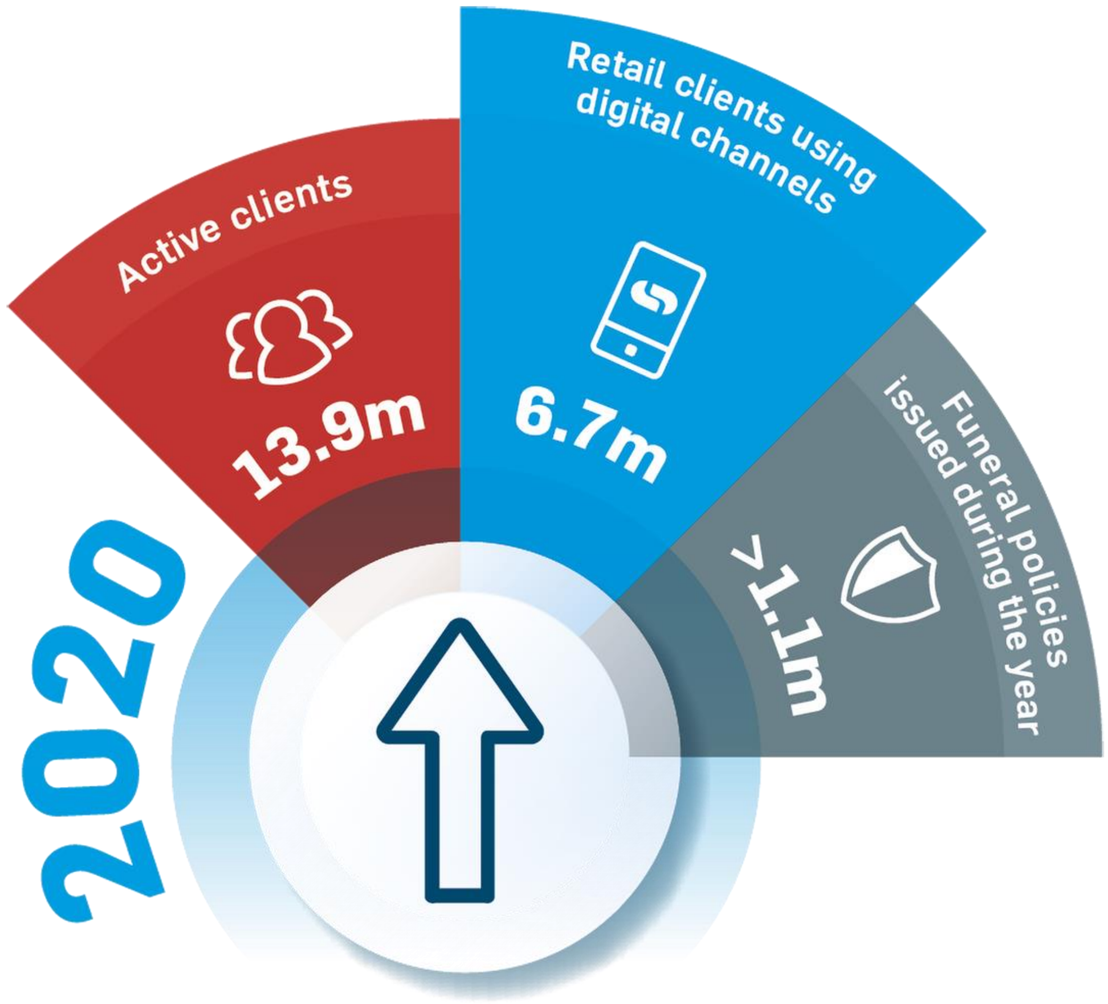


Financial Results

February 2020

CAPITEC BANK HOLDINGS LIMITED

South African landscape

Covid-19: our response

Clear Communication

- Employees: create clarity and instill confidence
- Clients: Promote remote banking and provide financial health tips
- Collaborating with regulators and industry bodies

Credit

- Credit treatments for distressed retail and business clients
- Cautious approach

Putting our people and our clients first



South African landscape

Covid-19: our response

Operations

- Continued payment to employees, suppliers and landlords
- Head office and client care enabled to work from home (>2 000 computers)
- 50% of branches open and consultants rotate in shifts to allow for social distancing
- System changes enable branches to perform remote support (mini call-centers)
- Donations committed to Gift of the Givers and Solidarity Fund
- Waived minimum merchant fee and POS rental (merchants unable to trade)
- BASA decision - waived SASWITCH ATM penalty fee and full cash withdrawal fee charged to SASSA grant recipients.

Putting our people and our clients first



South African landscape

Covid-19: the economy

Wave 1: lockdown – how long?

- Severe economic impact
- Contagion risk in high density areas
- Social impact especially in low income/informal sector
- Health services

Wave 2: post-lockdown

- Significant increase in unemployment
- Need stimulus for businesses
- Need informal market relief

Wave 3: long-term recovery

- Global economy?



