

Interim financial results

August 2022

CAPITEC

Hello

Please send any questions to: InvestorRelations@capitecbank.co.za
Questions will be answered at the end of the presentation.



Changing economic environment

Global and domestic factors

Economic environment

Global and domestic uncertainty posing downside risk to the economic outlook

Global uncertainty:

- 'Stagflation'
- Continued impact of Russia-Ukraine war and related tensions in Europe
- Supply constraints due to China's hard lockdowns
- Aggressive tightening of US and European monetary policy
- Risk of recession in major economies (US, Eurozone and China)

Domestic challenges:

- ESKOM – persistent loadshedding
- Impact of KwaZulu-Natal floods
- Weak business and consumer confidence
- Low economic growth due to a lack of urgency in meaningful structural reform
- Political instability due to ANC elections

Economic environment

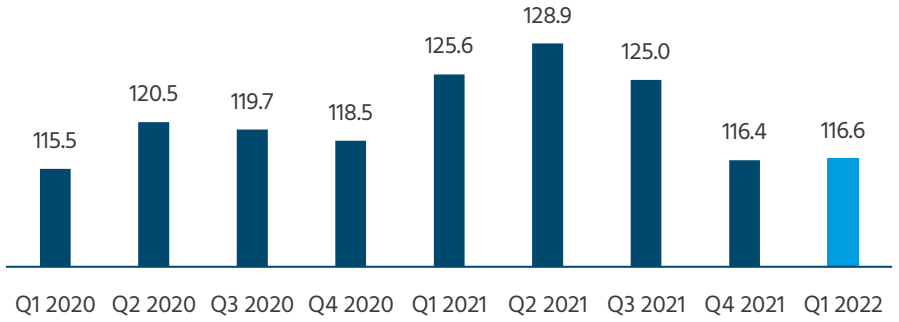
Despite the current state, the South African economy proved to be resilient

The resilience was underpinned by:

- Favourable terms of trade and exposure to US Dollar
- Positive current account balance from Q3 2020 – Q1 2022
- SARS revenue grew by 25%, boosted by the "commodity boom"
- Steady rebound in economic activity post-COVID-19
- Stable household expenditure driven by domestic demand
- The informal sector is stable and growing

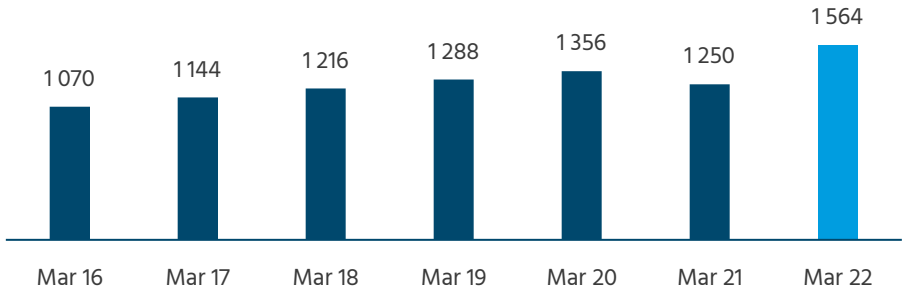
Terms of trade (including gold)

(Seasonally adjusted, 2015=100)



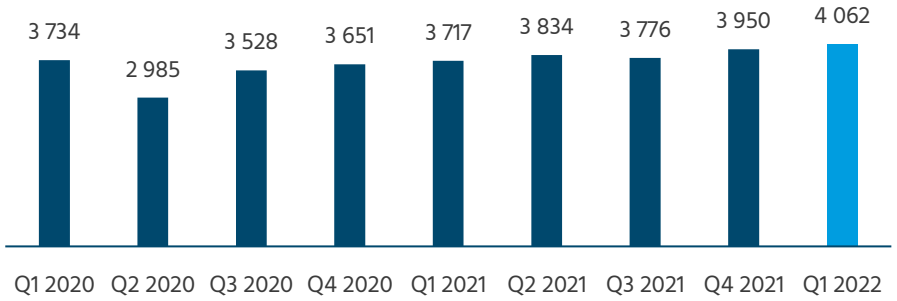
SARS revenue

(R' billion)



Household consumption expenditure

(R' billion, current prices, seasonally adjusted, annualised)



Source: South African Revenue Services (SARS) | South African Reserve Bank (SARB) | Statistics South Africa (STATS SA).

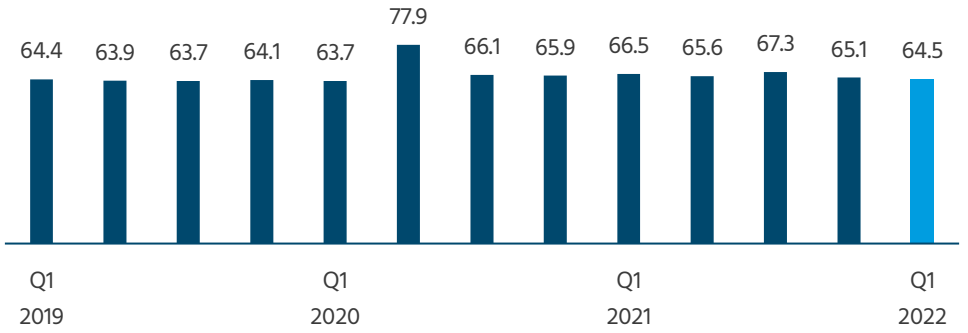
Economic environment

The South African consumer showing strain due to deteriorating economic conditions

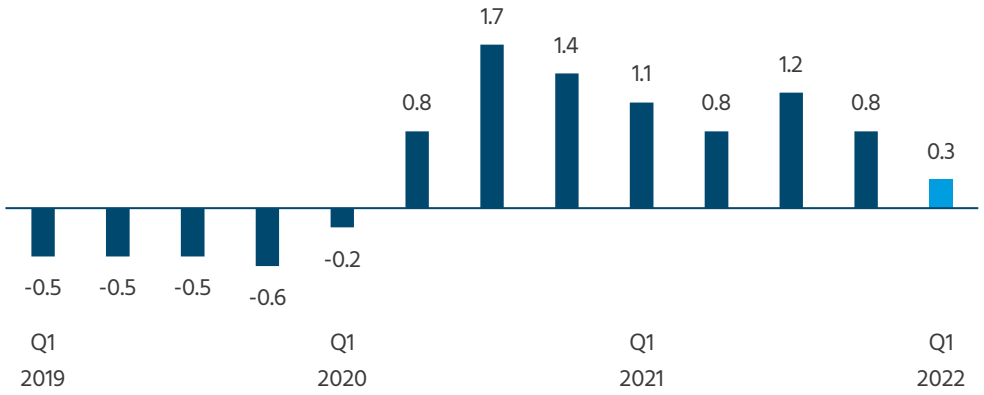
Indicators showing strain:

- Debt-to-disposable income ratio stable, but under pressure due to:
  - Rising interest rates resulting in higher debt service costs
  - Continued inflationary pressure on food and energy prices
- Deterioration in savings-to-disposable income ratio
- Elevated levels of cash stress in financially active Capitec clients

Debt-to-disposable income of households

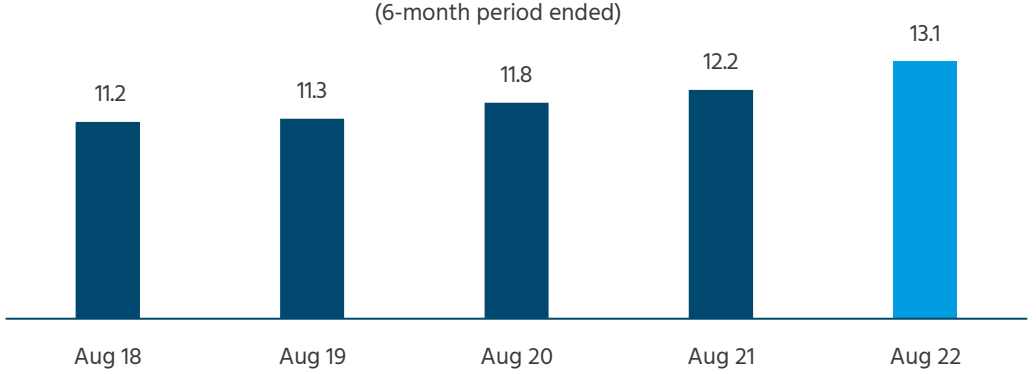


Savings-to-disposable income of households



% of financially active Capitec clients with cash stress

(6-month period ended)



Source: South African Reserve Bank (SARB) | Internal Capitec Data.
Definitions: Cash stress – Less than 20% of income available after electronic outflows | Financially active clients - Clients who earn > R3 499 for at least 3 consecutive months.

