

Capitec Bank

Interim financial results

August 2023



Hello

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

Key drivers of our success

We continue to invest and innovate to meet the needs of our clients

Client-Centric Focus

Resilience

- Challenging operating environment
- Diversified income with a strong performance in transaction income
- Agile and prudent credit management

Growth

- Pre-provision operating profit (PPOP) up 26%
- Non-lending income to operating expenses improved to 115%
- Strong capital and liquidity position maintained

Future-focused

- Digital payments
- Business bank
- Insurance
- Value-added services
- Investment in technology, data and system stability

Result: Headline earnings grew by 9% to R4.7 billion

Group financial performance

Group consolidated income statement

Pre-provision operating profit (PPOP) grew 26% to R10.6 billion

	Aug 23 (R' m)	Aug 22 (R' m)	Change (%)	Change (R' m)
Net interest income	8 018	6 863	17	1 155
Net transaction and commission income	6 913	5 559	24	1 354
Net insurance and investment result ⁽¹⁾	1 548	1 161	33	387
Other income ⁽²⁾	753	652	15	101
Income from operations	17 232	14 235	21	2 997
Credit impairment charge	(4 761)	(2 939)	62	1 822
Net income	12 471	11 296	10	1 175
Operating expenses	(6 607)	(5 777)	14	830
Taxation	(1 197)	(1 226)	(2)	29
Other items and headline earnings adjustments ⁽³⁾⁽⁴⁾	30	29	3	1
Headline earnings	4 697	4 322	9	375

¹ The prior period has been restated following the implementation of IFRS 17, effective 1 March 2022

² Other income also includes net loan fee and net foreign exchange income

³ Other items relate to share of net profit/(loss) of associates and JVs, preference dividends and the discount on repurchase of preference shares

⁴ Headline earnings adjustments primarily relate to the post-tax profit on disposal of property and equipment

How we evolved

From lender to diversified financial services company

(R' million)	Aug 23	% of total	CAGR %	Aug 17	% of total
Income from existing products/services:					
Lending income (incl. credit life insurance)	9 504	52	4	7 370	76
Transaction income	5 361	29	16	2 156	22
Existing value-added services (prepaid electricity and airtime)	600	4	17	230	2
Income from new products/services:			48%		
Funeral insurance (incl. commission)	683	4			
New value-added services (vouchers, send cash, bill payments and lotto)	538	3			
Total income from business banking operations	1 513	8			
Income from operations (excl. net interest expense)	18 199			9 756	

Annotations: A red bracket groups the 'Transaction income' and 'Existing value-added services' rows, with a '24%' label. Another red bracket groups the 'Funeral insurance', 'New value-added services', and 'Total income from business banking operations' rows, with a '48%' label.

Group key performance indicators

Strong earnings, increase in productivity and capital position strengthened

	Aug 23	Aug 22
Profitability		
Non-lending income ⁽¹⁾ to operating expenses (%)	115	105
Non-lending income ⁽¹⁾ to income from operations	44	42
Cost-to-income (%)	38	41
Return on equity (%)	24	25
Expected credit loss (ECL) coverage ratio (%)	21.7	20.7
Capital position		
Capital adequacy ratio (%)	37	35
Dividend per share (cents)	1 530	1 400

¹ Non-lending income includes net transaction and commission income, net foreign exchange income and funeral insurance income