South African landscape

Covid-19: perspective

Positives from current economic conditions

- Decisive leadership and action led by President Ramaphosa
- Quick national response and co-operative spirit amongst political parties
- Supporting the private sector as well as creating partnerships
- ‘Thuma Mina’ – sense of unity and national pride

The opportunity

- Change the way we do business
- Confidence in decision making - restructuring the economy
- One objective for SA: Growth

South African landscape

Regulatory changes to enhance capital conservation

Prudential Authority issued guidance note 4 of 2020:

- Ordinary dividend – no dividend will be paid in 2020
- No cash bonuses will be paid to executives
- No increase in director fees and executive salaries

Key indicators

Client growth and diversification



Key indicators

Drivers of growth

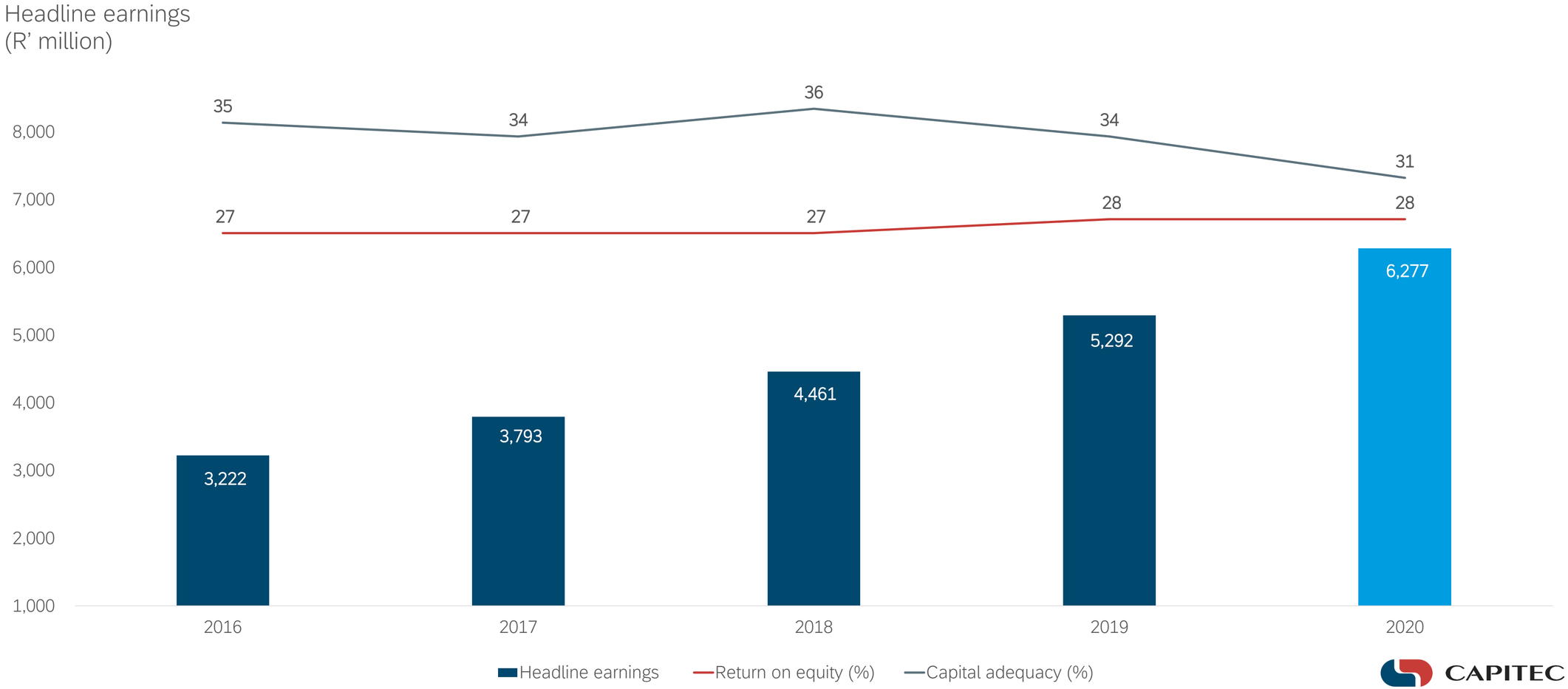
- Focus on our fundamentals
- Changing client behavior
- Diversification
- New opportunities

2019
Top company
award

- Sunday Times

Key indicators

Headline earnings up by 19% – Group



Key indicators

Net income by product – Retail bank

(R' million)	Feb 20	Feb 19	Change
Net term loans (incl. credit facility and provisions)	10 108	9 519	589
Net transaction fee	7 359	6 464	895
Net credit card (incl. provisions)	613	264	349
Funeral	413	54	359
Net income (excl. investment income and interest expense)	**18 493**	**16 301**	**2 192**

73% of the growth in net income is driven by diversification (non-term loan products)

Key indicators

Credit impairment charge – Retail Bank

Reported credit impairment charge (R' million)	Feb 20	Feb 19	Change %
Gross credit impairment charge [1]	5 623	4 917	14
Bad debts recovered [2]	(1 263)	(467)	>100
Net credit impairment charge	**4 360**	**4 450**	**(2)**

Comparable credit impairment charge (R' million)	Feb 20	Feb 19	Change %
Gross credit impairment charge [1]	5 623	4 917	14
Bad debts recovered [2][3]	(1 263)	(1 373)	(8)
Net credit impairment charge	**4 360**	**3 544**	**23**

(1) Under IFRS 9, the credit impairment charge is recognised on a net basis for all loans classified as stage 3, reducing the gross impairment charge by R1 526 million for year (February 2019: R1 073 million).