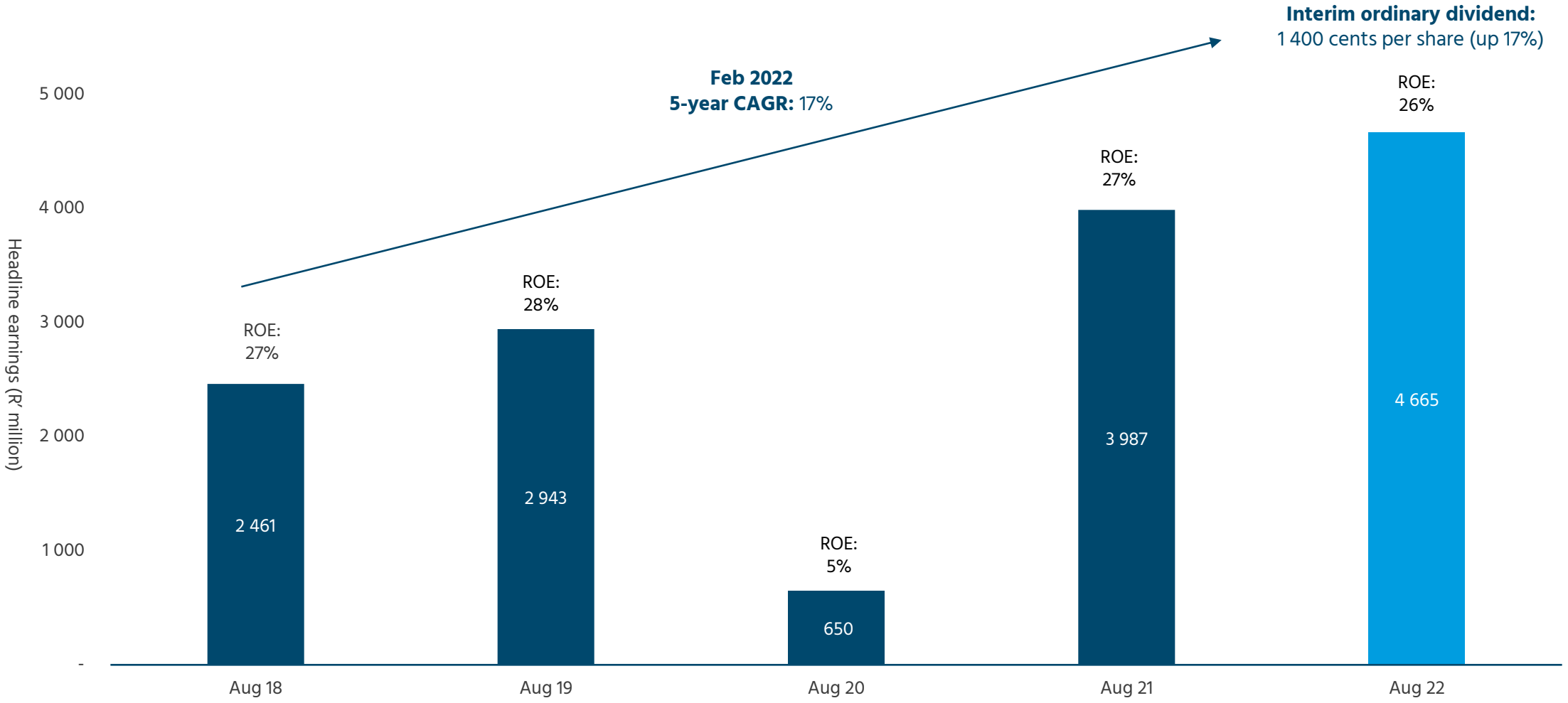


Financial overview

Capitec Group

Headline earnings increased by 17% to R4 665 million

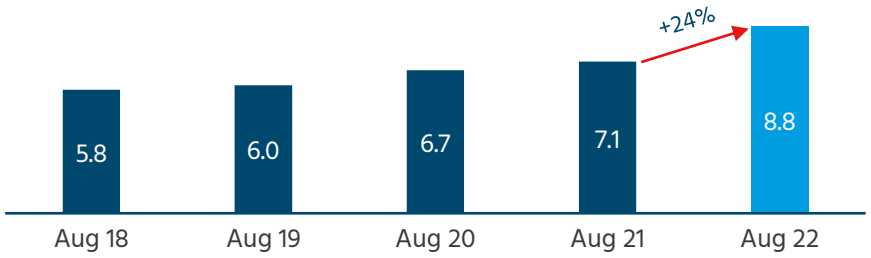
Consistent performance shows resilience and quality of earnings



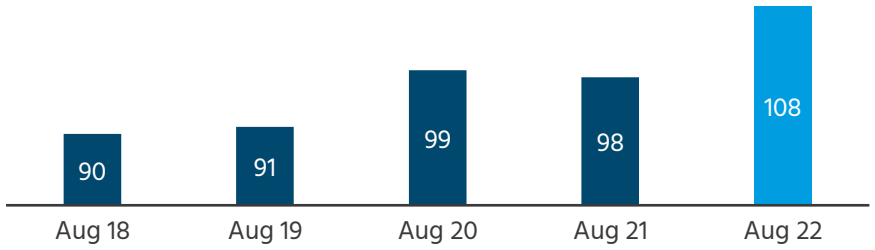
Key financial performance indicators

Group's operating profit before credit impairments increased by 24% to R8.8 billion

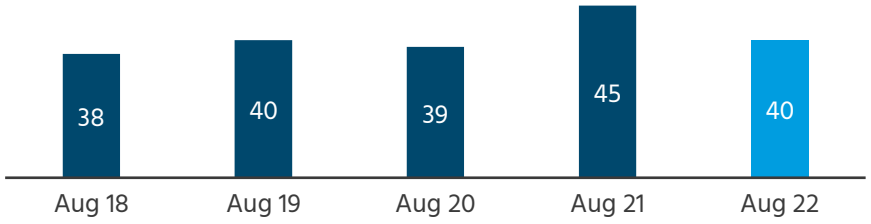
Operating profit before credit impairments
(R' billion)



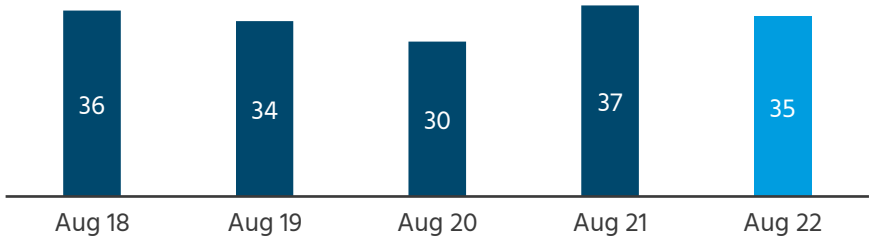
Net transaction, net foreign currency
and funeral plan income to operating expenses (%) [1]



Cost-to-income ratio



Capital adequacy ratio



[1] Aug 20 and Aug 21 have been revised to include the net foreign currency income in the ratio.