Retail bank and Insurance

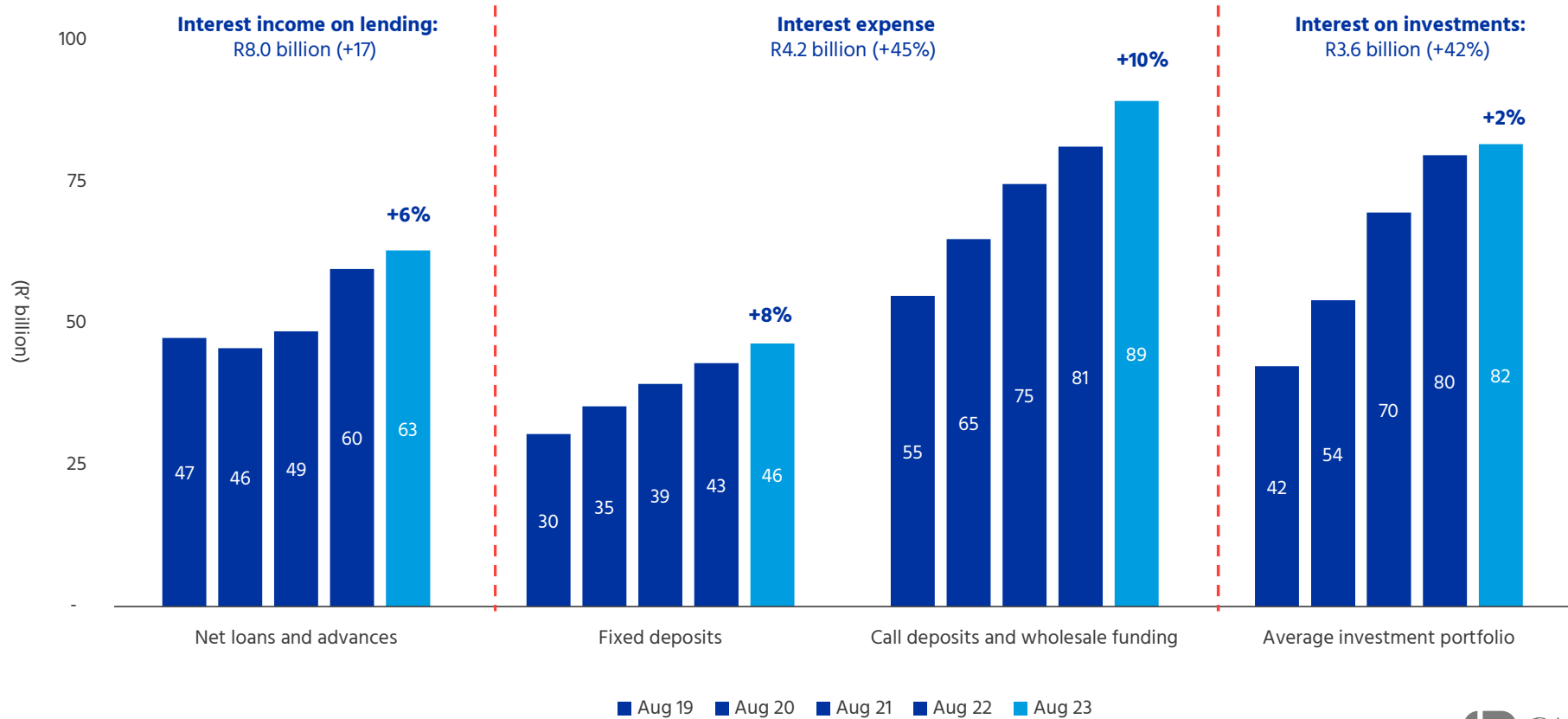
4 key themes

Better banking behaviour drives growth



Net interest income increased 13% to R7.3 billion

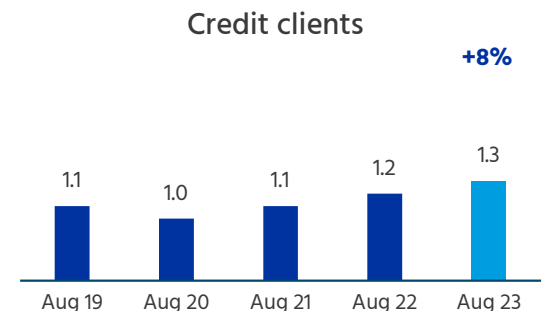
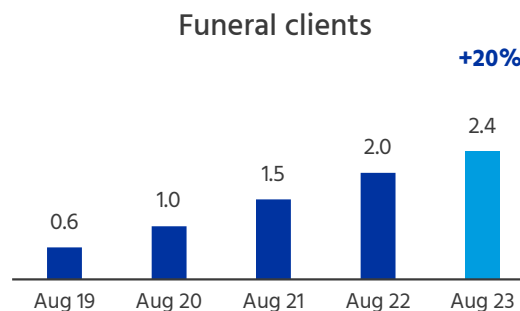
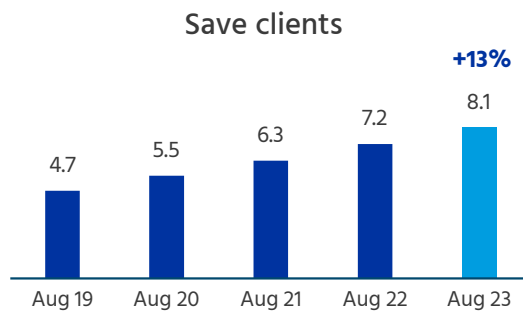
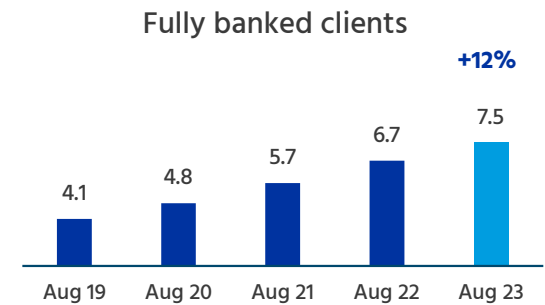
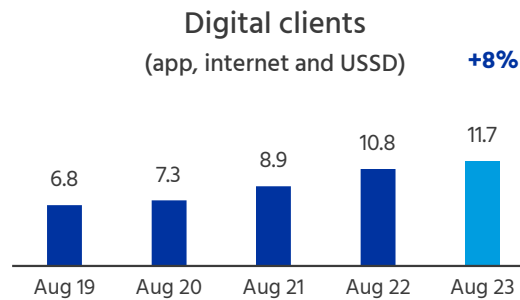
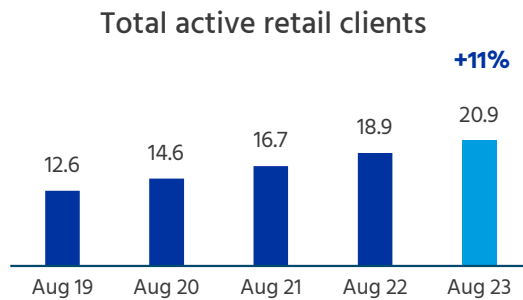
Balance sheet growth, margin expansion and conservative approach



Active clients increased to 21 million

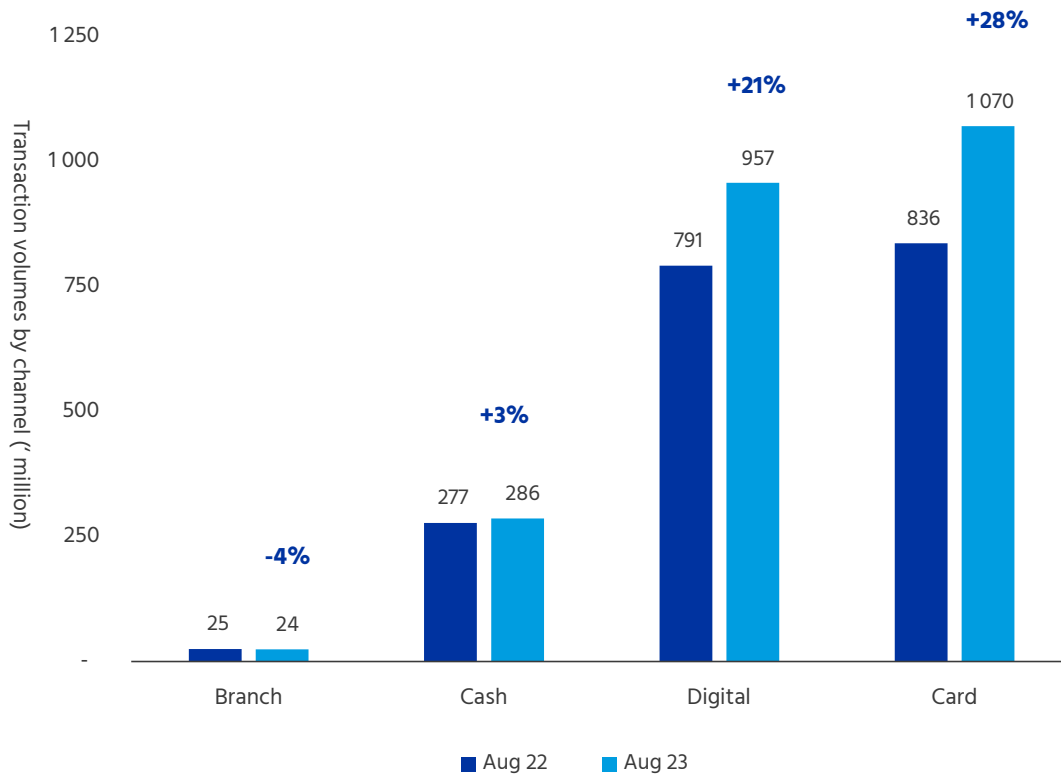
Existing clients take up diversified products

App clients increased by 18% to 10.2 million – the biggest digital bank in SA



Net transaction and commission up 25% to R6.5 billion

Clients move from cash to card and digital banking



Digital

- App transactions grew 53% to 789 million
- App volumes represent 83% of all digital transactions (Aug 22: 65%)
- Digital growth attributable to the launch of new products

Card

- Card payment volume increased 28% to 1.1 billion (8% online)
- Income from card transactions grew 18% to R716 million
- Live Better rewards clients earned R186 million in cash back