(2) The prior year figure is net of the R906 million in expected recoveries held on balance sheet as at 1 March 2018, in accordance with IAS 39. The recoveries realised during the 2019 financial year and the amount on book was released to against bad debt recovered.

(3) The R906 million was added back to compare bad debts recovered on a like-for-like basis.

Key indicators

Profitability ratios – Retail bank

Percentage	Feb 20	Feb 19
Net transaction fee and funeral income to net income	47	45
Net transaction fee and funeral income to operating expenses	93	87
Return on equity	28	28
Cost-to-income	40	39
Credit loss	7.2	8.6

Key indicators

Mercantile Bank Limited

(Results for the 4-month period ended 29 February 2020)

Credit impairment charge

- R114 million (R47 million for the 12-month period ended 31 Dec 2018)
- Adopted Capitec's credit loss provision philosophy
- Annualised credit loss ratio of 1.1% (31 Dec 2018: 0.5%)

Early settlement fees

- Settled long-term funding in the amount of R874 million
- Resulted in early settlement fees of R26 million before tax

Headline earnings

- R3 million (R249 million for the 12-month period ended 31 Dec 2018)



Retail bank

Focus on our fundamentals

Simplified banking

Omni-channel service

Affordable credit

Developing people

Social responsibility



Simplified banking

13.9 million active clients (up 22%)

Quality bank clients

- 51% active clients between 16 and 35 years old = high potential
- 3.6 million banking clients with stable inflows, remote banking, card purchases and debit orders (up by 20%)

Insure clients

- 1.1 million policies sold this year
- 900k active clients with in-force or pending in-force policy

Save clients

- 5.1 million clients with at least one flexible or fixed term savings plan (up by 20%)

Credit clients

- 1.2 million credit clients with a term loan or credit card – performing book (up by 9%)

Omni-channel business model

Average monthly clients

Digital
6.7 million clients (up 29%)

Feb 20:
- App users: 3.3 million (up 49%)
- USSD user: 4.9 million (up 19%)

New app launched in October 2019

Branch
7.8 million clients (up 17%)

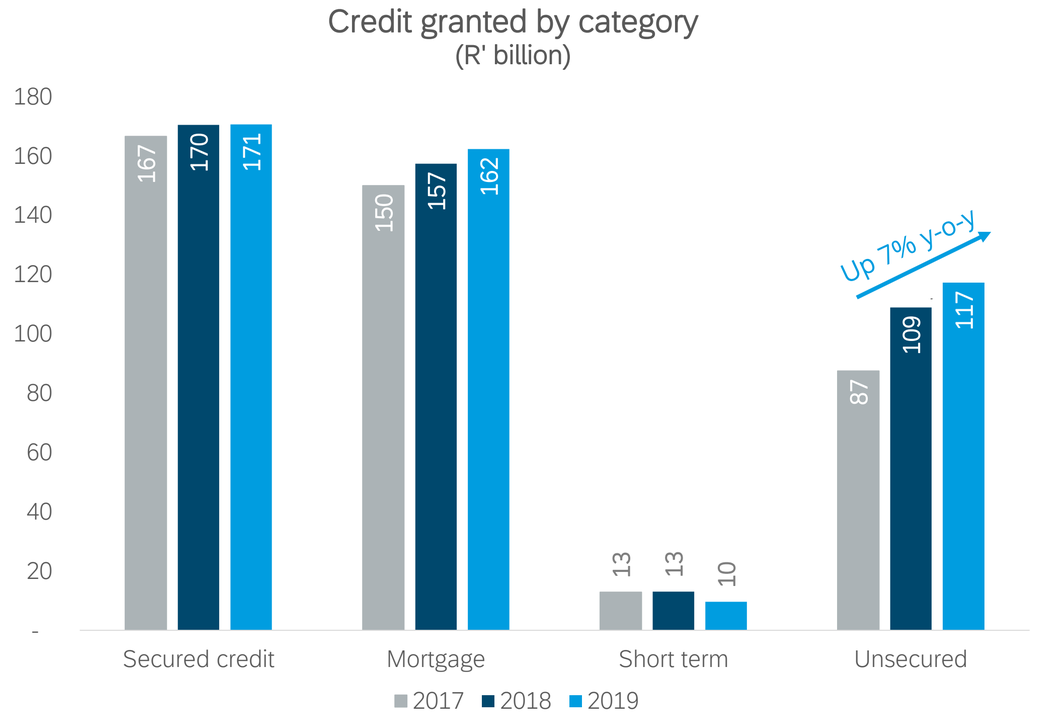
Feb 20:
- Branches: 852 (up by 12)
- ATM/DNR 5 644 (up 13%)