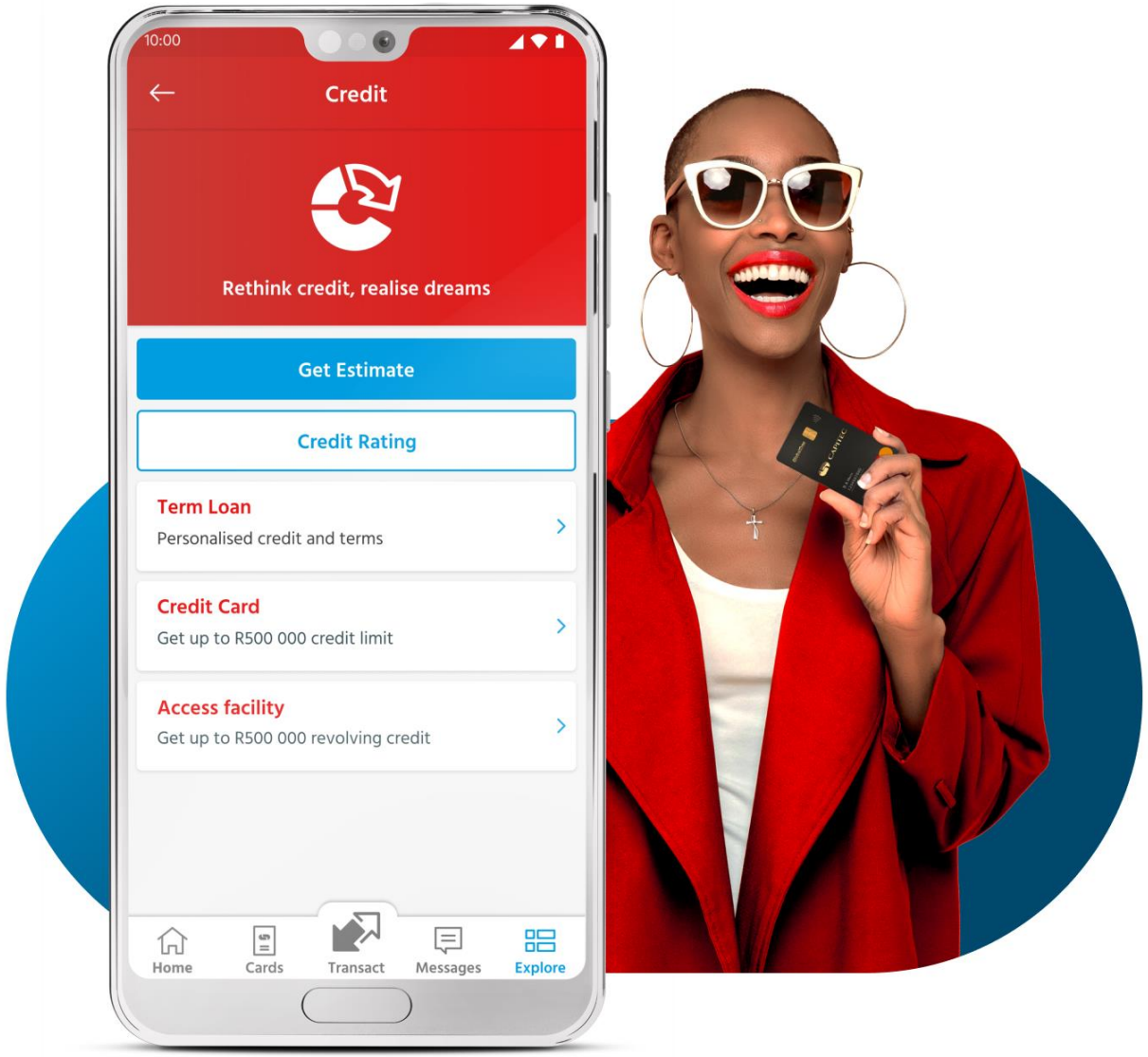
Key drivers of results

Credit

Insure

Transact

Operating expenses



Retail credit

Agile management of granting

Loan sales and disbursements

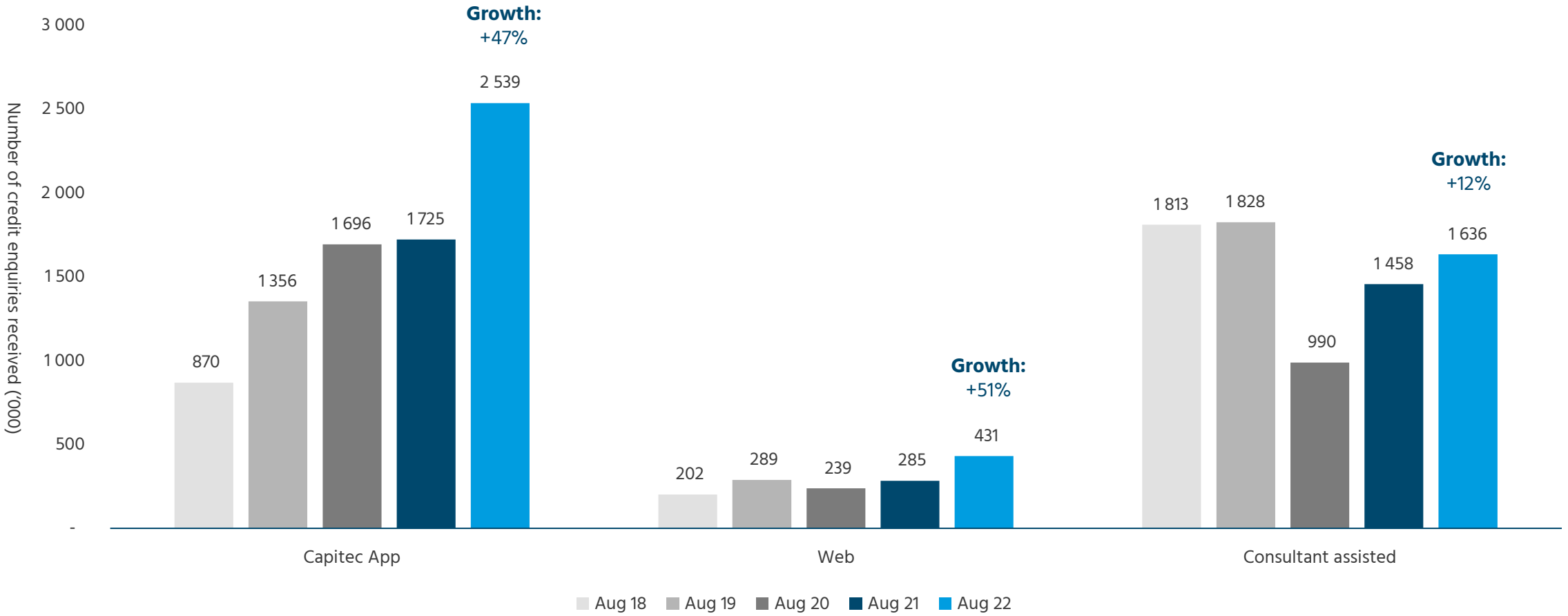
Higher-income new clients

Gross loans and advances

Prudent provisioning

Agile management of granting

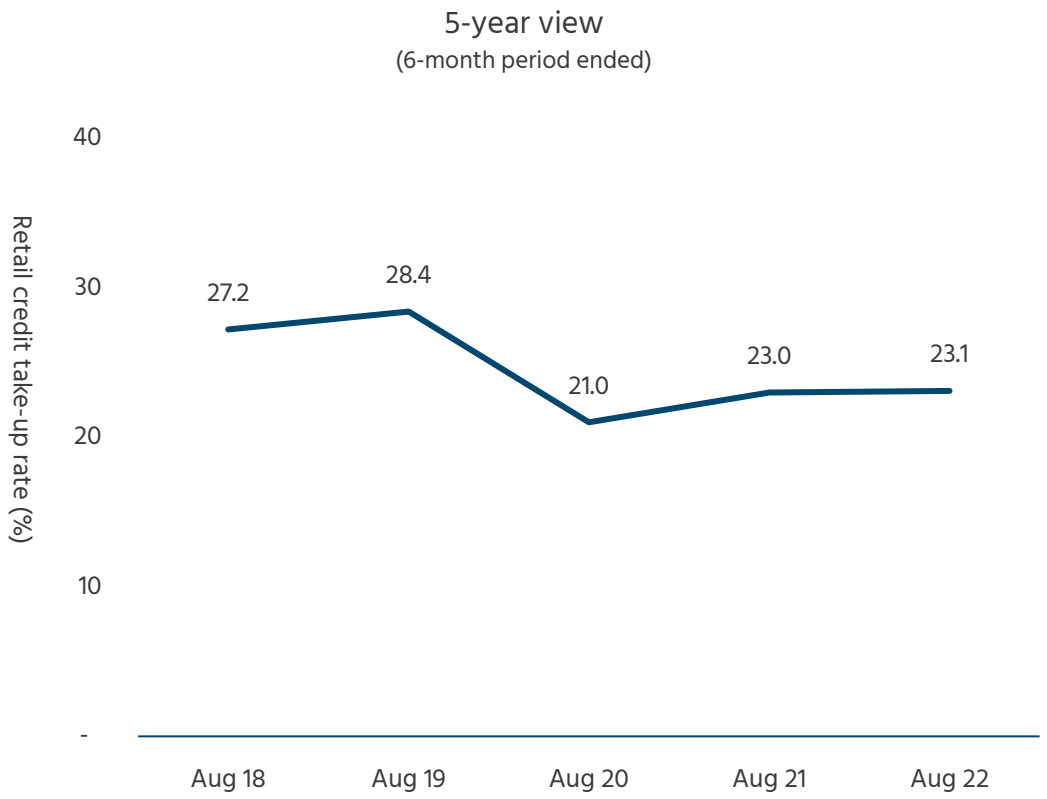
Higher number of enquiries reflect demand for credit

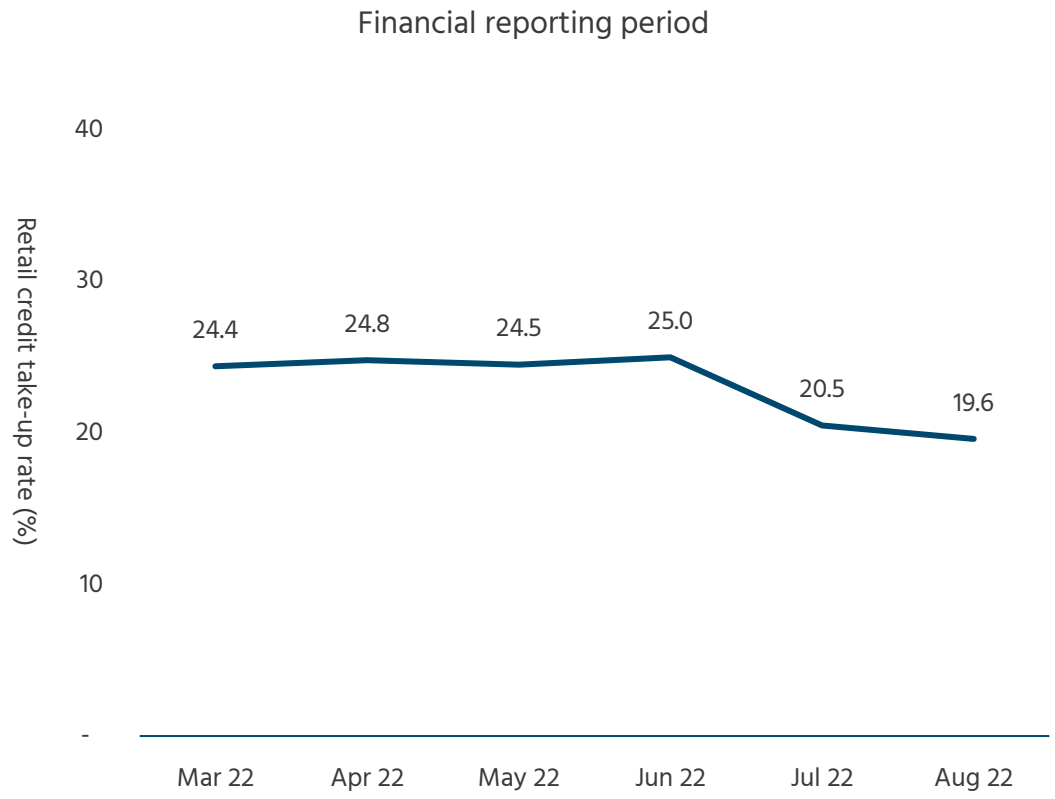


Note: Enquiries for the 6-month period ended.

Agile management of granting

More stringent credit granting criteria in reaction to elevated levels of cash stress

