Capitec Bank Limited - DRAFT - In Progress or Approved Version

Stellenbosch, South Africa

Ratings and Contacts

Category	Moody's Rating
Outlook	Stable
NSR Issuer Rating -Dom Curr	A2.za
NSR ST Issuer Rating -Dom Curr	P-2.za

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Key Indicators

Capitec Bank Limited

	[1]2007	2006	2005	2004	2003	5-Year Avg.
Total Assets (US$ million)	**310.02**	**206.64**	**140.12**	**76.03**	**55.53**	[2]**54.86**
Shareholders' Equity (US$ million)	**147.49**	**68.56**	**62.22**	**51.94**	**39.58**	[2]**41.01**
Return on Average Assets	**7.66**	**7.62**	**6.53**	**9.38**	**7.07**	**7.65**
Recurring Earnings Power[3]	**20.66**	**20.00**	**16.59**	**20.01**	**19.50**	**19.35**
Net Interest Margin	**65.19**	**105.88**	**146.40**	**159.81**	**165.42**	**128.54**
Cost/Income Ratio (%)[4]	**62.44**	**70.82**	**79.42**	**76.03**	**74.26**	**72.59**
Problem Loans % Gross Loans	—	—	—	—	—	—
Tier 1 Ratio (%)	—	—	—	—	—	—

[1] As of February 28. [2] Compound annual growth rate. [3] No footnote_txt in mpact_fp_footnotes table. [4] No footnote_txt in mpact_fp_footnotes table.

Opinion

Credit Strengths

Credit strengths for Capitec Bank Limited include:

- Technology-driven, efficient provider of banking services to low income earners
- One of the main players in the microlending industry
- Ability to provide full banking products and services give the bank an edge over direct competitors
- Supervision by the South African Reserve Bank gives added comfort
- Currently comfortable liquidity position, with cautious policies for the future
- Impressive earning power, though it may be stressed by regulatory changes
- Good prospects for growth, given the large un-banked population
- Moderate level of possible support from the regulatory authorities is imputed in the ratings

Credit Challenges

Credit challenges for Capitec include:

- A young and small institution, experiencing rapid growth in balance sheet and infrastructure
- Operates in a high-risk segment, where it provides unsecured loans to moderate-to-low-income earners
- Challenging transition from a microlender to a full service bank
- Challenges in growing its stable client base, business volumes and stable customer deposits in order to build critical mass
- The National Credit Act will impact the operations and financial performance of all microlenders

Rating Rationale

The national scale issuer ratings assigned to Capitec Bank Limited were raised from Baa1.za/Prime-2.za to A2.za/Prime-2.za in recognition of the good progress made in franchise growth and the improved financial performance over the last year, as highlighted through the application of Moody's updated bank rating methodology.

The ratings reflect Capitec Bank's good position in the South African microlending industry, as well as its currently strong financial fundamentals and moderate levels of possible support from the regulatory authorities in case of need. Although young and small, Capitec Bank has been growing fast and establishing itself as one of the leaders in the microlending industry. Its smart business model is based on state-of-the-art front-end technology, enabling it to provide low-cost and efficient banking services to the low-income-earning population. Lending has mainly been for short tenors of one month, but the bank has more recently started to extend longer-term loans and to attract deposits from customers.

We consider that Capitec's full banking licence gives it an edge over its direct competitors, but also poses a key challenge in making the transition to a full service bank, during which the challenge for the bank will be to grow its stable customer base and business volumes in order to derive scale efficiencies and to better utilise its infrastructure. We believe that Capitec Bank's ability to provide a suite of banking products and services should enable it to grow its stable customer base and to retain them, and also to lengthen its loan tenors. Nevertheless, we do see risks in this transition, as well as challenges, including the implementation of the National Credit Act which, we believe, will impact the operations and financial performance of the bank and all other microlenders.

We have imputed some external support in the bank's ratings. In our view, Capitec's involvement in a market sector that is nurtured by the government in order to support the low-income-earning population of South Africa could qualify it to receive assistance from the regulatory authorities, should such support ever be required.

Rating Outlook

The A2.za/Prime-2.za national scale ratings have stable outlooks.

What Could Change the Rating - UP

Capitec Bank's ratings could benefit from a material growth in its business franchise, stable customer base and customer deposits, without compromising its financial fundamentals.

What Could Change the Rating - DOWN

The ratings could slip if Capitec's transition to full service bank is not successful, if its business growth either falters or gives rise to problems, if its asset quality, liquidity position or earning power deteriorate, or the microlending sector changes materially.

Recent Results

Capitec Bank Limited reported strong business growth during the year ended 28 February 2007. Compared to the 28 February 2006 position, total assets were up by 75%, while loans and deposits were up by 77% and 51%, respectively. Despite the rapid increase in lending, the impressive growth in deposits and the issuance of perpetual preference share capital resulted in a hike in liquidity levels. The latter may be used to fund possible international expansion - a move that we would have to evaluate closely to understand possible risks.

Compared to the previous year, net profit was up by 45%, driven by a 21% rise in net interest income and a huge increase in fee income, which comes mainly as a result of a change in pricing policy induced by the National Credit Act and increased transaction volumes. Going forward, net profit margins will come under further pressure unless the bank maintains a strong loan generation and benefits from the commensurate fee income. Operating expenses - which comprised 72% of operating income - continued to increase as the bank grew its operating infrastructure, while impairment charge on loans and advances rose from 12.9% of net interest income to 18.0%. Capitec Bank expects its performance to remain satisfactory, but growth rates for 2007 to be lower than rates achieved in 2006.