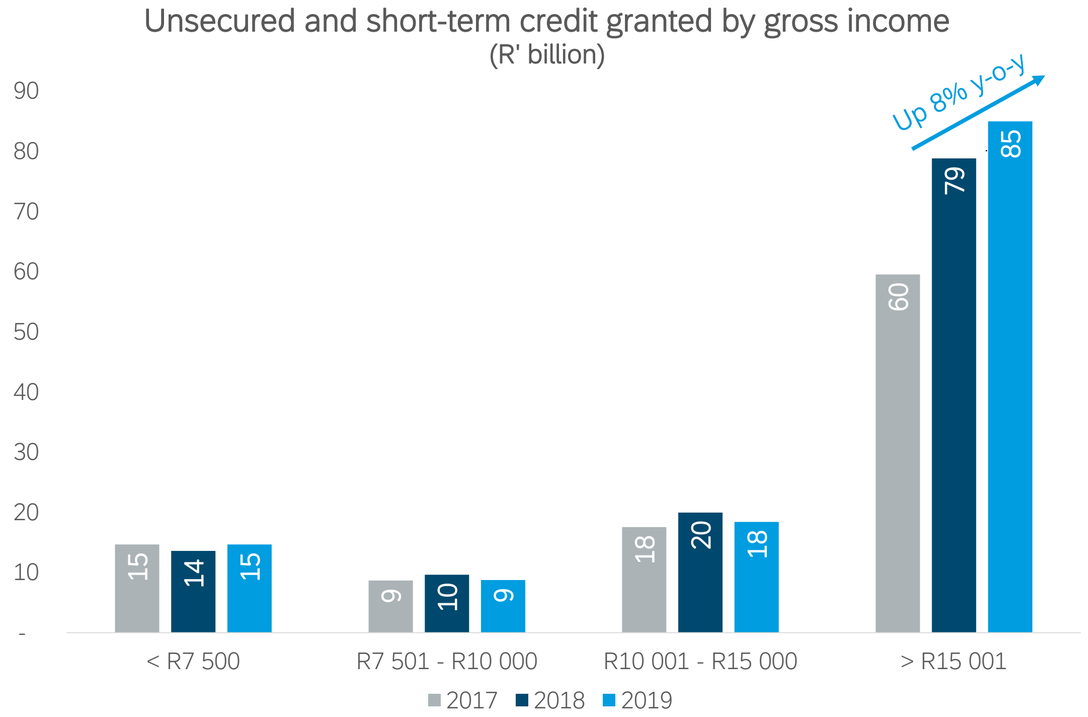
Client engagement
7.9 million clients per month
13 million engagements per month (e-mail, sms, call)

Credit market - NCR

Growth in unsecured market and > R15k gross income band

(12 months ended 31 December 2019)



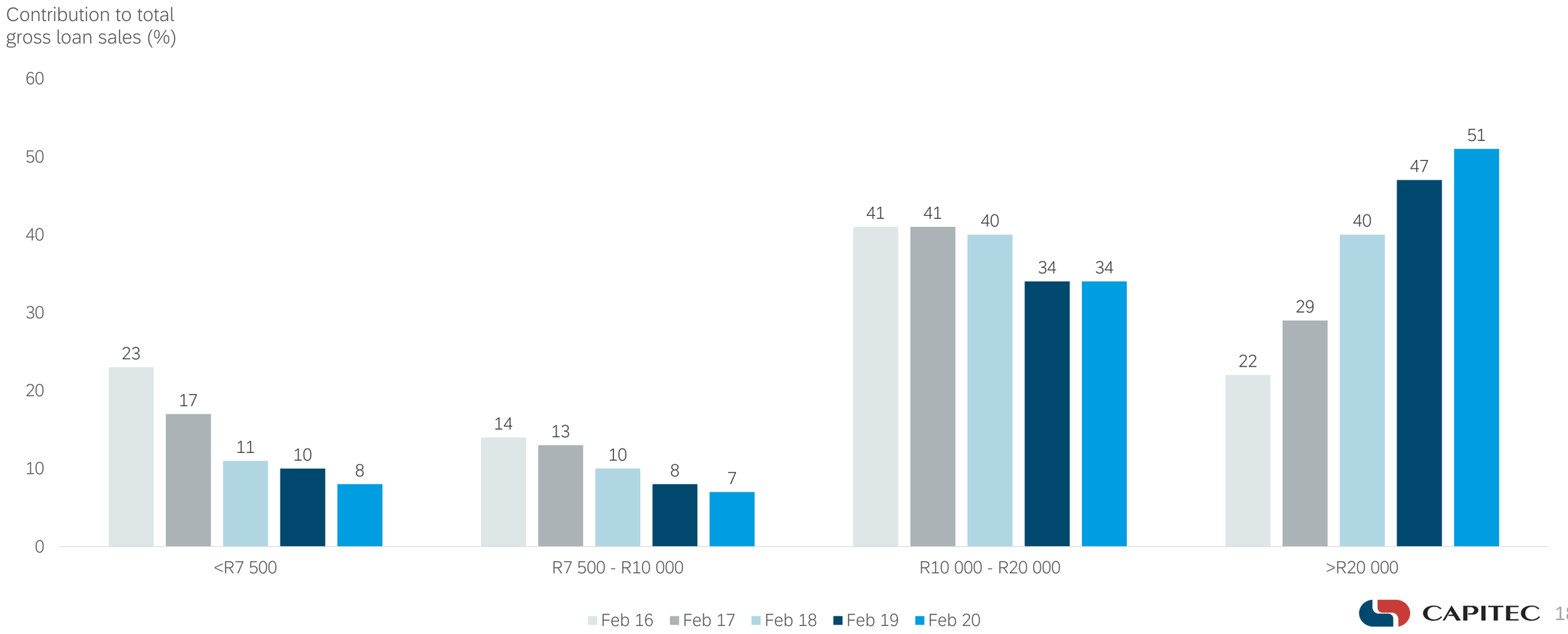


Source: NCR 2019Q4 report

Affordable credit

Shift to clients with stable income

(Gross loan sales for month of Feb per net income band)