Cash

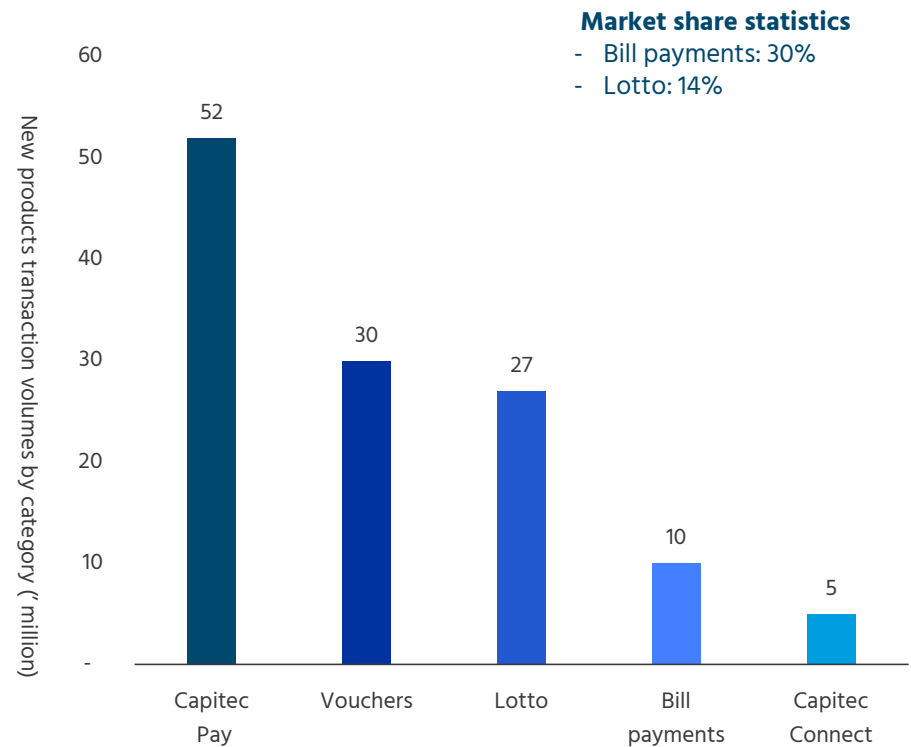
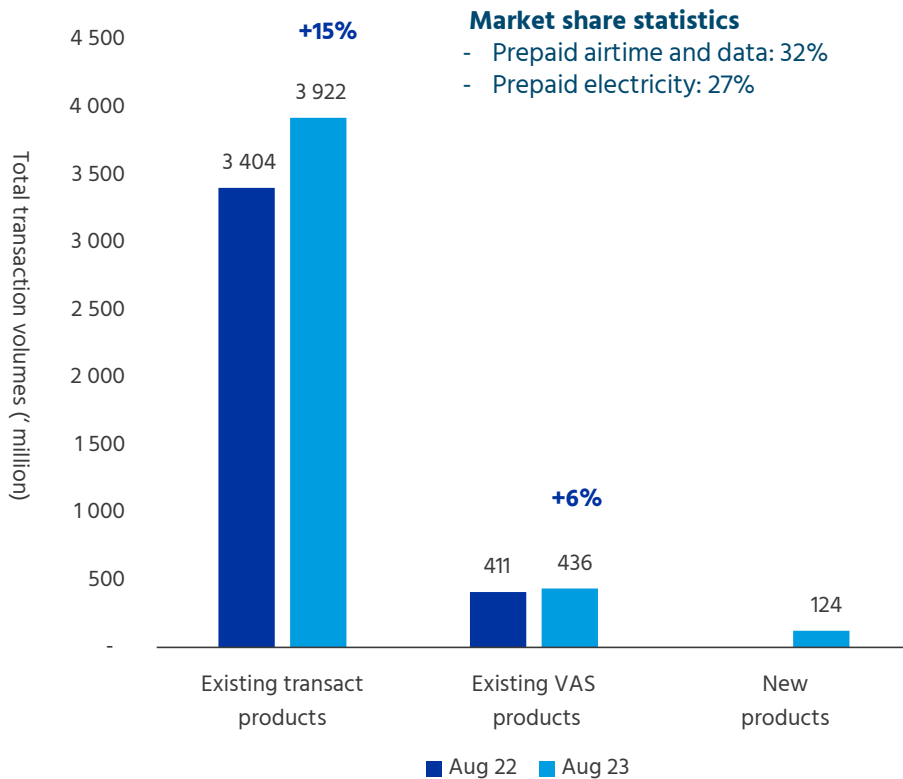
- Total ATMs: 8 044 (added 608)
- Muted growth aligns with digital strategy
- Total cash to total transactions ratio reduced to 12% (Aug 22: 14%)

Branch

- Added 10 new branches to 866 (Aug 22: 856)
- Self-service terminals (SST) handle 59% of branch transactions
- Branch focus on accessibility and personalised service

New products generated R394 million in income

We unlock value by answering the needs of our clients through new technology



Capitec Connect reached 1.3 million SIMs

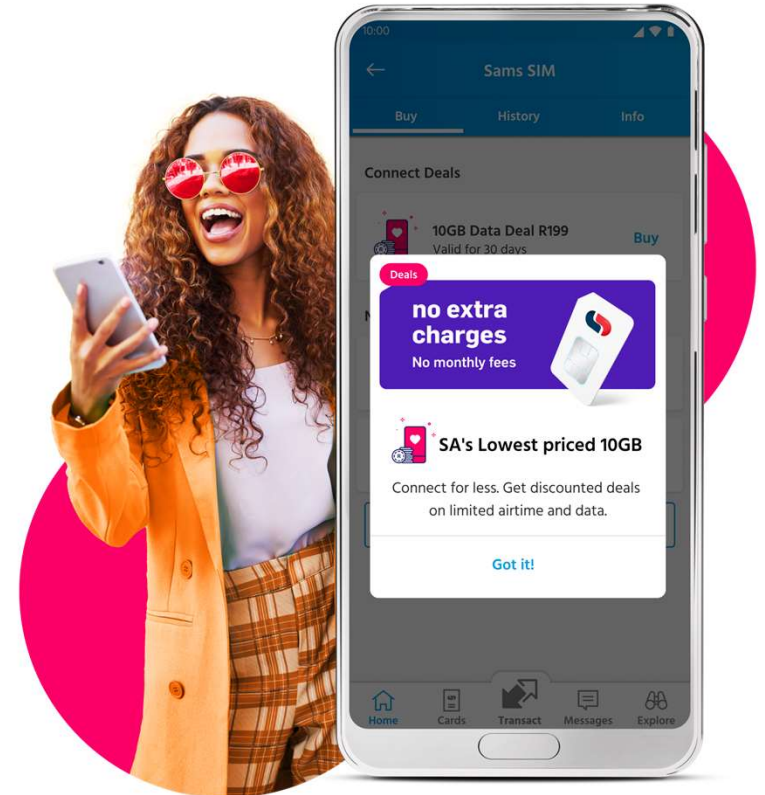
Growth in clients and improved usage as we continue to innovate

Highlights

- Improved network coverage and quality with Cell C migrated to the MTN network
- Active base and revenue per user improves month-on-month
- Lowest rates for small data bundles at R45 for 1 GB, no expiry
- Launched a 10 GB bundle at R199, half the price of the prevailing market price