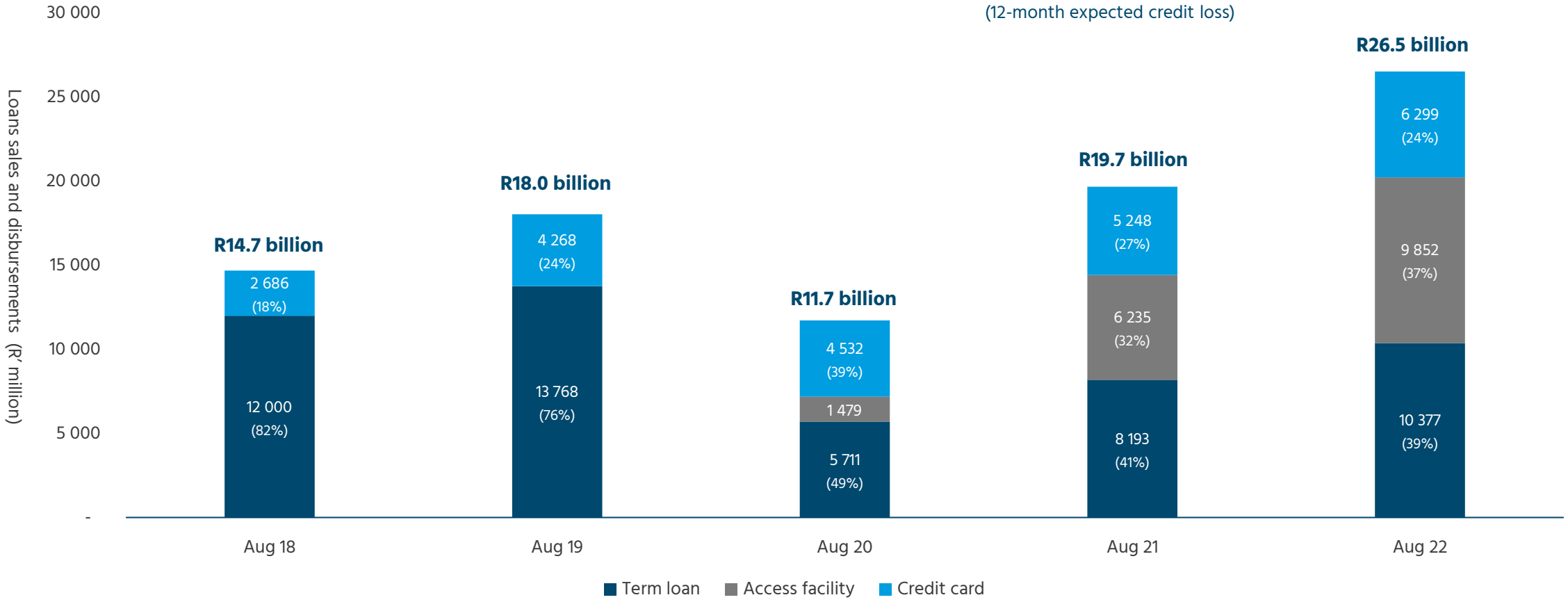




Loan sales and disbursements grew by 35% to R26.5 billion

Attributable to higher demand and our return to pre-pandemic risk appetite

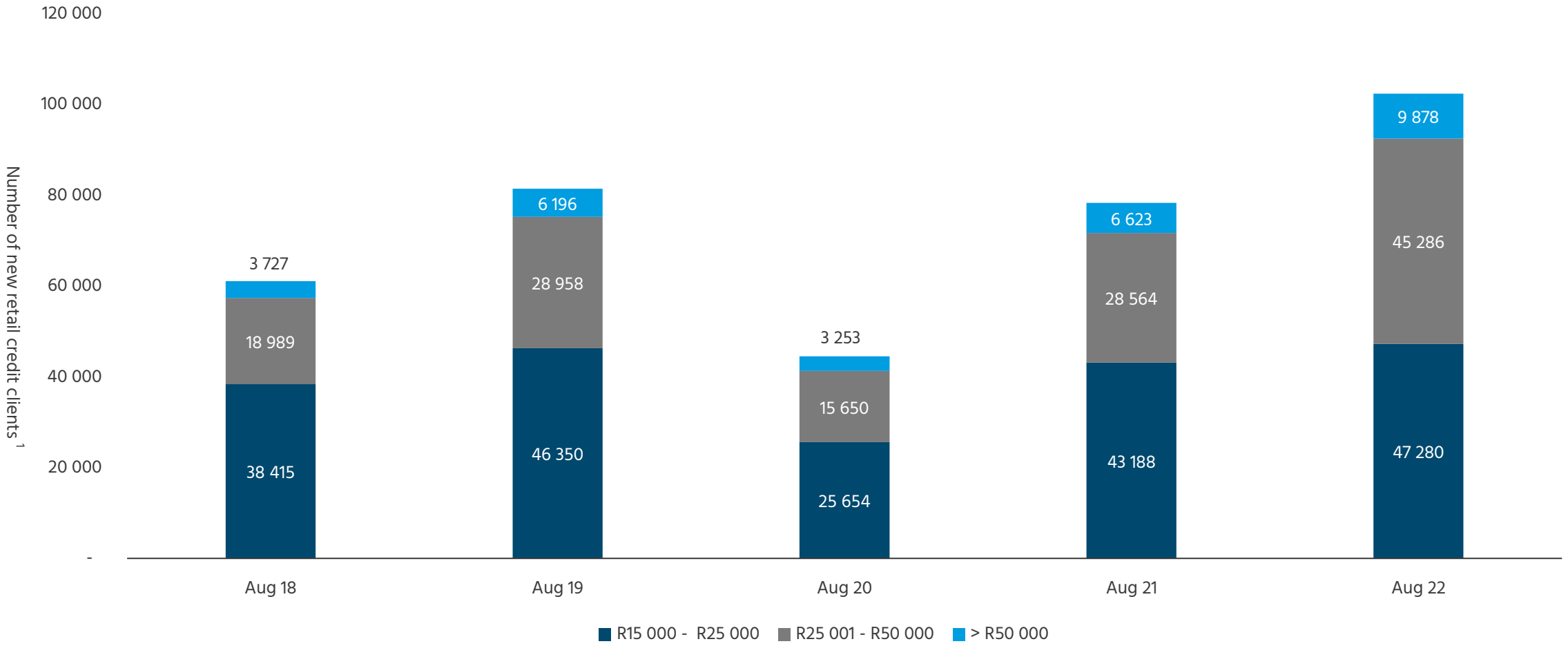
Book growth: R480 million upfront credit impairment charge (12-month expected credit loss)



Note: Retail loan sales and disbursements (advances) for the 6-month period ended.

Higher-income new clients

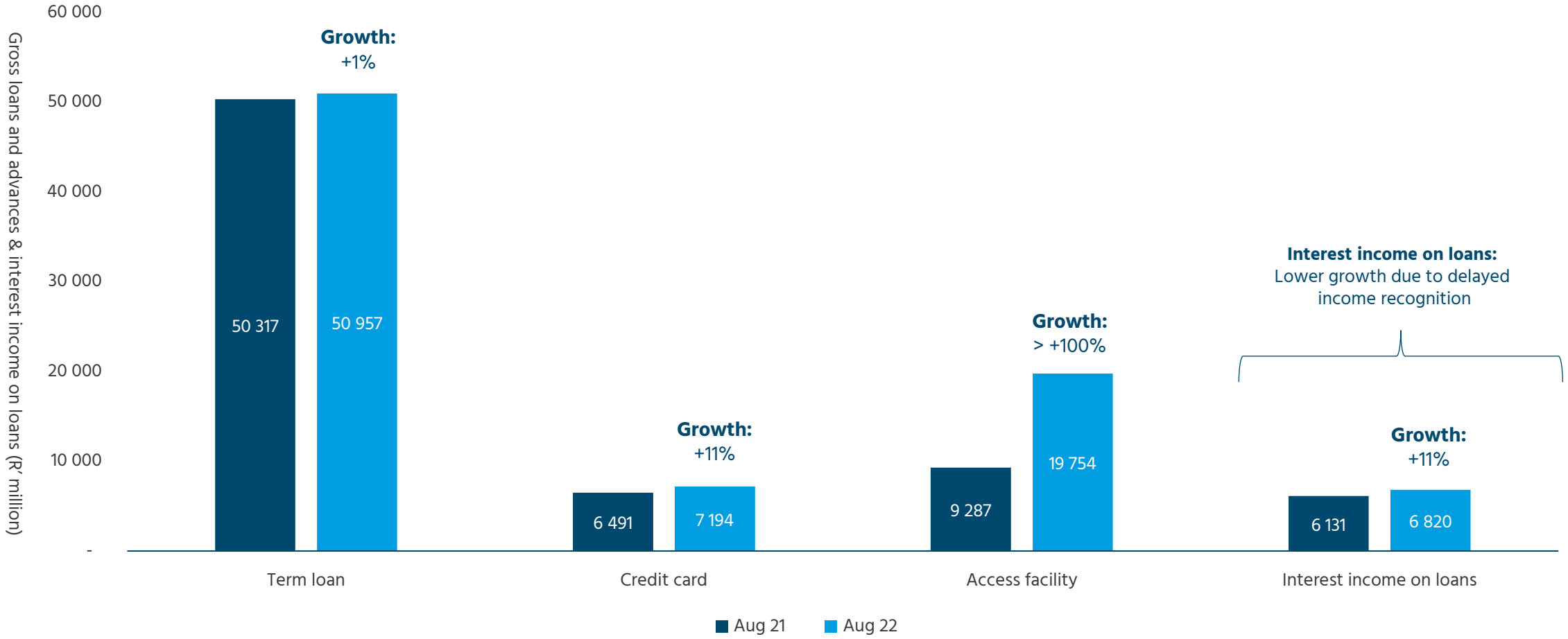
Retail credit granted to new clients earning > R50 000 grew by 49%



Note: Access facility limit sales for the 6-month period ended.
Definition: New retail credit clients – clients without existing credit balances.