Affordable credit

‘CEO’ loans in the best interest of our clients

Clients can decide on the following:

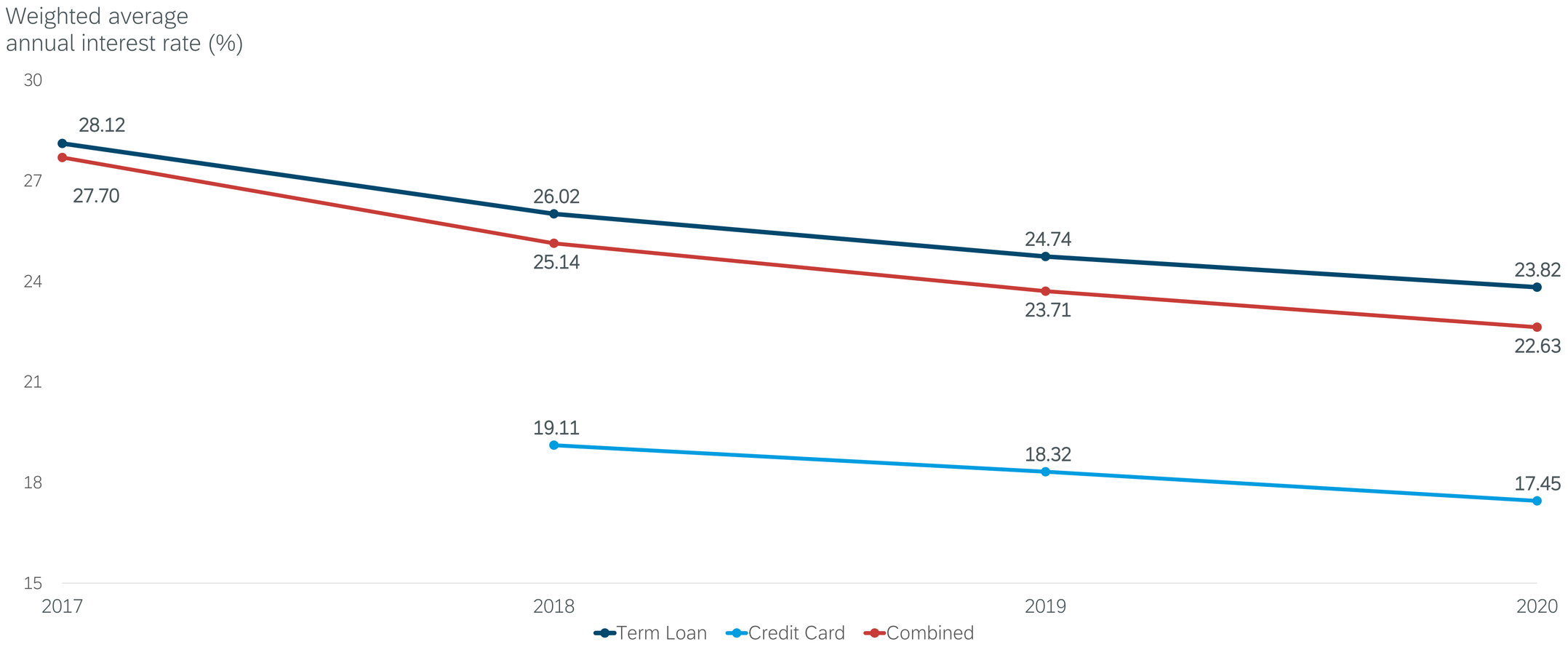
- Lower installment;
- Preferred interest rate;
- Term that suits his/her requirements

‘CEO’ loan combinations taken up (%):	Feb 20	Feb 19	Feb 18
Lower term and lower value	40	33	28
Max term and lower value	27	25	23
Total ‘CEO’ loans as percentage of total loans taken up	67	60	52

Average interest rates (%):	Feb 20	Feb 19	Feb 18
Lower term and lower value	18.7	19.3	20.6
Total gross loans taken up	22.7	23.7	24.5

