volume of banking app transactions by 99% to 290 million for the period under review (August 2018: 146 million) confirms our app's capability to help our clients bank better. USSD users increased to 4.7 million for the current period from 3.9 million for the same period in the prior year.

The transaction volume of self-service solutions (including the banking app, internet banking, USSD, in-branch self-service terminals and dual note recyclers) has increased by 40% to 628 million at the end of August 2019 (August 2018: 450 million).

The net transaction fee income from branch-related transactions has increased by 4% to R1.40 billion (August 2018: R1.35 billion). This is a contribution of 20.4% to the total net transaction fee income.

Retail deposit growth of 23%

During this 6-month period we paid out R2.28 billion (August 2018: R1.86 billion) in interest on retail call deposits, fixed deposits and positive credit card accounts. Retail deposits increased by 23% to R81.4 billion (August 2018: R66.2 billion) which is a reflection of our clients' trust in our brand. Industry reports indicate that there is approximately R295 billion in South Africa in transactional accounts earning no interest. If that money earned just 4.75% interest it would put over R14 billion extra into the pockets of South Africans every year. Our clients currently earn between a minimum of 4.75% and 8.55% interest per year on any positive balance on their accounts.

Depositors' money invested in retail call deposits is not utilised to fund credit granting, which is funded by wholesale funding, retail fixed deposits and retained earnings.

Wholesale funding decreased by 32% during the current period to R3.95 billion (August 2018: R5.77 billion). It was deliberately managed lower due to strong retail fixed deposits and earnings growth. We issued a bond of R500 million and received bids totalling R2.75 billion, which is 550% of what we asked for. We will always retain some wholesale funding as an element of our funding.

A personalised funeral plan

Since the product launch, in May 2018, more than 1 million Capitec funeral plan policies have been issued and during the last 2 months, 100 000 policies per month. Of the total policies issued, 67% are active. Altogether 85% of the policies issued during the last 6 months were issued in the branches.

Staying true to our fundamentals, the competitive pricing of the Capitec funeral plan unlocks savings for our clients. This allows clients to either cover additional family members, increase their cover amount or have more disposable income.

To date, the claims experience and policies that lapse are lower than expected due to the book being in the early stages of maturity.

Improved credit quality

Adopting a clear strategy to improve credit client quality allowed us to extend better loan offers and terms to clients. During the last 2 years there was a focus on our clients' profiles and their behaviour, the impact of which was to tighten the credit criteria. Stricter granting criteria resulted in an improved arrears performance, which allowed us to extend better offers to certain segments of clients.

The gross loan book increased by 17% to R60.25 billion for the period from R51.36 billion in the prior period. The total arrears up to 3 months decreased by 11% to R2.16 billion at the end of August 2019 (August 2018: R2.43 billion; February 2019: R2.57 billion). On an annualised basis, the credit loss ratio decreased to 7.2% for the current period compared to 10.2% in the 6 months ended August 2018 (February 2019: 8.6%). Gross loans and advances in arrears by more than 3 months and loans with legal statuses (debt review and handed over) grew to R6.99 billion compared to R3.07 billion at the end of August 2018. The increase is due to IFRS 9.

Previously, loans were written off when they were more than 3 months in arrears or had a legal status. Since the implementation of IFRS 9 on 1 March 2018, loans are only written off when there is no reasonable expectation of further recovery beyond 5% of the gross balance at write-off. Loans therefore remain on book for longer and this resulted in the increase in stage 3 loans that are more than 3 months in arrears. These loans are appropriately provided for at 92.3% at 31 August 2019.

Under IFRS 9, the interest income and the related credit impairment charge are netted off for stage 3 loans. The effect of this is that interest and credit impairment charge are lower by R764 million (August 2018: R442 million). If this effect is taken into consideration, the decrease in the net credit impairment charge would be 4% instead of the 17% currently displayed. This decrease is directly due to the improvement in arrears mentioned above.

