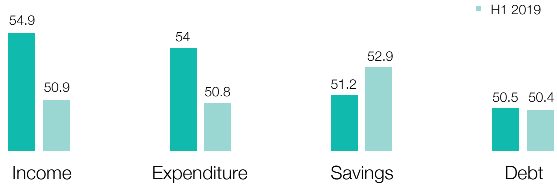
The state of the **South African consumer.**

OVERVIEW

Over the nine months of 2019 we have seen a continued rising pressure on consumers, be it through political, social or economic uncertainty or the more real day-to-day pressures of increasing expenses in a macro-economic environment that is struggling to generate a reasonable level of growth.

The shift in the credit markets over the past 12 months, especially in the unsecured sector, are a cause for concern given that the industry appears to be repeating the approach it took in the years leading up to the H2 2014 correction, with tenor extensions to 84 months.

Consumer Vulnerability Index



The recent results show a sharp deterioration in Income and Expenditure vulnerability

Average debtors days outstanding

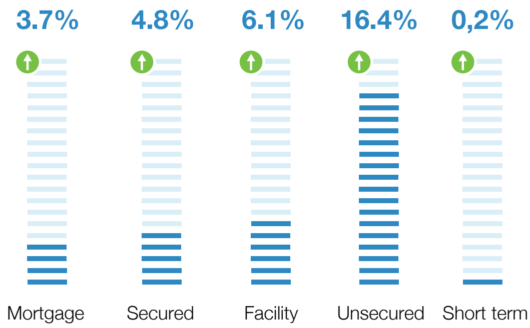
	Q4 2017		Q2 2019	
Corporate	45	→	54,6	DAYS
SME	51	→	66,4	DAYS

LENDING - ORIGINATIONS

In **Q1** 2019

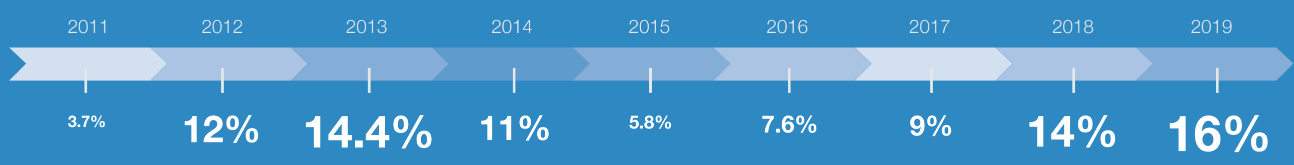
R127bn

credit was advanced into the market



While overall growth in the mortgage and vehicle debtor's books were relatively in line with previous years there was a 16.4% increase in unsecured loans. While credit facilities appear to show a rather conservative level of growth, the 6.1% increase represents a 21.2% increase of advances over the same period in 2018.

% Of unsecured advances > 5 years



Unsecured lending continues to repeat the trends seen in the last rapid expansion phase of 2012 to 2014. In 2019, 16% of all unsecured disbursements have been on terms of over 5 years (average of c. 78 months).

Over the past 24 months there has been a:

44% Increase in loan sizes longer than 5 years

43.5% Increase in average instalment size

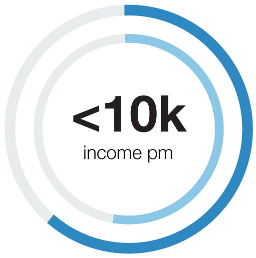
8.8% Increase of average income for unsecured borrowers

LENDING - ORIGINATIONS (cont)

17% — **Average loan sizes and repayments increase**
Driven by higher income borrowers

15% — **Average income increase**

Short-term lending continues to play a critical role in the provision of a financing product for unexpected life events, especially in the credit card segment where overdraft penetration is less than 16%.



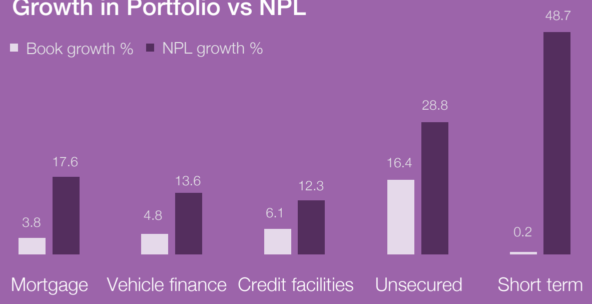
2019
61%

2017
52%

LENDING - PERFORMANCE

Relative performance is an interesting thing. The high level of advances over the last 6 months has the potential to mask any deterioration in the underlying portfolios.

Growth in Portfolio vs NPL



The graph shows the underlying deterioration across all the lending categories, although it is important to take some of the observations into context. In the case of short-term as an example, there has been a 30% reduction in advances over the period which has led to a deteriorating portfolio as non-performing customers are unable to access refinancing opportunities and so wind up in a debt spiral from which it is difficult to recover.