Future

- Additional products based on client needs
- Improved client retention and better behavioural data



Capitec Insure

Total net insurance and investment result increased by 33% to R1.5 billion

Highlights

- Implementation of new systems and technology
- Nearly 250 000 credit life policies issued on our own license
- Guardrisk cell-captive is in run-off, and section 50 transfer initiated
- Negotiations to transfer funeral policies are ongoing
- The joint arrangement with Sanlam expires in November 2024

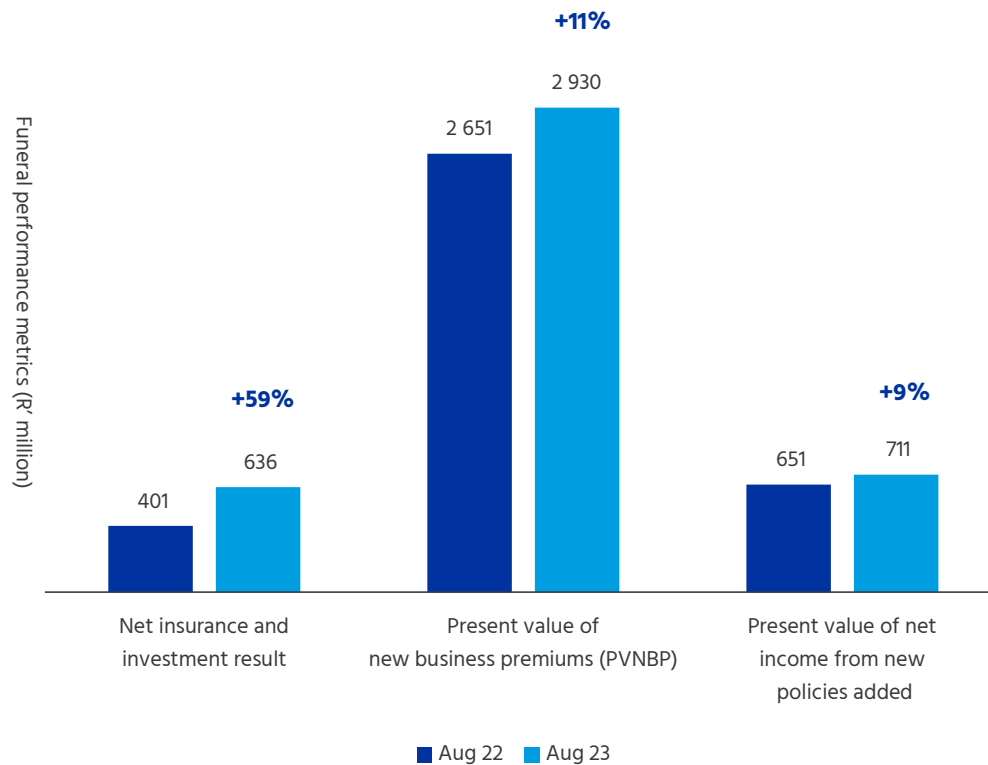
Credit life insurance

- Net insurance and investment results grew 20% to R912 million
- Sum assured grew to R74.7 billion
- Total claims settled increased 1% to R445 million
- Retrenchment claims decreased by 8% to R232 million



Funeral Plan active policies grew 20%

The net insurance and investment result grew 59% to R636 million



Key performance indicators

- Active book: 2.4 million policies (Aug 2022: 2.0 million)
- Policies issued last 6 months: 718k (up 11%)
- Numbers of lives covered: 11.1 million (Aug 2022: 9.0 million)
- 6-month average collection rate: 89% (Aug 2022: 89%)
- Market leader for new business added in 2022
 - Sum assured: 35.2%
 - Annual premium: 19.7%

New IFRS 17 Definitions:

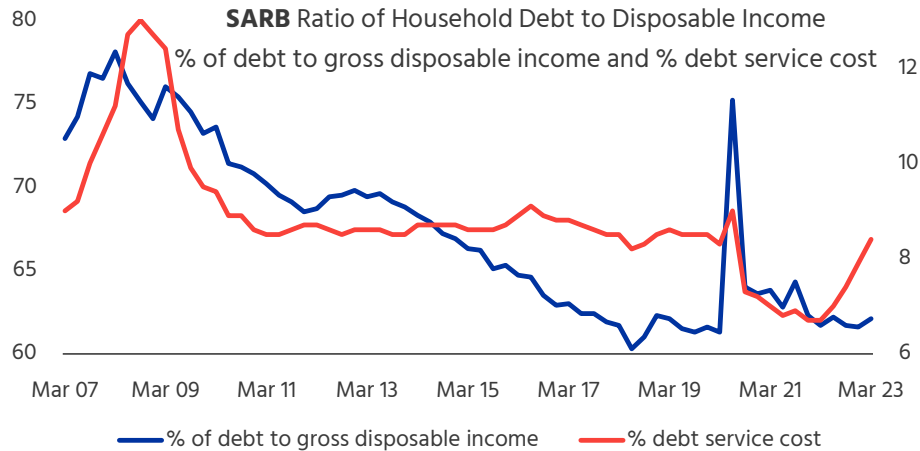
Present value of new business premiums (PVNBP) – the discounted value of expected premiums (net of reinsurance) for new policies sold over the last 6 months (we did not use a constant economic basis)

Present value of net income of new policies added - the discounted value of expected lifetime net of tax and net of reinsurance profits arising from new policies sold over the last 6 months (we did not use a constant economic basis)

Retail credit

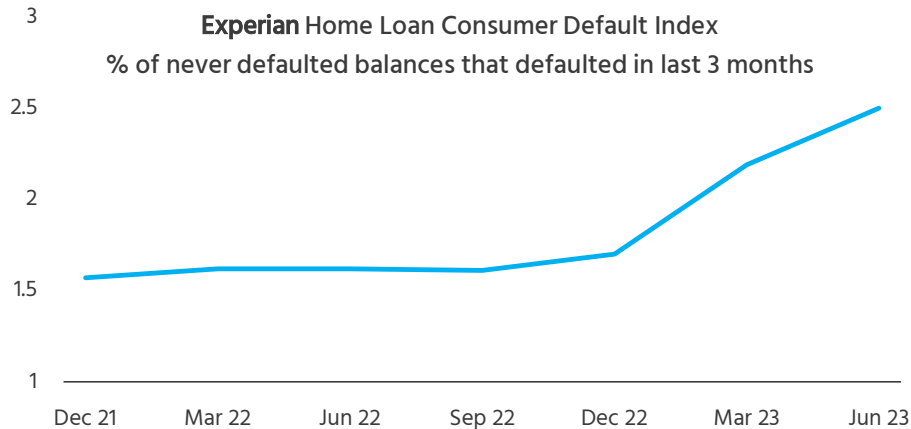
Economy – South African statistics

South African households under pressure



Stable household income and debt levels

- Lower level of retrenchments contributed to stable household income
- The decline in real (inflation-adjusted) salaries and wages is slowing
- Household debt to income stable at approximately 62%