Loans (37–84 months) advanced during the 6 months ended August 2019 increased by 8% driven by higher earning, better quality clients. Loans (1–36 months) advanced during the same period increased by 23% due to an increase in clients that do not take the maximum loan for which they qualify, but take shorter loans or lower amounts at lower interest rates. These clients represented 58.5% of loans advanced (August 2018: 50.9%).

We were able to improve credit card offers to the extent that our gross credit card book grew by 71% to R4.55 billion at the end of August 2019 (August 2018: R2.66 billion; February 2019: R3.62 billion). It comprises 3.6%* of the total South African retail credit card market. The product is performing within expectations and growth is due to competitive rates and limits personalised to our clients' needs. Currently clients can qualify for credit limits of up to R250 000 with interest rates as low as prime.

Debt Intervention legislation

The National Credit Amendment Act 7 of 2019 (the Act) does not compromise our credit portfolio. Less than 5% of our credit book falls within the scope of the Act.

In summary, the Act provides for the restructuring of the debt of heavily indebted consumers who earn a gross monthly income of less than R7 500, have unsecured debt amounting to up to R50 000 and who have been found to be critically indebted by the National Credit Regulator (NCR). A consumer can become critically indebted when their income decreases or their living expenses increase. If the consumer approaches the NCR (who will act as a debt counsellor), the NCR will present a debt relief solution to the National Consumer Tribunal (who will act as the "court"). This is not dissimilar to the options already available in the market.

Currently, the clients being addressed in the Act have the option to approach a debt counsellor and apply for debt review in which case the appropriate level of credit impairment is raised.

The definition of over-indebtedness to be applied according to the Act still requires further clarity. We continue to apply stricter credit affordability criteria compared to those stipulated by the National Credit Act.

IFRS 16 *Leases*

We implemented IFRS 16, the revised accounting standard for leases on 1 March 2019. IFRS 16 requires the lessee, in an operating lease commitment, to record an asset with a corresponding lease liability. At Capitec we enter into operating leases for branches, off-site ATM locations, office space and storage facilities.

The lease liabilities were measured at the present value of the remaining lease payments, discounted at the bank's incremental borrowing rate as at 1 March 2019. The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised in the balance sheet as at 28 February 2019.

On 1 March 2019, we recognised lease liabilities of R2.75 billion and right-of-use assets of R2.60 billion. Practically, operating leases and rental cost expenses will be replaced by an interest expense and depreciation charge.

Earnings were negatively impacted by 50 cents per share for the 6 months to 31 August 2019 as a result of the adoption of IFRS 16.

Cost-to-income ratio of 40%

The increase in operating expenses is mainly due to salaries and information technology. This is due to investment in our future growth and a focus on enhancing a personalised customer experience on all platforms.

Capital expenditure has increased to R804 million at August 2019 (August 2018: R457 million) mainly due to the building of our new head office as well as the implementation of the new SAP general ledger, procurement and human resource system.

The cost-to-income ratio was impacted by 2 new IFRS statements. The impact of the IFRS 9 netting treatment of interest income on stage 3 loans resulted in a decrease of R764 million in interest on loans for the 6 months ended August 2019 (August 2018: R442 million; February 2019: R631 million) and decreased income from operations. The impact of IFRS 16 was that we recognised depreciation and interest costs, instead of operating lease expenses. During the 6-month period ended August 2019, we recognised R199 million of depreciation in operating expenses and R134 million of interest costs in interest expense for these leases. These costs replace the operating lease charges for the 6-month period ended August 2018, amounting to R245 million.

We remain well capitalised and have low liquidity risk

Capitec remains well capitalised with a capital adequacy ratio (CAR) of 34% at 31 August 2019. The implementation of IFRS 16 on 1 March 2019 reduced the CAR by 1.4%. Once the Mercantile Bank acquisition has been approved, we will consolidate their assets and liabilities. The total impact of the consolidation is expected to reduce the CAR by approximately 6.5% while diversifying our business.