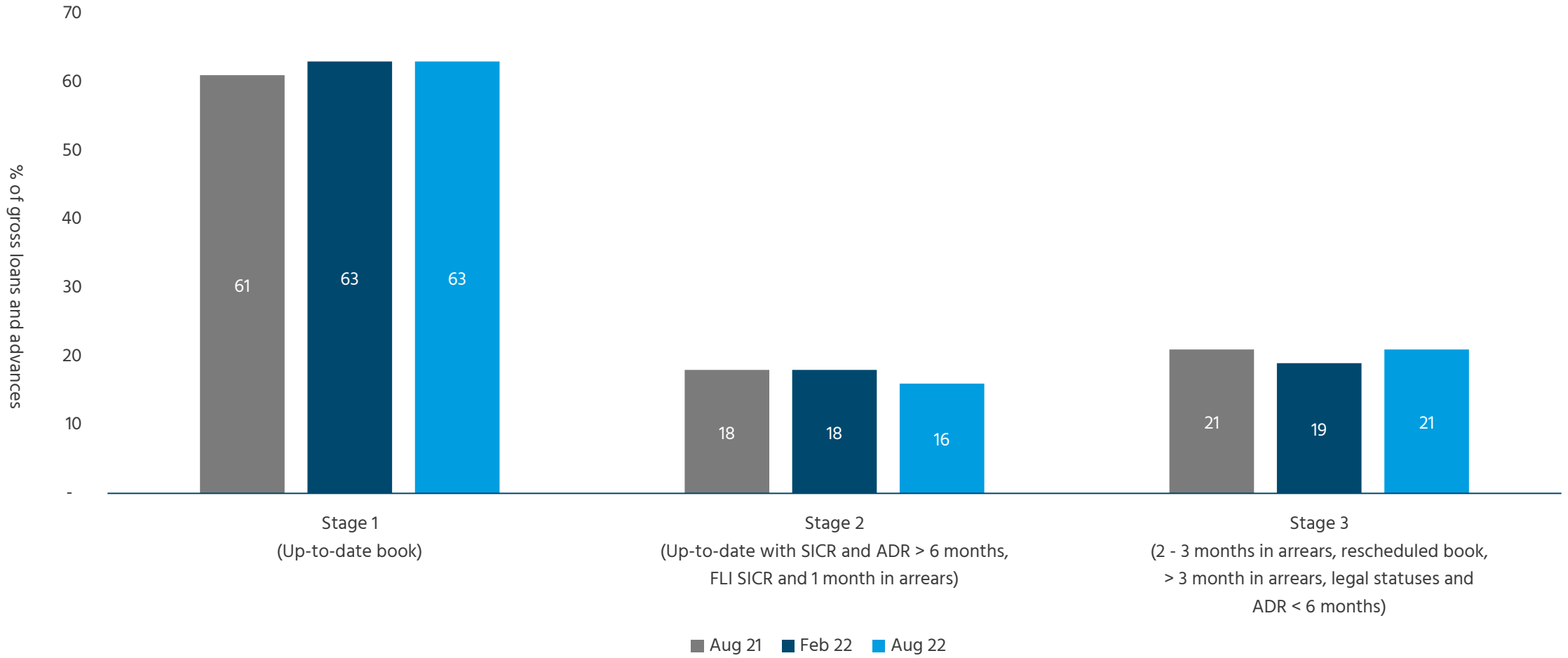
Retail gross loans and advances

Access facility book grew to R19.8 billion within 3 years of launch



Retail gross loans and advances

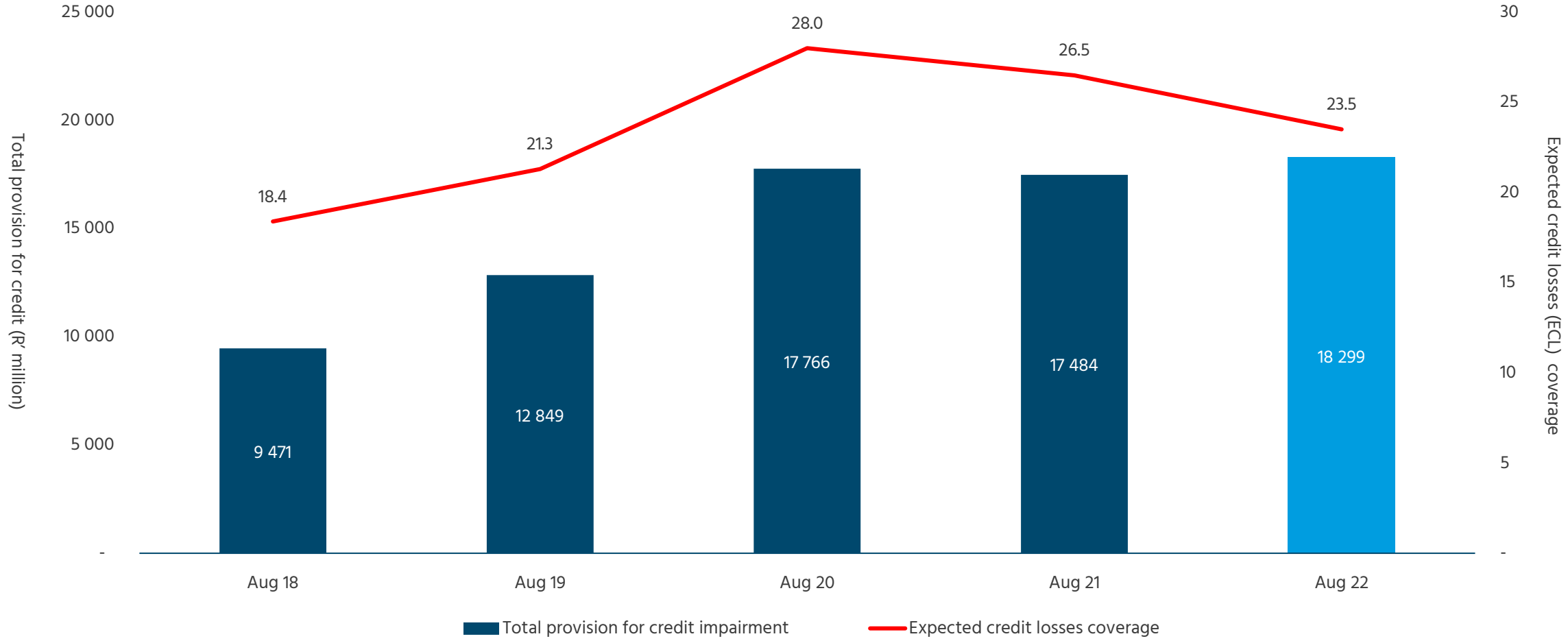
Stage 1 book represents 63% of the total book, which grew by 18% to R77.9 billion



Definition: SICR – Significant increase in credit risk | ADR – Applied for debt review | FLI SICR – Forward-looking information SICR.

Retail provision for expected credit losses

Prudent provisioning – ECL coverage remains above pre-pandemic levels





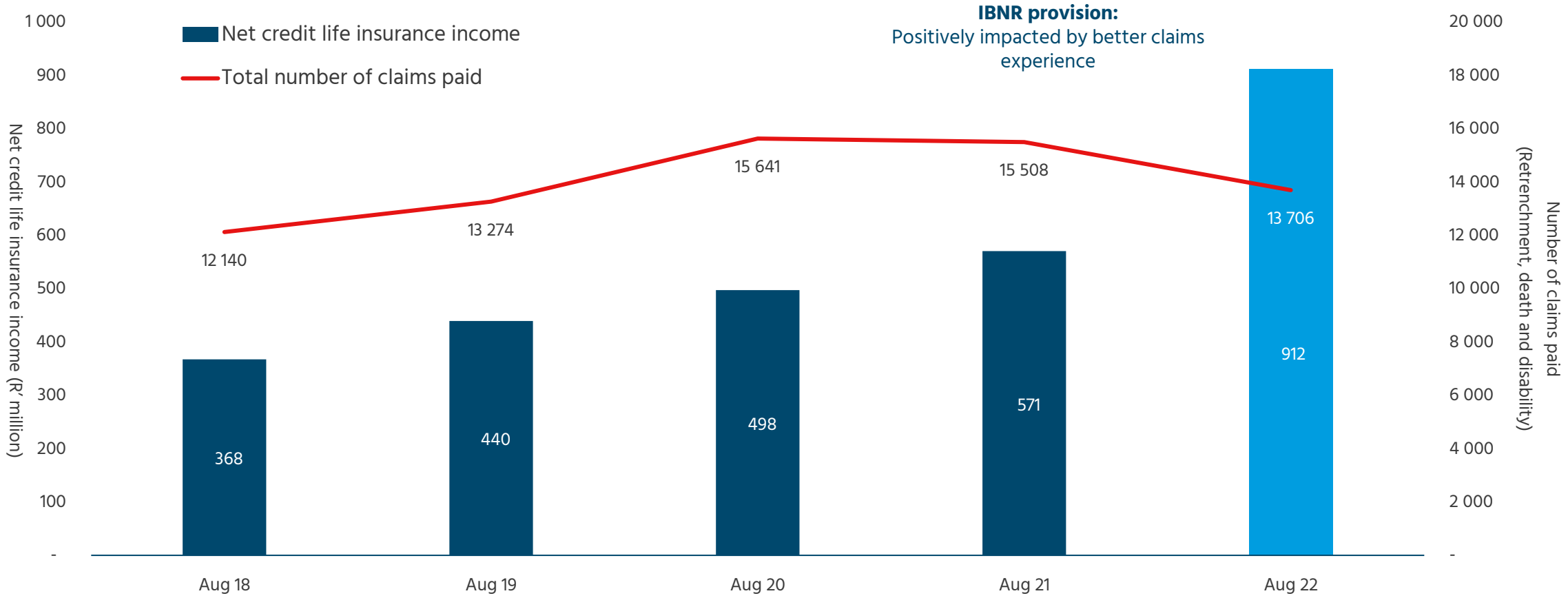
Retail insurance

Credit life insurance

Funeral plan

Net credit life insurance income up by 60% to R912 million

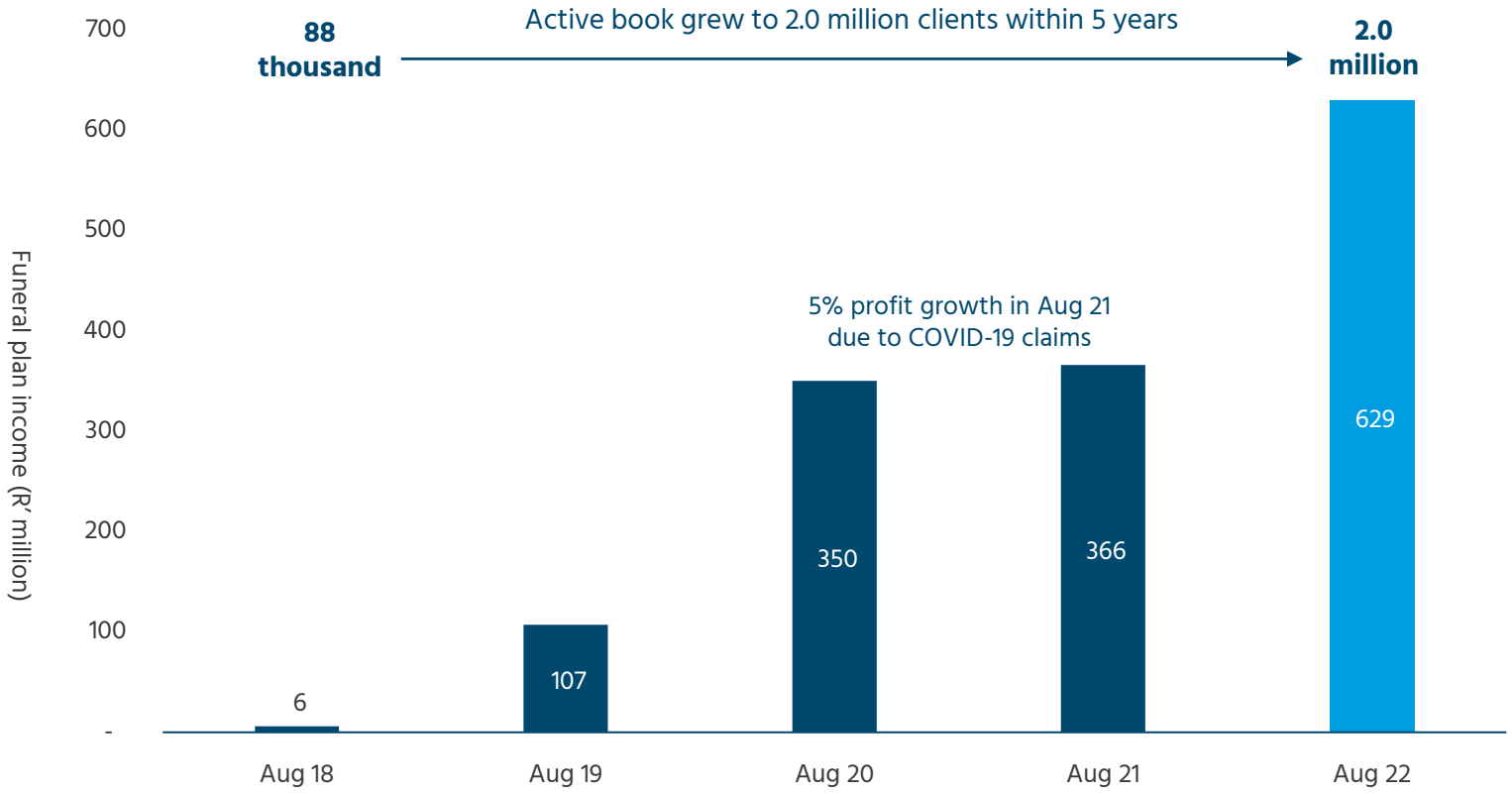
Supported by the normalisation of claims to pre-pandemic levels, while insured book grew by 14%



Note: Net credit life insurance income and number of claims paid for the 6-month period ended.
Definition: IBNR – Incurred but not yet reported.