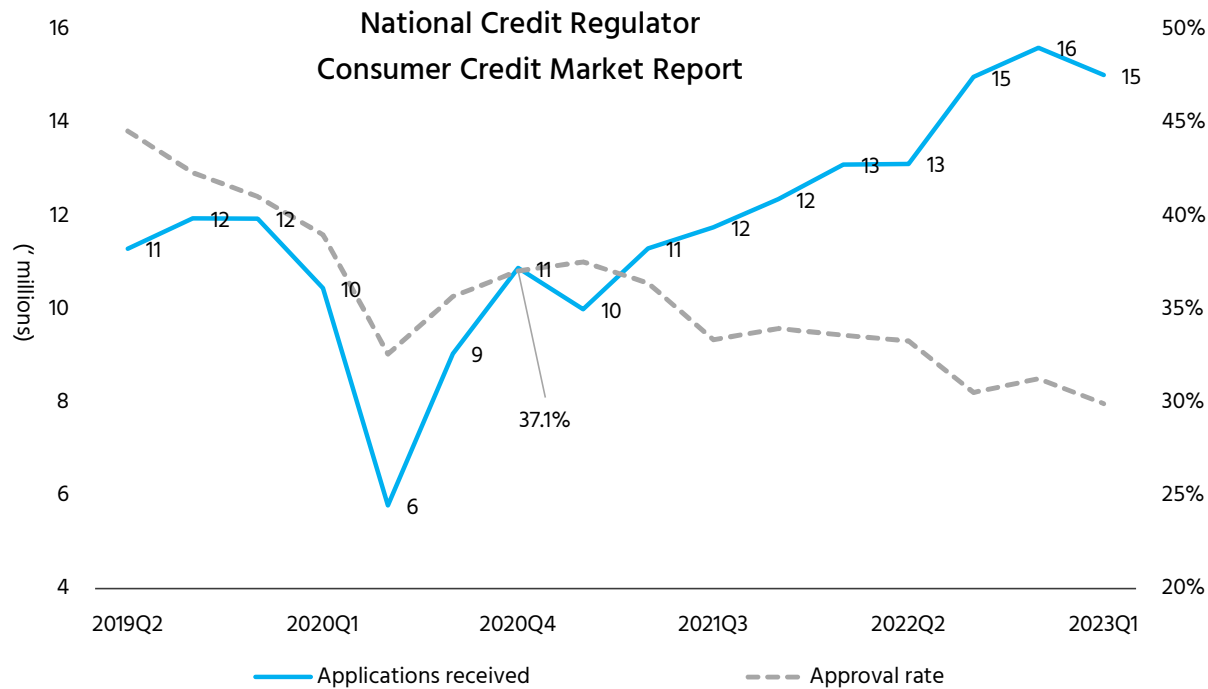


Strained household cash flow

- Debt servicing costs increasing particularly for variable interest rate clients, with the Experian Home Loan Consumer Default Index worsening 54% year-on-year
- Gambling transactions in proportion to total transactions increased by 35% year-on-year, putting further strain on household cash flow
- Clients rolling into debt review remain higher year-on-year, stabilising at these higher levels

Economy – South African statistics

South African credit market tightening



Lower household credit supply

- Credit applications continue to grow (notwithstanding seasonality)
- Approval rates decline as credit providers incorporate persistent pressure on household cashflows
- Q2 credit market sales expected to contract further

Short-term arrears spike

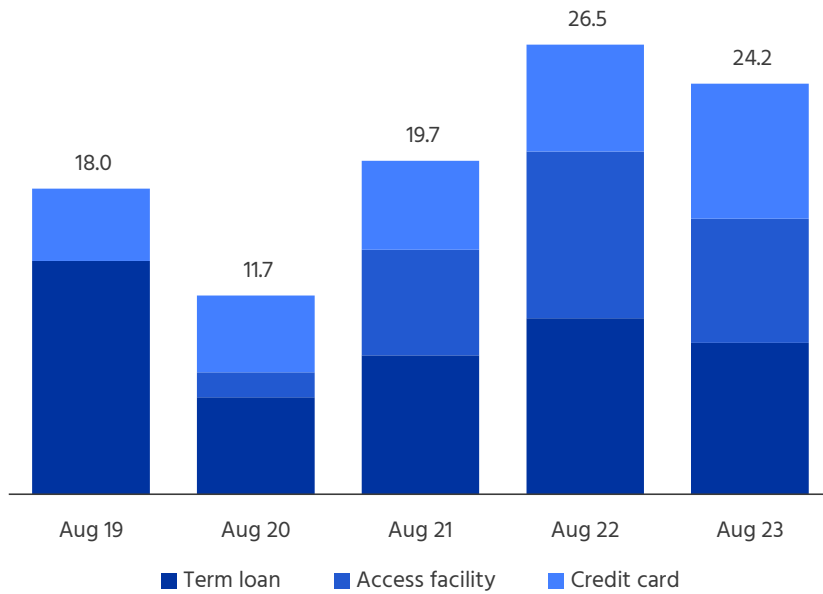
- Decreasing credit supply correlated with a short-term spike in arrears as bridging finance dries up

Retail credit

Decisive action: Tightened credit granting criteria

Loan sales and disbursements decreased by 9% to R24.2 billion

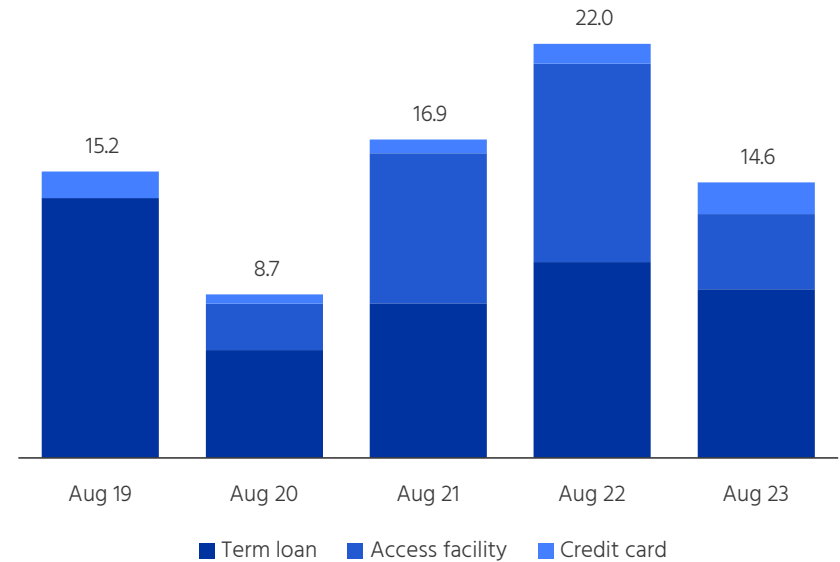
- Stricter income to instalment criteria
- 421 unique granting changes made
- 300% increase in pro-active Access Facility limit decreases