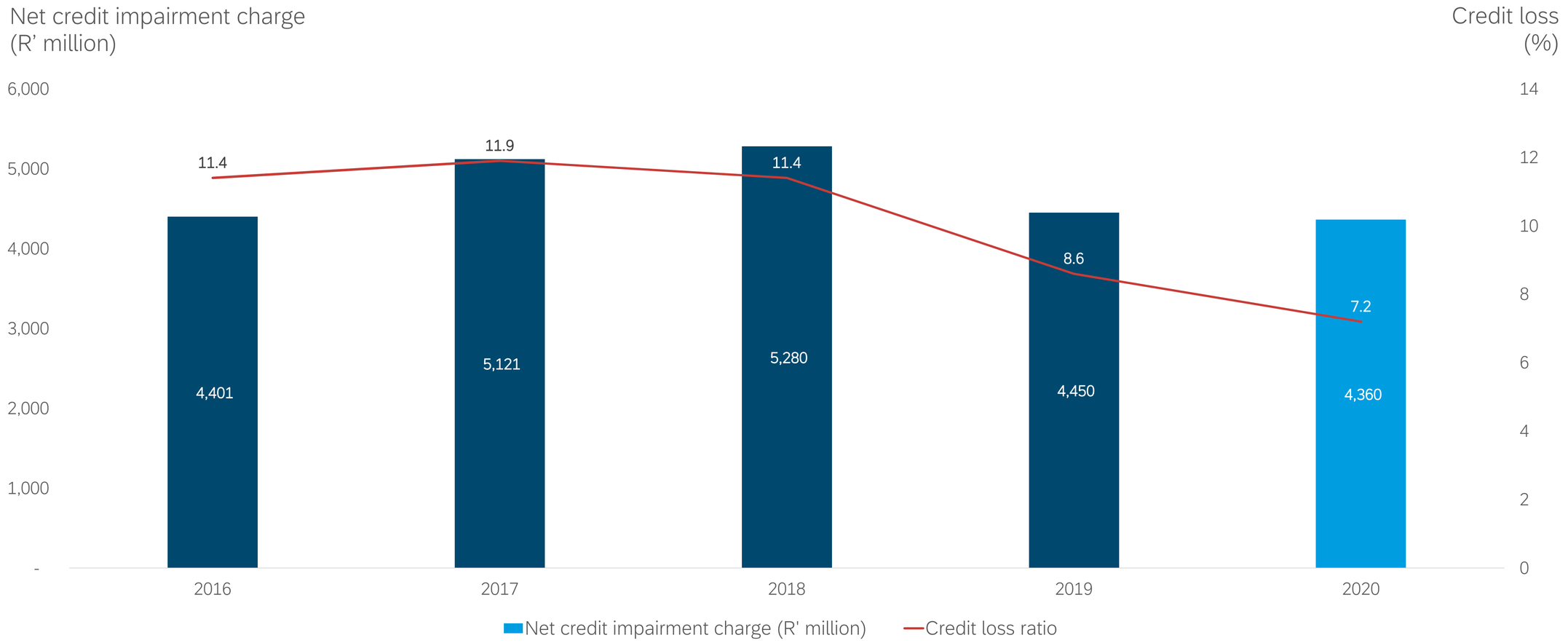
Affordable credit

Continued drive to lower interest rates



Affordable credit

Improved impairment charges



Developing people

Our employees, the core of our delivery

- 14 029 employees (up by 255)
- 8 917 female employees in total
- 11 644 employees below the age 35
- Recruitment and development of key skills in digital and data
- Learning and development:
  - 7 541 course attended
  - 690 861 digital learning course completed
  - R98.6 million spent on learning and development

"My growth took place throughout the 18 months journey. I was challenged, I was molded and I was reminded of my purpose. I also had the opportunity to give back (as part of our financial education drives) and to see the impact in young people's financial lives... The programme supported me to build networks. You get to understand how the business and your function fit together cross-functionally, and this had a positive impact on how I solved problems."

– Capitec employee,
graduate development programme member

Social responsibility

Making a difference in South Africa

Investment	(R' million)
Consumer education	26.3
The Capitec Foundation	33.1
Donations	5.0
Enterprise development	11.0
Skills development	35.4
Supplier development	49.9
Total	**160.7**





Changing behaviour

Digital adoption

Growing savings

Rewards for good behaviour

Strong digital adoption

Total transaction volume up 31%

Pricing strategy: reduced digital/debit orders fees, increased branch fees

Digital
- 327 million app (up 69%)
- 453 million USSD (up 16%)
- 3.7 million Send Cash (first full year)

Branch
43.5 million (down 11%)

The move to digital creates branch capacity for more complex service needs

Card
- 796 million card payments (up 29%)
- 41 million credit card (up 51%)
- 67% Card vs cash volume (up 4%)