Funeral plan income up by 72% to R629 million

Attributable to growth in active book supported by improved claims experience



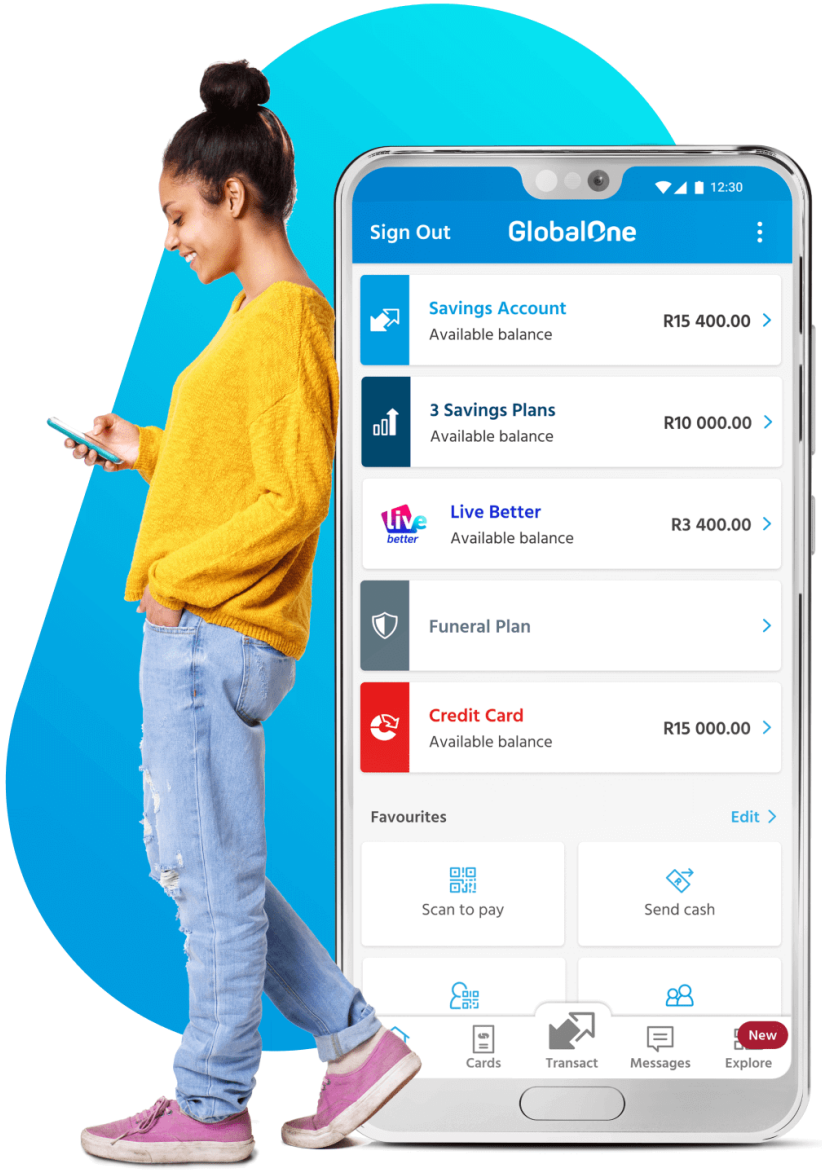
Drivers of performance:

- Active policies up by 34%
- 12-month persistency ratio: 61% (Aug 2021: 57%)
- Premium per active policy: R251 (Aug 2021: R238)
- Collections ratio: 88% (Aug 2021: 88%)

Market leader:

- South Africans covered: 8.9 million
- Market share of new business in 2021
  - Sum assured: 34.3%
  - New policies issued: 17.0%

Note: Funeral plan income for the 6-month period ended | Market share information obtained from Swiss RE's Individual Volumes Survey 2021.



Transact

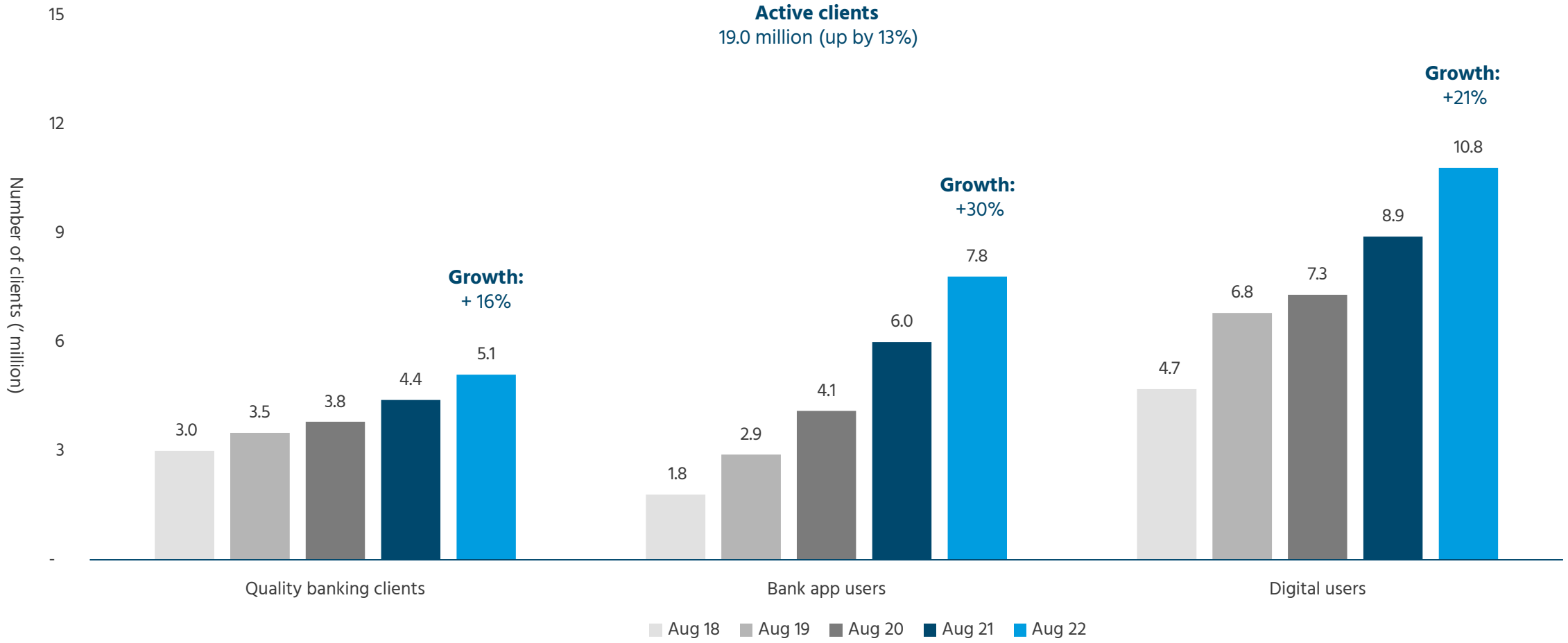
Growth in digital clients

Transaction volumes shift to digital

Net transaction income

Digital banking clients grew by 21% to 10.8 million

Retail transaction volumes supported by growth in quality banking clients and digital users



Definition: Quality banking clients – a client who has stable inflows into their account and stable product usage over a consecutive 3-month period.

Shift from cash to digital and card transactions

Our focus is on making banking more affordable and accessible through digital innovation

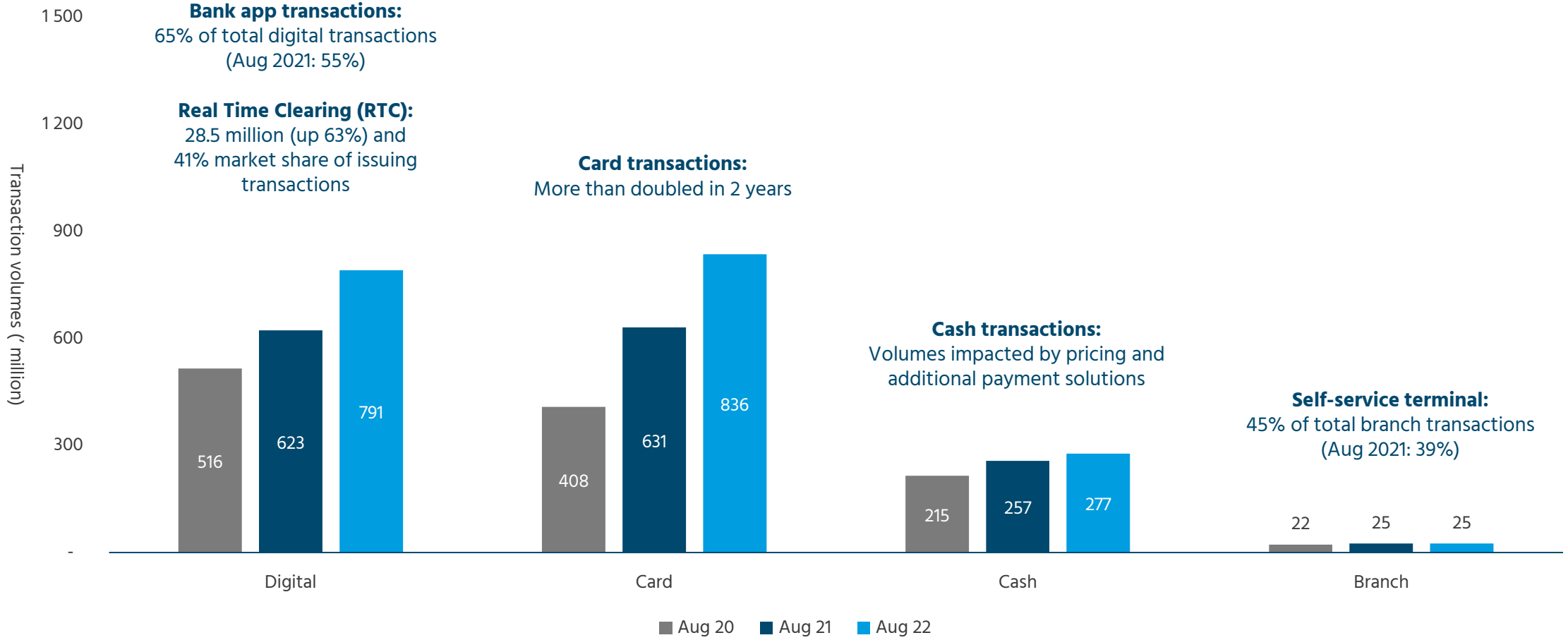
Bank app transactions:
65% of total digital transactions
(Aug 2021: 55%)