Over the past 12 months,

the rand value of unsecured loans in an NPL state has increased by

R7.5bn

The first 12-month cycle to show an absolute increase since Q1 2013 to Q1 2014.

Customers two months in arrears on at least one account:

11.8% 2017 → **12.4%** 2019

200k Consumers

Consumers having at least one account at NPL stage (3 months or more in arrears):

21.7% 2018 → **23.5%** 2019

500k Consumers

All of this points to a continued downward trend in the state of consumer health and a likely rebalancing of the consumer lending market in South Africa over the next 12 to 18 months. **This is not unusual.**

The industry traditionally experiences a 5 to 6-year cycle of growth, oversupply and contraction, which can be observed in 2001, 2007/8, 2013/14 and likely 2019/20. This is not unique. All sectors typically live through an economic and sentiment cycle.

The objective for businesses within these segments is to identify, adapt and act.

SO, WHAT DO WE DO?

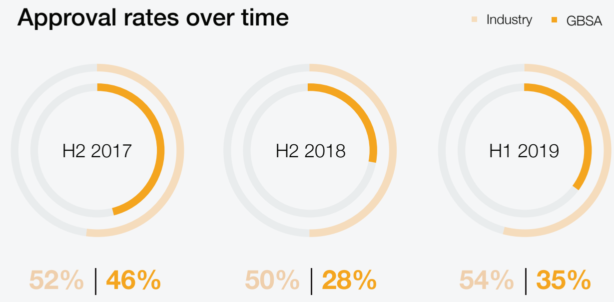
With the deterioration in consumer performance levels, as well as the recent negative articles in the press about the unsecured lending sector (a sure sign that we are approaching the crest of another correction), we need to be sure that the business is prepared for the coming change.

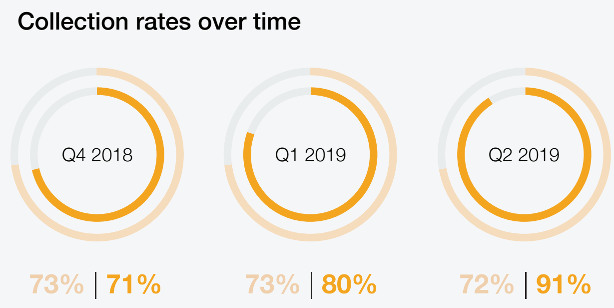
GetBucks

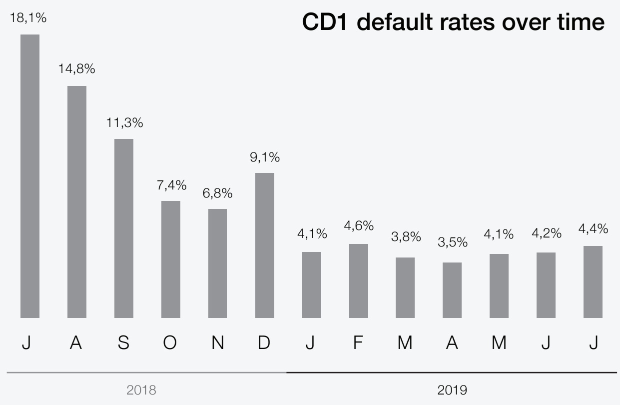
As GetBucks in South Africa, we have spent 2019, positioning the portfolio and the business to be able to absorb any downturn in consumer fortune, as well as to be able to make the most of the opportunity that normally emerges in these periods – bearing in mind that real consumer demand does not diminish while supply contracts. What becomes more important is the ability to accurately and pragmatically make sound risk decisions.

As part of this rightsizing, the business has already:

1. Tightened our affordability criteria and process, including aligning sales incentives to the quality of the originated portfolio
2. Reduced our exposure to poorly performing channels of business
3. Raised the credit bureau cut-off scores that act as the initial entry point validation
4. Launched our new loan process which automates affordability calculations directly off the bank statement and uses our bespoke AI models to assess and determine risk
5. Disposed of a large portion of our NPL portfolio which was a drag on both performance and collection levels and a detractor of focus on the reality of running the business – typically at 24 to 30 months of future cash flows
6. Enhanced the credit scoring models to be more relevant to the current market reality.
7. This has included exposing them more to bank transactional data in the decision process as well as factoring some of the more relevant short-term characteristics







In addition, we have begun the development of a product with self-contained cash flow support to customers with a lower borrowing cost than they could obtain from a traditional pay-day lender. Our online focus will also shift towards a broader financial training and awareness platform, ensuring that customers understand the credit purchasing decision they are making and the implications thereof.

Our online focus will also shift towards a broader financial training and awareness platform, ensuring that customers understand the credit purchasing decision they are making and the implications thereof. We believe that this more conservative and inclusive approach, along with our payroll relationships will enable us to shape meaningful solutions for our customers and partners.