Loan sales and disbursements R' billion

Loan and limit sales decreased by 32% to R14.6 billion

- Stricter granting criteria decreases Term Loan sales by 11%
- Access Facility limit sales decreased by 62%
- Live better rewards drives increase in Credit Card limit sales of 59%



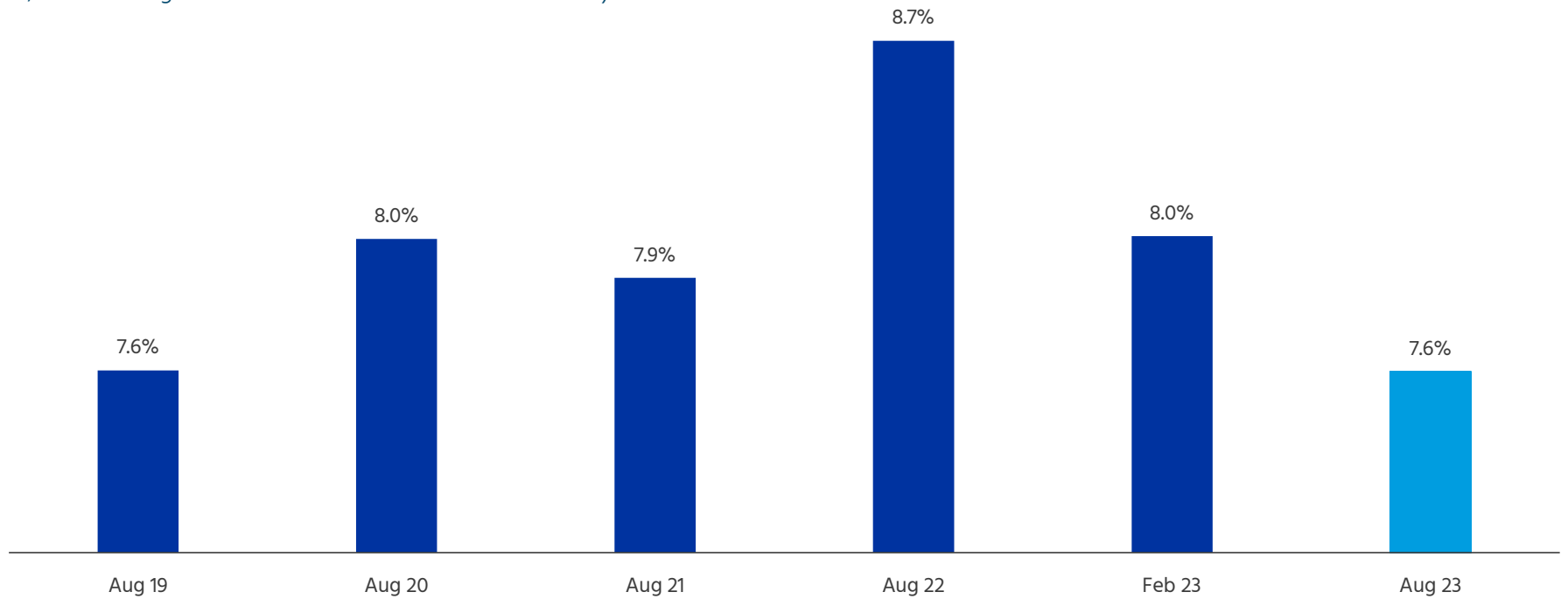
Loan and limit sales R' billion

Retail credit

Decisive action: Stricter granting returns new book performance to pre-covid levels

% of new book showing strain:

(arrears, rescheduling or debt review within first three months)



Retail credit

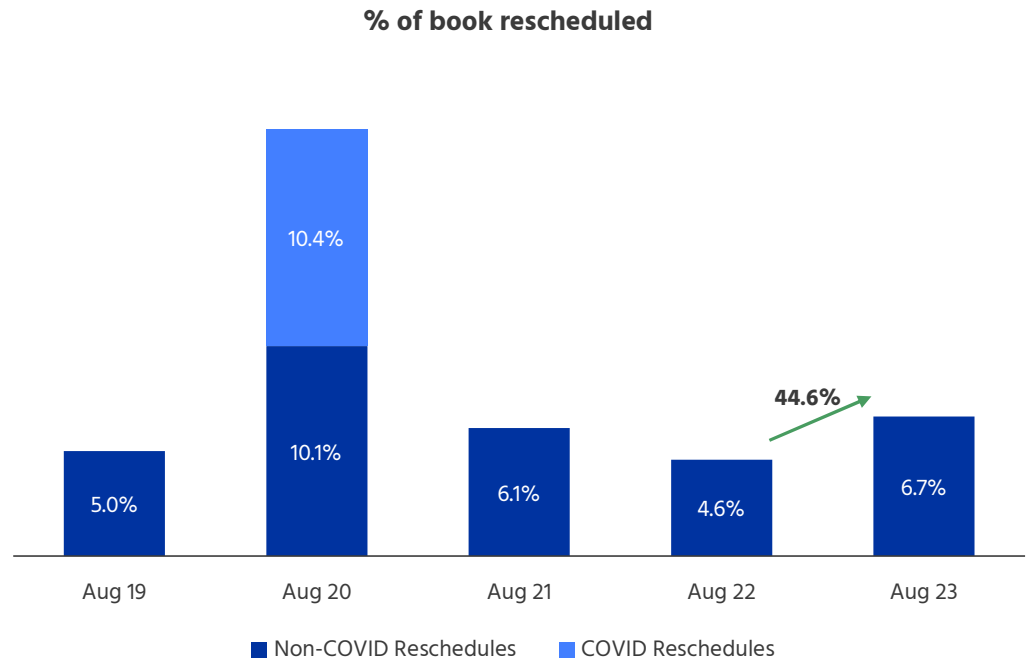
Decisive action: Major focus on providing relief to clients in distress