Real Time Clearing (RTC):
28.5 million (up 63%) and
41% market share of issuing
transactions

Card transactions:
More than doubled in 2 years

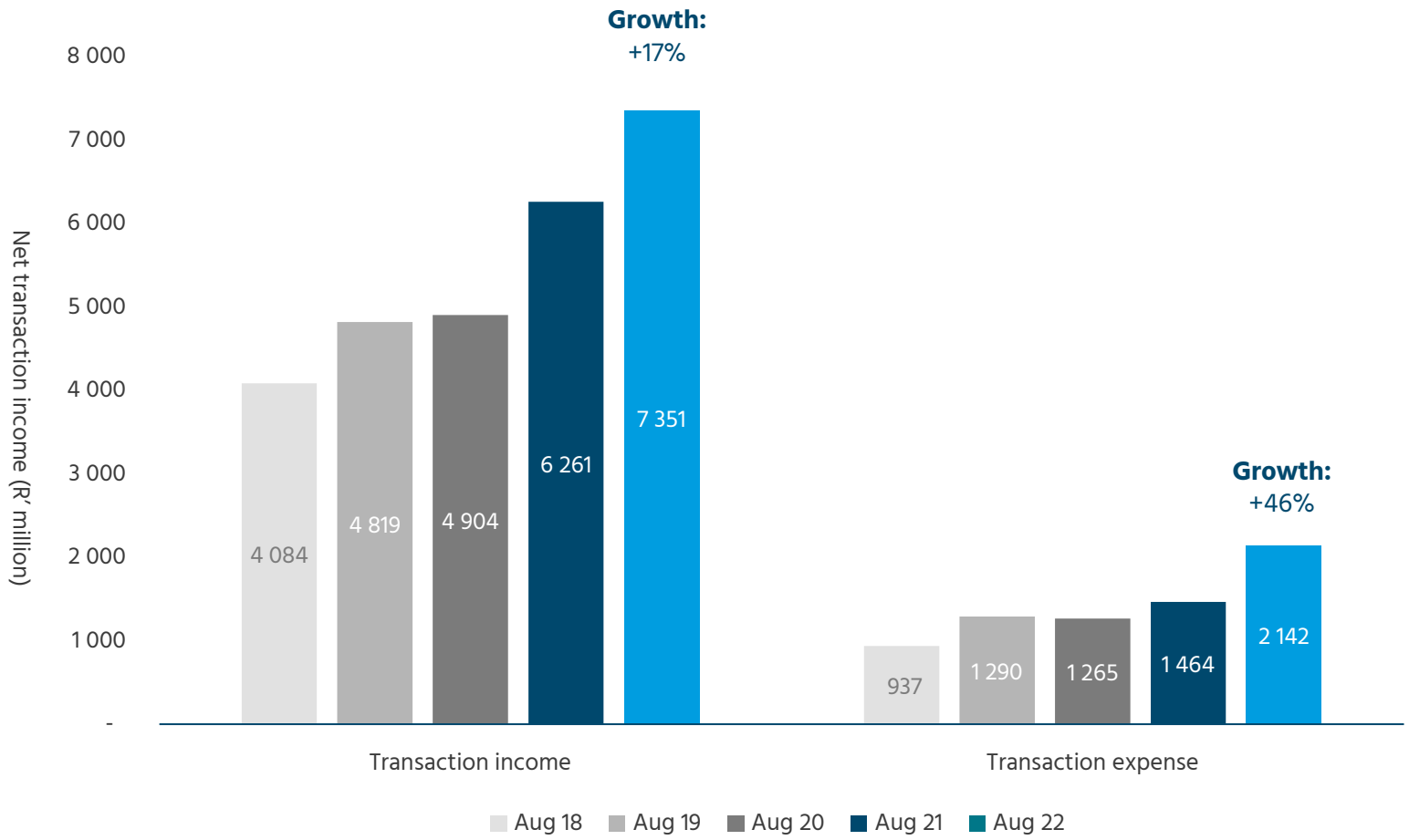
Cash transactions:
Volumes impacted by pricing and
additional payment solutions

Self-service terminal:
45% of total branch transactions
(Aug 2021: 39%)



Retail net transaction income up by 9% to R5 209 million

Muted growth driven by digital transactions attracting lower fees



Transaction income

- Drivers of lower growth
  - Most digital fees remained flat (but absorbed cost increases)
  - Shift towards digital and POS
  - Introduction of alternative payments solutions
  - Reduction in SMS notification fees and introduction of in-app notifications (free of charge)

Transaction expenses

- Drivers of growth
  - Abnormal rebates (R143 million)
  - Live Better cash backs (R97 million)

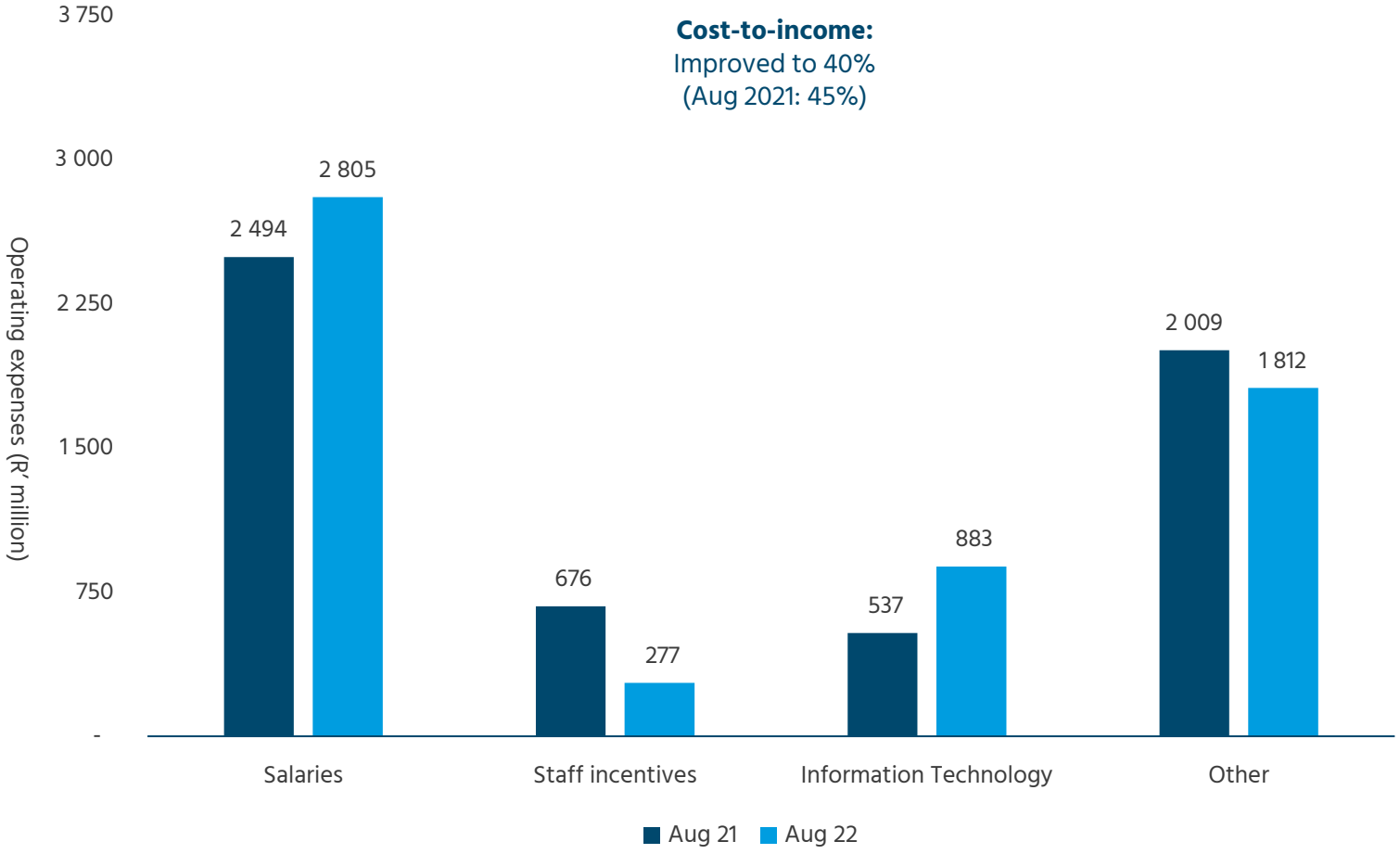


Operating expenses

Investment in technology

Operating expenses

Growth in costs (excl. staff incentives) driven by our digital journal and migration to cloud



Cost-to-income:
Improved to 40%
(Aug 2021: 45%)

Salaries (up by 12%)

- Group headcount – 15 295 (up 3%)
- Drive to appoint IT and data specialists

Incentives (down by 59%)

- Normalisation of incentives and share appreciation rights (SARs)

Information Technology (up by 64%)

- Migration to cloud infrastructure

Other expenses (down by 10%)