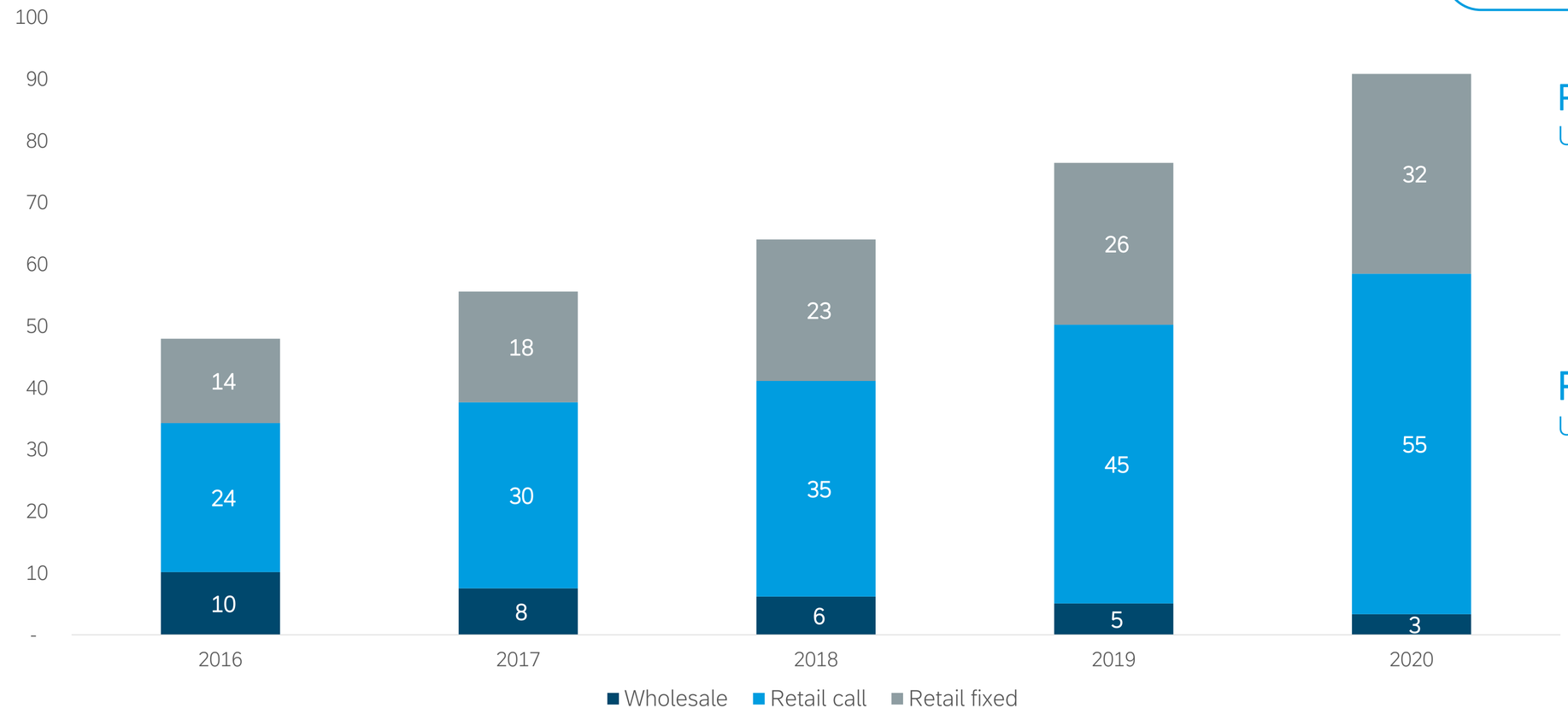
Self-service
- 22 million self-service terminal (up 27%)
- 40 million dual note recycler (up 36%)



Growing saving

Retail deposits of R87.5 billion

- From 3.5% to 9.0% interest
- R4.7 billion earned by clients
- Retail deposit market share is 8.1% in Jan 2020



Retail Fixed
Up 23%

Retail Call
Up 22%

Rewards for good banking behaviour

Giving back to help clients bank better

Type of saving/benefit (R' million)	Feb 20
Savings to clients through reduced digital bank fees	474
Interest paid on savings	2 289
Savings created through reduced credit pricing (ROE concessions)	153
Savings on data through zero rated app	25
Live better benefits (since inception)	26
Total savings	**2 967**

Zero exchange rate commission saves clients on average 2.75% on international payments

Our current live better benefits partners:

Diversification

Credit card

Funeral plan



Credit card

30% growth in clients

	Feb 20	Feb 19	Feb 18
Active credit card clients	578 488	445 205	274 024
Size of performing book (R' million)	5 375	3 382	2 014
% New credit clients	30.7%	26.3%	22.5%
Maximum limit	R250 000	R150 000	R80 000
Minimum interest rate	9.75%	10.25%	14.5%
Market share – balances on book [1]	4.4% (Dec 19)	3.1%	1.9%