We comply with the Basel 3 liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR). Our LCR is 2 126% and NSFR is 202% as a result of our conservative liquidity strategy. (The Basel 3 requirement is 100% for both ratios.)

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 the other major South African banks.

Prospects

Our focus on delivering simple, affordable, accessible solutions to our clients through personal service will remain, not only through our retail bank, but also through our business bank in the near future. We believe in a positive long-term view of South Africa, that is why we look forward to integrating Mercantile Bank. Announcements regarding the final approval of the Mercantile Bank acquisition and related details will be made via the Johannesburg Stock Exchange News Service (SENS).

We will continue to use digital innovation and artificial intelligence to ensure that we provide our clients with the best digital banking and payment solutions, as well as improve our client insights.

Changes in board composition

On 31 May 2019, Riaan Stassen, our chairman and one of the founders of Capitec Bank, retired. We thank and honour Riaan for the significant role he played in the success of the bank and wish him well in his retirement. The board appointed Santie Botha as the new chairman, effective 1 June 2019. Santie's appointment will strengthen the independent element of the board and support the continuous drive to augment board acumen.

Lindi Dlamini resigned from the board on 30 June 2019 due to her appointment as chief executive officer at a financial services company. We thank Lindi for her commitment and contribution during her time on the board.

Interim dividend

The directors declared a gross interim dividend of 755 cents per ordinary share for the 6 months ended 31 August 2019 (31 August 2018: 630 cents). The dividend will be paid on Monday, 4 November 2019. Capitec has 115 626 991 ordinary shares in issue.

The dividend meets the definition of a dividend in terms of the Income Tax Act, 58 of 1962. The dividend amount, net of South African dividend tax of 20%, is 604 cents per share. The distribution is made from income reserves. Capitec's tax reference number is 9405376840.

As a result of JSE system updates, our dividend dates have been moved out to:

Last day to trade cum dividend	Tuesday, 29 October 2019
Trading ex-dividend commences	Wednesday, 30 October 2019
Record date	Friday, 1 November 2019
Payment date	Monday, 4 November 2019

Share certificates may not be dematerialised or rematerialised from Wednesday, 30 October 2019 to Friday, 1 November 2019, both days inclusive.

On behalf of the board

Santie Botha

Santie Botha
Chairman

Gerrie Fourie
Chief executive officer

Stellenbosch
26 September 2019

* *South African Reserve Bank (BA 900)*

This announcement is the responsibility of the directors of the company. It is only a summary of the information included in the full announcement and does not contain full or complete details. Any investment decision by investors and/or shareholders should be based on consideration of the full announcement, which is available through the link in the short-form announcement released on SENS on Thursday, 26 September 2019. The full announcement is also available for viewing on Capitec's website at www.capitecbank.co.za and may be requested, at no charge, at the registered office of the company and the offices of the sponsor during office hours. Copies of the full announcement may be requested from the company by e-mailing enquiries@capitecbank.co.za.

