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")

IN RESPONSE TO THE LATEST SET OF ALLEGATIONS THAT VICEROY RESEARCH GROUP HAS RELEASED ON MONDAY 5 FEBRUARY 2018 IN ITS ONGOING CAMPAIGN AGAINST CAPITEC

1. We believe that the campaign will continue for the foreseeable future. Shareholders can expect the release of fresh attacks and false allegations over an extended period.
2. Capitec consequently advises shareholders to use caution when reacting to such allegations.

We respond as follows with respect to the specific allegations made in the 5 February 2018 release ("the 5 February report"):

Only 7.3% of Capitec's credit clients currently qualify for loans in excess of 60 months (3.6% qualify for 84-month loans). The scoring models for the 61 to 84 month loans currently target 12-month default rates of 4.2% in aggregate (2% for 84-month loans). The portfolios are naturally weighted to the larger amounts and consequently the longer-term and lower risk clients.

With reference to the vintage graphs on pages 29 and 30 of Capitec's 2017 Integrated Annual Report (IAR), a technical matter described in the second paragraph on page 29 of the IAR is that the numerator is the sum of the principal amount advanced plus expected fees and interest over the full loan term (up to 7 years of interest and fees). The default rates as percentage of the principal amount advanced is therefore approximately 100% higher and in line with our scoring models.

The vintage graphs demonstrates that these loans perform at their targeted default rates.

Viceroy Research Group refers to the loss rates on "US prime credit cards" in the last paragraph of the 5 February report, before Figure 3, but shows aggregate credit card losses in Figure 3 and the following paragraph. Viceroy infers that it is impossible for the average American credit card holder to have similar credit risk as the top 7% of Capitec's clients. We have extensive history and sophisticated models to support our results.

The South African Reserve Bank, as part of their normal oversight function, performs reviews of all areas including detailed credit risk reviews on Capitec. They are fully aware of the credit scoring models and the risk targets that we set when we extend credit. We track performance against these targets and update our models as soon as any deviation occurs.

Independent industry experts have reviewed our credit granting models. The conclusion of these reviews have confirmed that the models are accurate and highly predictive. The reviews and the related target default rates for different risk groups are in line with our disclosed results.

An important point to understand of an assessment of the performance of credit providers is that where multiple credit providers target the same group of clients, the credit provider that has the best models to identify low risk clients has a significant competitive advantage.

Suppose that there is a population of 10 000 clients and that 5 000 of these clients are high risk, 4 000 are medium risk and 1 000 are low risk. Suppose the default rates are 20% for the high-risk group, 8% for the medium risk group and 4% for the low risk group. Should all the credit providers use the same risk groupings and make the same product offer to these clients, clients would be agnostic as to credit provider and the performance of all providers would be similar. Should one competitor identify the best 300 clients with a default rate of 2% out of the low risk pool and offer them better terms, the default rates of the remaining credit providers will naturally increase to 4.9% [(1 000 x 4%-300 x 2%) / (1 000-300)].

Furthermore, we have a sophisticated pricing for risk model that quantifies the reduction in risk when low risk clients, that qualify for long-term products, take up loans with a shorter duration and we offer lower rates in order to ensure that we provide competitive products to these clients.

Consequently, our unique product structure, combined with a highly evolved credit granting model and a sophisticated pricing model has created a competitive advantage that enables us to identify low risk clients and offer them credit at rates for as low as 12.9% on an unsecured basis over 24 months. This has enabled Capitec to increase market share among lower risk and higher income clients over time.

Capitec's technology allows all Capitec clients with the Capitec Banking App on their smartphones to view their credit risk profile on the App and receive an indication of the possible term and amount of credit that they could possibly qualify for.

Regarding the arrears rates on 61-84 month loans, it should be kept in mind that, as explained in detail in our response to Benguela Global Fund Managers' report dated 1 February 2018, the provision model segments clients based on risk characteristics. The provision of 7.6% against up to date clients is the portfolio aggregate and the provision against up to date 61 to 84-month loan clients is 5% due to the better risk profile of these clients. The estimate of Viceroy Research Group that 1.3% of 84 month clients are in arrears is therefore too low, as the actual arrears percentage at 28 February 2017 on these products was 3.1%. Capitec's strict write-off policy should be taken into account. The percentage of the 61 to 84 month clients that have rescheduled from arrears is 6.3%, of which 40% rehabilitated by 28 February 2017.

Conclusion:
The arrears figures reported by Capitec on these loans are accurate and in line with our risk appetite and portfolio tracking results. The provisions raised against these loans are conservative.

5 February 2018
Stellenbosch
Sponsor
PSG Capital