- Effect of digital migration

Note: Operating expenses for the 6-month period ended



Creating the future

Digital banking

Live Better

Business bank

Capitec Connect

Foundations for growth



VIDEO

Digital banking

Investment enables scale, efficiency and better client experience

Investment: R213 million with 2 377 system enhancements delivered

Scale: 8.9 million digital and card payments every day

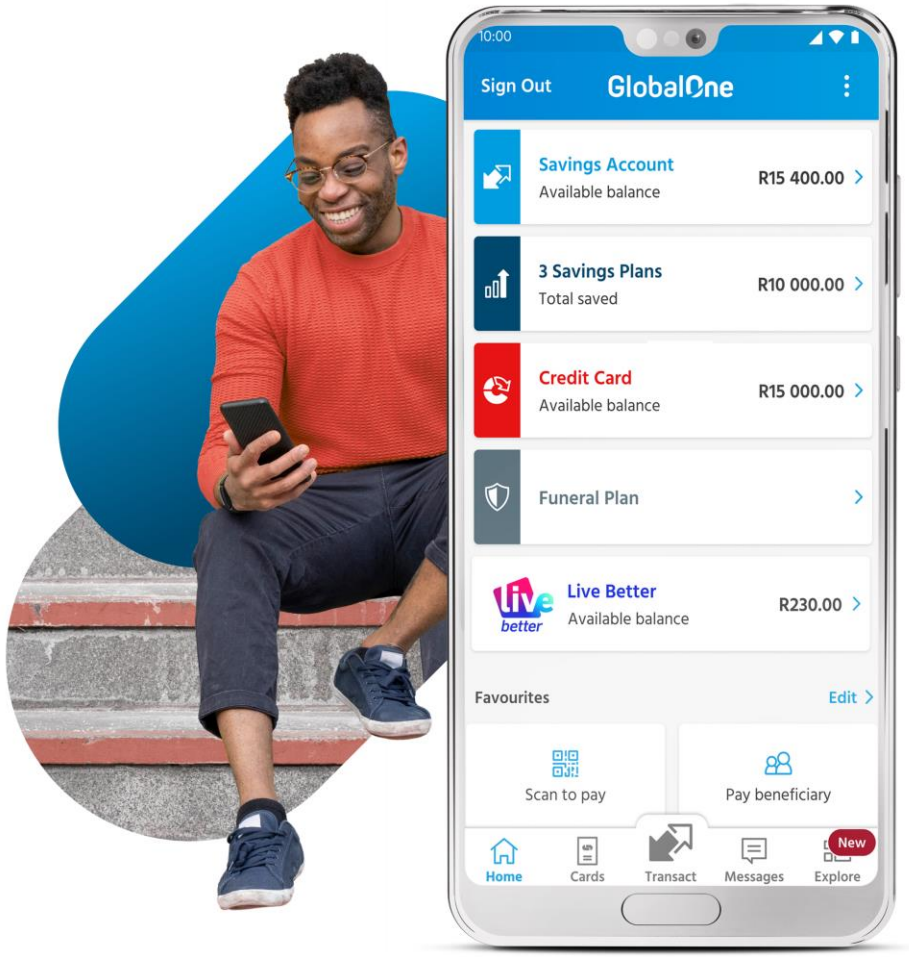
- Peak system transactions of 5 061 per second

Efficiency: Facial biometrics on app for onboarding and security

- Biometrics ensure paperless banking – saves 8 900 trees in 6 months

Experience: Digital payments reduce friction and cash

- QR, Pay Me, Capitec Pay, Samsung Pay, Google Pay and Apple Pay (Nov)
- Payment data enables better understanding of our clients
- App as platform to sell credit, insurance and value-added services



BESTDIGITALBANK IN SA
2021 SITEisfaction® Report

Live Better

The fastest-growing rewards programme and biggest in financial services in SA

8.5 million clients registered at the end of Aug 2022

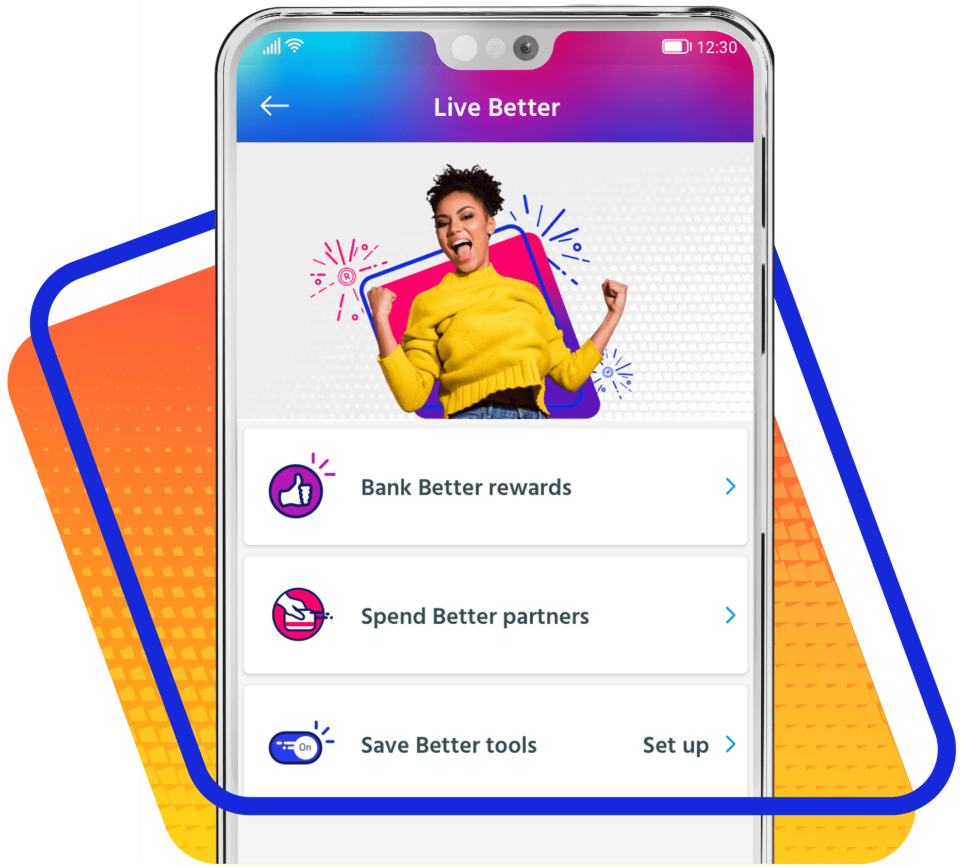
Bank Better cash back of R97 million drives successful behaviour change

- From cash to card payments and online shopping
- Better repayment behaviour on credit card

Save Better tools change savings behaviour (R395 million in automated savings)

Spend Better with rewards partners delivered R60 million in cash backs and discounts

- Dis-Chem client growth of 47% (new Capitec clients in 1 year)
- Bolt is now 3 times bigger than UBER
- Cashbuild launched



Business bank

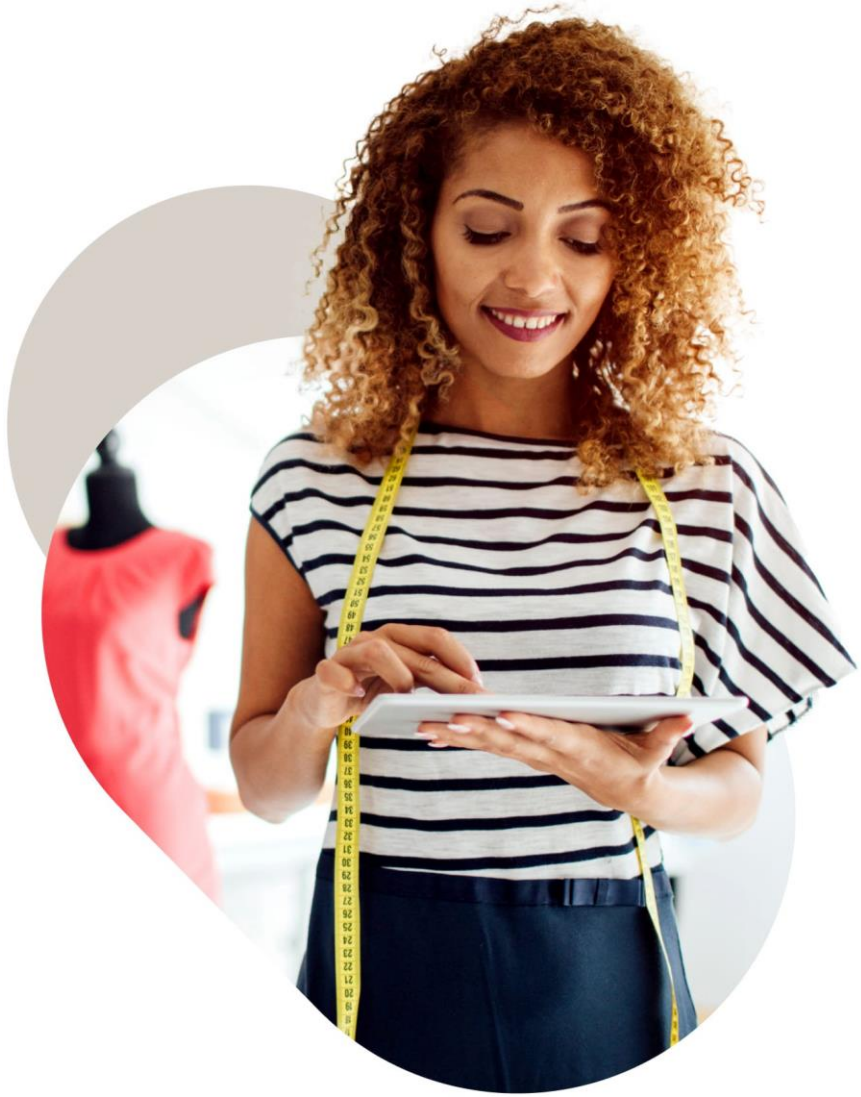
Headline earnings increased by 60% to R201 million for the 6-month period

Our vision is to provide personalised digital business banking in a scalable way to help entrepreneurs and SMEs grow.

On track for the rebrand of Mercantile Bank to Capitec Business in the next financial year.

Key indicators

- Total clients (incl. POS merchants) grew by 14% to 142 185
- Loan sales and disbursements (incl. overdrafts) up by 35% to R32 billion
- Loan book increased by 21% to R14 billion
- Interest income on loans grew by 39% to R612 million
- Net transaction income grew by 13% to R399 million



Capitec Connect

Disrupting prepaid data and airtime in the best interest of our clients



Why?

8 million Capitec clients buy prepaid mobile on our channels every month

- More than 30% market share of prepaid sales
- Data and airtime are expensive and complicated, and bundles expire
- Average prepaid purchase of R30 (airtime and data)

Access to affordable data is critical to support education and growth in SA

Better value proposition will drive client retention and generate client data

How?

Mobile Virtual Network Operator (MVNO) with CellC – focus on simplicity, affordability and transparency

Disruptive value proposition in line with our fundamentals

- Low, flat rates on average 50% below market (R45 per GB and 90c per minute)
- Data never expires, if used once in 6 months
- Available on app, Internet banking and USSD

Foundations for growth

Ensuring depth in leadership and technology that enables growth

New leadership structures provide for the development of young and diverse talent across retail, business and shared services.

Data and Technology migration to software-as-a-service and cloud services enable better agility and scalability.

Focus on culture and diversity to attract and develop future talent.

Client needs and experience drive prioritisation.

Potential to leverage 19 million clients for future partnerships and growth



Thank you