Treatments available on more channels: WhatsApp, SMS shortcode, and App

Rewarding clients for honouring payment arrangements

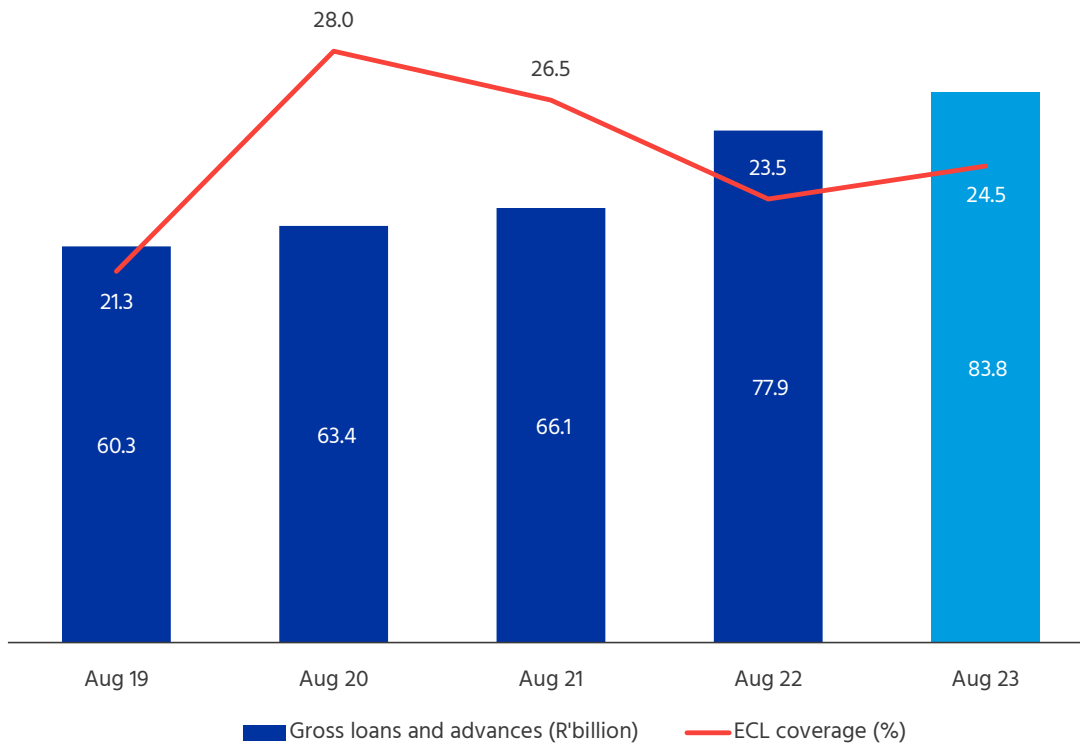
Increased call center and chat agents to assist clients

More treatment types to provide relief for long term cashflow stress



Retail credit

Expected credit loss coverage (ECL) ratio remains healthy



Anticipated impairment charge increase

- The impairment charge increased by 62% to R4.6 billion, in line with the industry

Prudent ECL coverage

- Coverage ratio prudent given the tough operating environment

Improving roll forward outlook

- Roll forwards to stage 2 and stage 3 reduced by 35% from R2.8 billion in Q1 to R1.8 billion in Q2
- The overall charge for Q1 amounted to R2.4 billion compared to R2.2 billion during Q2

Business bank

Capitec Business

Focus on developing the world's best Business bank

Delivered major improvements

- New online banking platform
- Single Capitec app for business and personal banking
- Record number of 4 501 accounts opened in August 2023
- 40% of accounts opened in August 2023 on the app/online – avg. time 30 min
- Re-platformed our systems and moved data onto AWS
- Implemented Salesforce and nCino (cloud-based banking platforms)

Opportunities and potential

- Access to leading technologies provides a scalable platform for Business Banking to grow



Headline earnings grew 20% to R242 million

Strong performance attributable to growth in active business clients

Key performance indicators

- Active clients grew 14% to more than 183 000
- Loan sales and disbursements (incl. overdrafts) increased 16% to R37.4 billion
- Net loans and advances grew 21% to R16.1 billion
- Deposits increased 6% to R19.1 billion
- Net transaction income grew by 5% to R419 million:

Credit impairment charge grew to R165 million

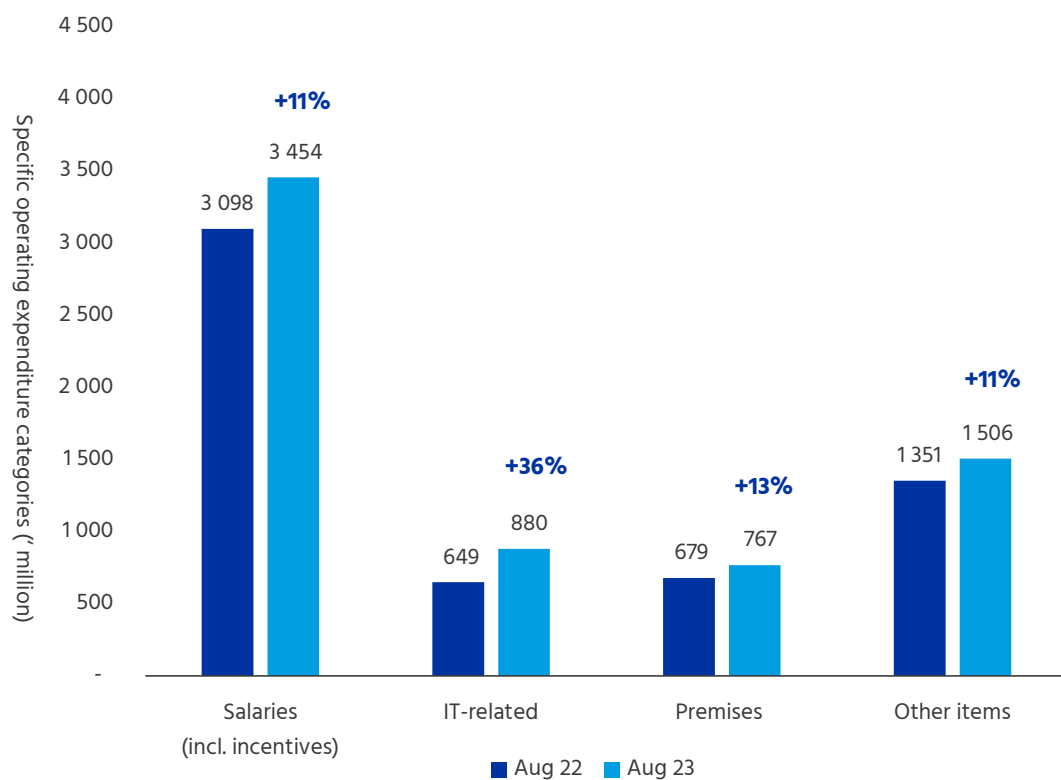
- Capitec Rental Finance grew by R32 million to R49 million
 - > Higher charge is driven by observed financial strain
 - > Pull back on credit granting, resulted in lower sales
- Business banking charge grew 59% to R116 million
 - > Charge relating to new loans sales/book growth – R41 million
 - > Mix change – more overdrafts
 - > Migration in book – R75 million
- Total credit loss ratio: 1.0% (Aug 2022: 0.6%)



Group operating expenses

Operating expenses increased 14% to R6.6 billion

Increased efficiency as cost-to-income ratio improved to 38% (Aug 2022: 41%)



Salaries (incl. incentives):

- Headcount grew to 15 425 heads (Aug 22: 15 295)
- Higher due to the impact of the annual increases
- Increased demand for IT and data specialists

IT-related expenses (excl. employee costs):