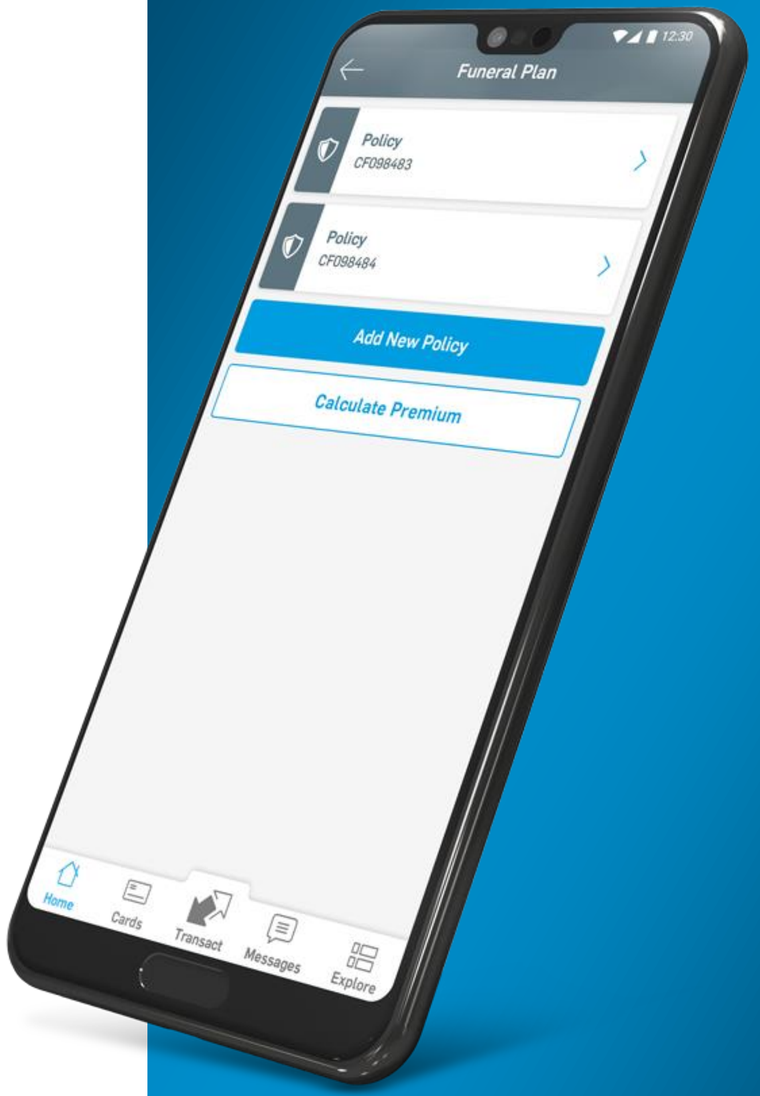
[1] Source: BA 900 returns



Funeral plan

One plan, more cover

- More than 1.1 million policies issued over last 12 months
- Simple and transparent solution for client needs
- Competitive pricing results in savings to our clients
- 86% of our polices were issued in our branches this year
- Collection rate of 82%
- Current policy on book rate of 58% (Jan 2020)
- Claims ratio lower than expected





Prospects

Impact of COVID-19

New access facility

Purpose lending

Business banking

Our people

Impact of COVID-19

How we see the future

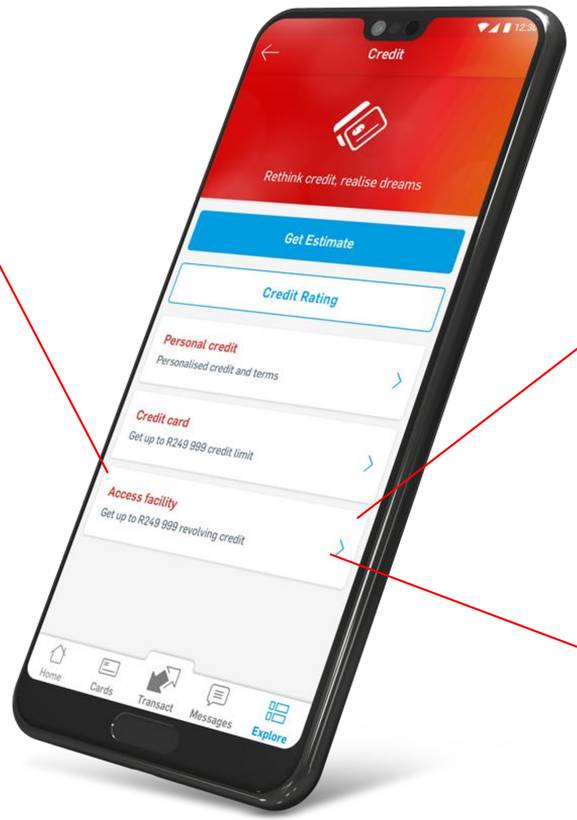
- Focus on our long term business model
  - Digital innovation
  - Frictionless cash-less payments
  - Agility and flexible to respond to client needs
  - Fundamental - low cost banking
- Short term effect
  - Retail
  - Business

New credit solution - access facility

More flexibility and the end of short-term products

Product

- Lifetime product
- Up to R250 000
- Monthly fee charged only when used
- Interest rates of as low as 13.45%
- Flexible instalment or payment options



Client Benefits

- Apply once
- Choose the repayment period or monthly instalment
- Manage it on the app

Purpose

- Home improvements
- Education related expenses
- Emergency finance

Purpose lending

Unsecured vehicle finance

- In partnership with We Buy Cars
  - Our first client: VW Touareg 3.0 V6 TDI 2010
  - R189 950
  - 60 month
  - 16.7%

- Dealerships



Business banking

Market potential

- 5 000 formal large companies
- 131 008 formal medium-sized
- 382 778 formal small
- 430 981 formal micro & very small
- 2 million informal businesses (micro, small and medium enterprises)

Source: IFC and World Bank report on The Unseen Sector: MSME opportunities in South Africa

Business banking

Two year build strategy

- Deal concluded in Nov 2019
- 5 business units
  - Business – 4 000 clients
  - Merchant services – 28 000 merchants
  - Payment services – 370 clients, 4 million transaction per month
  - Forex – 4 600 active clients, 11 500 transactions per month
  - Rental finance – 14 400 clients with 18 200 deals
- Invest in scalable model and technology
- Invest in people
- Rebrand only once ready to scale



Our people

Unlock potential

- Agility to adjust to the new post-COVID-19 reality
- Focus on the Capitec culture with a clear balance between people, client and delivery
- New campus enables collaboration, efficiency and creativity
- Successful SAP implementation
- Quick adoption of remote working and virtual teams



thank you

any questions?