Key performance indicators

			6 months ended August 2019	6 months ended August 2018	Change % 2019/2018	Year ended February 2019
Profitability						
Interest income on loans(1)		R'm	**6 443**	6 305	2	12 723
Interest income on investments		R'm	**1 681**	1 301	29	2 778
Interest income		R'm	**8 124**	7 606	7	15 501
Net loan fee and insurance income		R'm	**859**	693	24	1 507
Total lending, investment and insurance income less loan fee expense		R'm	**8 983**	8 299	8	17 008
Interest expense(1)		R'm	**(2 677)**	(2 187)	22	(4 510)
Net lending, investment and insurance income		R'm	**6 306**	6 112	3	12 498
Net transaction fee income		R'm	**3 529**	3 147	12	6 464
Other		R'm	**11**	19	(42)	3
Funeral income		R'm	**107**	6		54
Income from operations		R'm	**9 953**	9 284	7	19 019
Credit impairment charge(1)		R'm	**(2 115)**	(2 542)	(17)	(4 450)
Net income		R'm	**7 838**	6 742	16	14 569
Income from associates		R'm	**(3)**	9		2
Operating expenses(1)		R'm	**(4 003)**	(3 500)	14	(7 494)
Income before tax		R'm	**3 832**	3 251	18	7 077
Tax		R'm	**(879)**	(792)	11	(1 781)
Preference dividend		R'm	**(4)**	(5)	(20)	(9)
Discount on repurchase of preference shares		R'm	**(1)**	–		(2)
Earnings attributable to ordinary shareholders						
Basic		R'm	**2 948**	2 454	20	5 285
Headline		R'm	**2 943**	2 461	20	5 292
Net transaction fee and funeral income to net income(1)		%	**46**	47		45
Net transaction fee and funeral income to operating expenses(1)		%	**91**	90		87
Cost-to-income ratio(1)		%	**40**	38		39
Return on ordinary shareholders equity		%	**28**	27		28
Earnings per share						
Attributable		cents	**2 549**	2 122	20	4 571
Headline		cents	**2 545**	2 128	20	4 577
Diluted attributable		cents	**2 545**	2 118	20	4 562
Diluted headline		cents	**2 540**	2 124	20	4 568
Dividends per share						
Interim		cents	**755**	630	20	630
Final		cents				1 120
Total		cents				1 750
Dividend cover		x				2.6
Assets						
Net loans and advances		R'm	**47 403**	41 888	13	44 515
Financial instruments at amortised cost(2)		R'm	**57 125**	46 169	24	49 208
Financial assets – equity instruments at fair value through other comprehensive income		R'm	**100**	100		100
Right-of-use asset (IFRS 16)		R'm	**2 470**	–		–
Other		R'm	**4 885**	4 030	21	5 009
Deferred income tax asset		R'm	**1 613**	1 438	12	1 596
Total assets		R'm	**113 596**	93 625	21	100 428
Liabilities						
Retail deposits and wholesale funding		R'm	**85 324**	71 983	19	76 443
Other		R'm	**5 096**	2 022		2 309
Total liabilities		R'm	**90 420**	74 005	22	78 752
Equity						
Shareholders' funds		R'm	**23 176**	19 620	18	21 676
Capital adequacy ratio		%	**34**	36	(7)	34
Net asset value per ordinary share		cents	**20 044**	16 876	19	18 676
Share price		cents	**109 490**	100 275	9	130 621
Market capitalisation		R'm	**126 600**	115 945	9	151 033
Number of shares in issue		'000	**115 627**	115 627		115 627
Share options						
Number outstanding		'000	**549**	691	(21)	640
Number outstanding to shares in issue		%	**0.5**	0.6		0.6
Average strike price		cents	**65 218**	48 795	34	50 644
Average time to maturity		months	**23**	23		18
Operations						
Branches			**834**	832		840
Employees			**13 923**	13 710	2	13 774
Active clients		'000	**12 575**	10 522	20	11 386
ATMs and DNRs						
Own			**2 199**	1 987	11	2 090
Partnership			**3 110**	2 925	6	2 921
Total			**5 309**	4 912	8	5 011
Capital expenditure		R'm	**804**	457	76	1 141
Credit sales						
Value of credit card disbursements/drawdowns		R'm	**4 268**	2 686	59	6 193
Value of term loans advanced(3)		R'm	**13 424**	11 224	20	23 475
Value of credit facility disbursements/drawdowns		R'm	**344**	776	(56)	1 300
Value of total loans advanced		R'm	**18 036**	14 686	23	30 968
Number of total loans advanced(4)		'000	**2 786**	2 354	18	4 889
Average credit card disbursement/drawdown		R	**2 057**	1 910	8	1 974