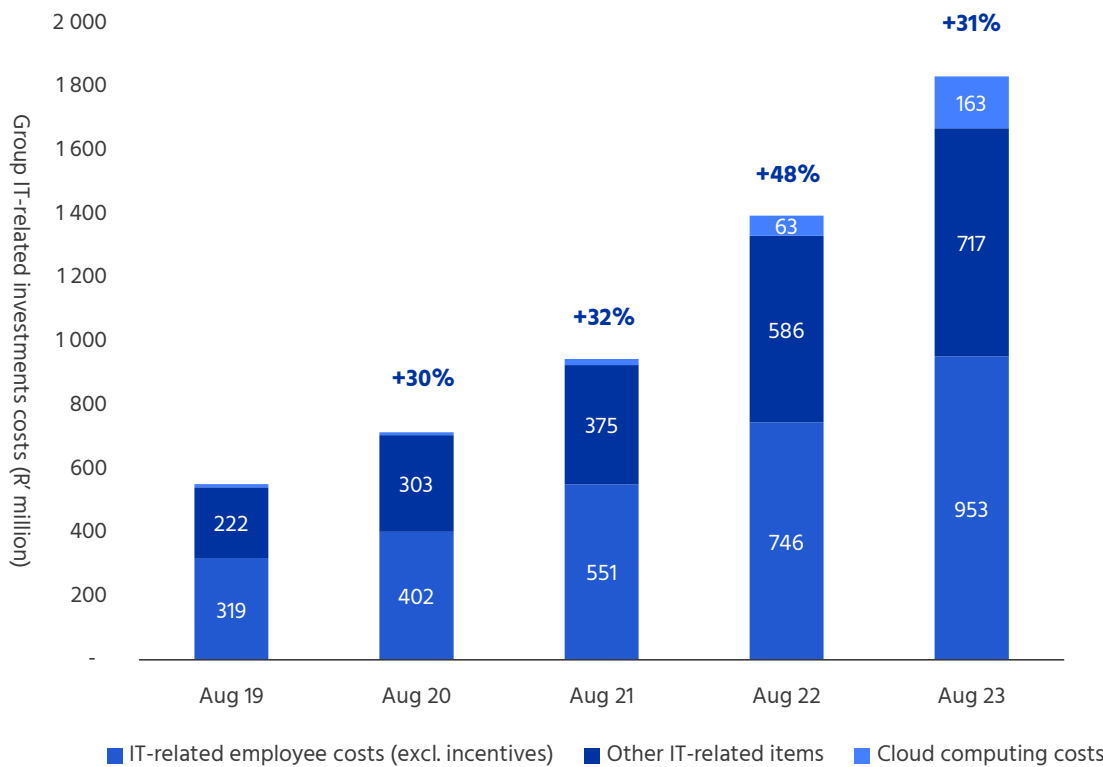
- Focus on migrating data to cloud-based systems (AWS)
- Acquisition of a platform that can be customised to our specifications
- Increase stability of critical systems

Premises:

- Higher depreciation due to
 - Expansion and renovations of the branch network
 - Installation of lithium batteries to increase device availability

Technology and data remain central to growth strategy

Focus on building an exceptional client experience with our information technology platform



Partner with the technology and software

- AWS cloud, Salesforce, Microsoft and SAP

Update on AWS cloud migration

- Banking app and the majority of business bank systems completed
- More than 75% of all our data migrated
- Payment channels will be completed by Feb 24
- Commenced with the closure of more expensive data centres

Decommissioning of legacy systems

Future benefits

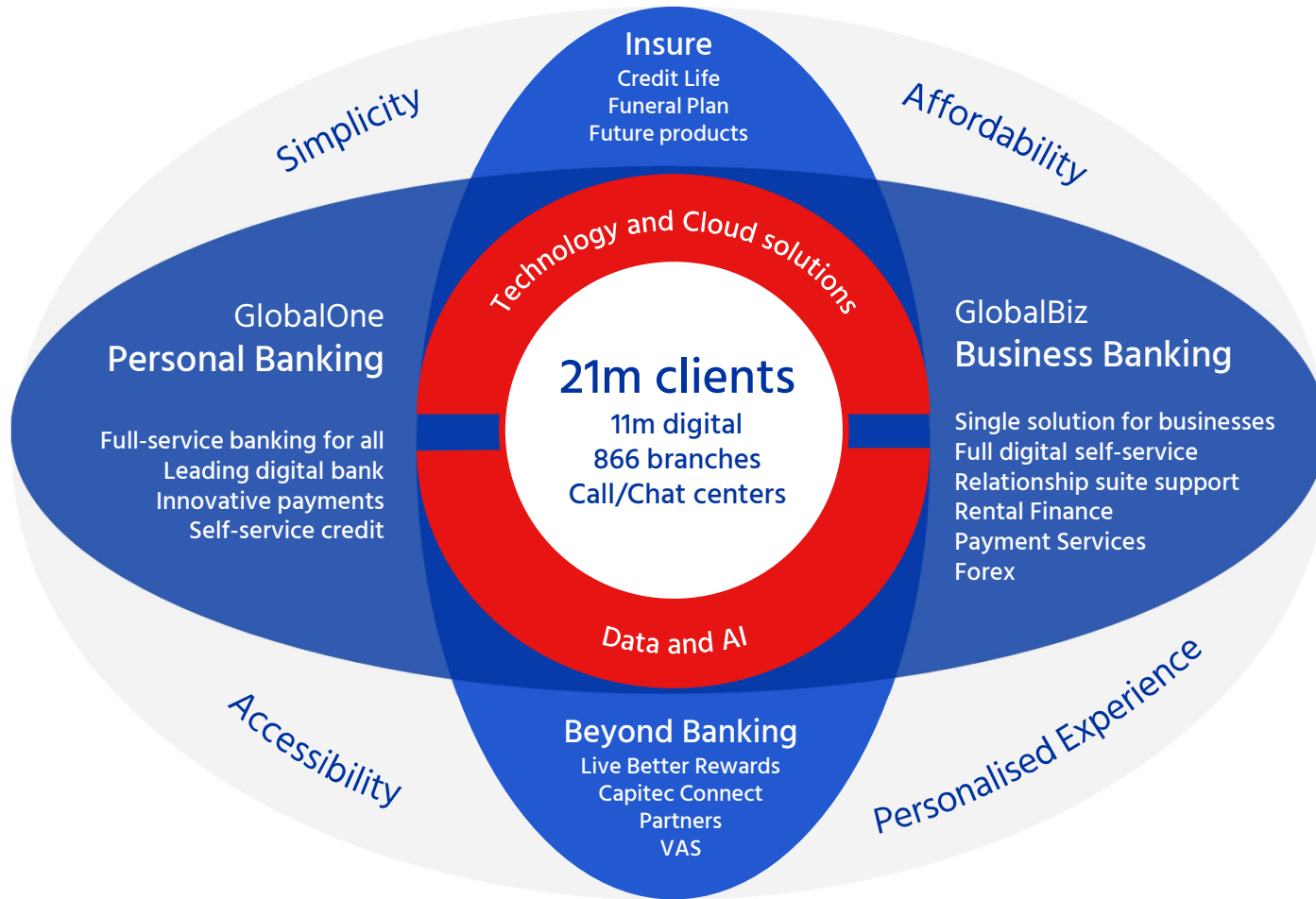
- Scale business and products to higher volumes more efficiently

Future focus

Building an ecosystem with the client at the core

The Capitec ecosystem

Helping people live better through simplified personal and business banking, insurance and value-added services



Thank you

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