Average term loan advanced		R	**24 753**	22 950	8	26 181
Average credit facility disbursement/drawdown		R	**1 549**	1 524	2	1 521
Average loan advanced		R	**6 475**	6 239	4	6 334
Credit book						
Gross loans and advances(5)		R'm	**60 252**	51 359	17	55 895
Up-to-date	Stage 1	R'm	**45 311**	39 641	14	41 587
Up-to-date with SICR	Stage 2	R'm	**3 284**	3 485	(6)	3 765
Total up-to-date		R'm	**48 595**	43 126	13	45 352
Arrears – up to 1 month in arrears	Stage 2	R'm	**856**	911	(6)	1 087
Arrears – 2 and 3 months in arrears(5)	Stage 3	R'm	**1 305**	1 517	(14)	1 483
Total arrears up to 3 months		R'm	**2 161**	2 428	(11)	2 570
Application for debt review within 6 months	Stage 3	R'm	**73**	70	4	70
Up-to-date that rescheduled from up-to-date (not yet rehabilitated)(5) (6)	Stage 3	R'm	**1 009**	963	5	900
Up-to-date that rescheduled from arrears (not yet rehabilitated)(5) (6)	Stage 3	R'm	**1 496**	1 373	9	1 354
Total up-to-date that rescheduled (not yet rehabilitated)		R'm	**2 505**	2 336	7	2 254
More than 3 months in arrears and legal status(5)	Stage 3	R'm	**6 918**	3 001		5 649
Expected recoveries receivable	Stage 3	R'm	**–**	398		–
Total provision for credit impairment(5)		R'm	**12 849**	9 471	36	11 380
Net loans and advances		R'm	**47 403**	41 888	13	44 515
Total provision for credit impairment to stage 3 and stage 2 (up to 1 month in arrears) coverage(5)		%	**110**	115		108
Repayments		R'm	**20 199**	18 322	10	38 100
Credit impairment charge(1)		R'm	**2 803**	3 333	(16)	4 917
Bad debts recovered		R'm	**688**	791	(13)	467
Net credit impairment charge(1)		R'm	**2 115**	2 542	(17)	4 450
Net credit impairment charge to average gross loans and advances (credit loss ratio)(1) (5)		%	**3.6**	5.1		8.6
Total lending and insurance income (excluding investment income)(7)		R'm	**7 432**	7 053	5	14 448
Net credit impairment charge to total lending and insurance income (excluding investment income)(1) (7)		%	**28.5**	36.0		30.8
Retail deposits and wholesale funding						
Wholesale funding		R'm	**3 949**	5 769	(32)	5 078
Retail call savings		R'm	**50 896**	41 048	24	45 141
Retail fixed savings		R'm	**30 479**	25 166	21	26 224

(1) *Under IFRS 9, interest income and credit impairment charges are recognised on a net basis for all loans classified as stage 3 (R764 million netting reversal for the period ended August 2019; August 2018: R442 million; February 2019: R631 million). In the current period, under IFRS 16, interest expense increased by R134 million, depreciation increased by R199 million and premises rental decreased by R245 million*

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

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

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

(5) *At 28 February 2019, the gross carrying amount did not include impaired interest on stage 3 loans and advances. The gross carrying amount was presented in this manner to align to the income statement presentation under IFRS 9 which requires interest to be recognised on the net carrying amount of the loan, i.e. after expected credit loss (ECL). In the current period, the gross carrying amount was updated to include all contractual cash flows before ECL. This is aligned to industry practice under IFRS 9. The gross carrying amount has been grossed up by R1 016 million at 28 February 2019. There is no impact on the primary statements or the transitional balance sheet*

(6) *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*

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

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' or 'the company' or 'the group')

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 SL Botha (Chairman), GM Fourie (CEO)*, AP du Plessis (CFO)*, MS du P le Roux, K Makwane, NS Mashiya (CRO)*, JD McKenzie, DP Meintjes, PJ Mouton, CA Otto, JP Verster.