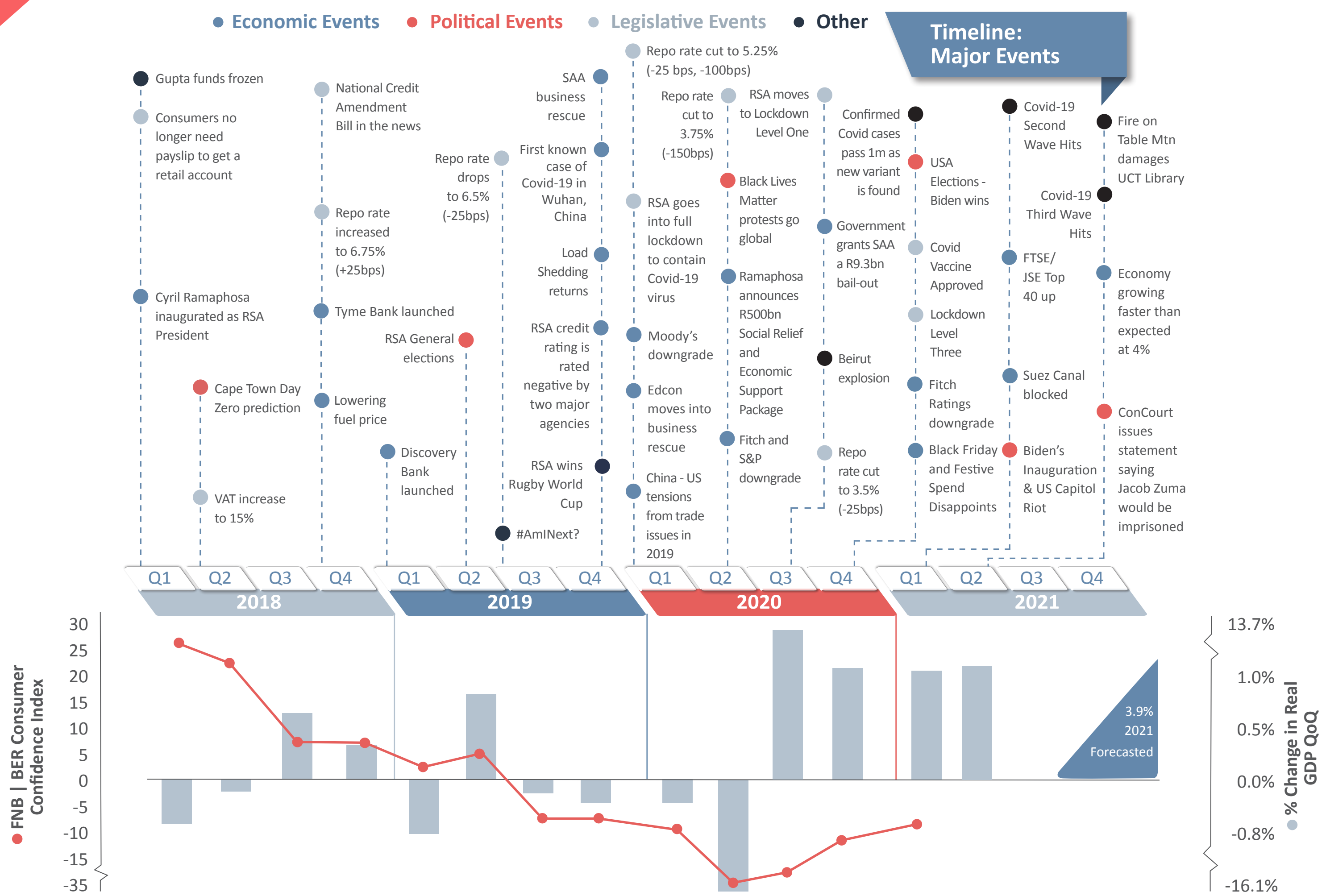
EIGHTY20/XDS CREDIT STRESS REPORT

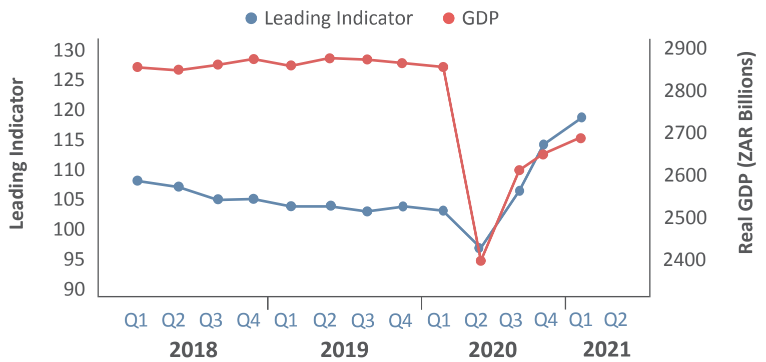
2021 Q2

This quarterly report highlights the impact of economic forces on the South African consumer, with particular focus on consumer credit behaviour. All credit data in this report was sourced from the Eighty20 / XDS Online Credit Portal.

SECTION ONE: ECONOMIC CONTEXT AND IMPACT ON CONSUMER

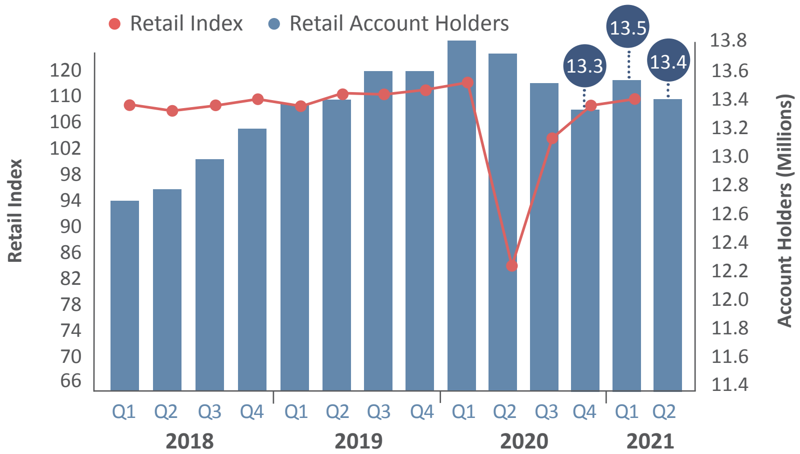
Timeline: Major Events





Leading Indicator of the South African Economy vs. GDP

According to the most recent Netwerk24 / Beeld Consensus poll, the South African economy is forecasted to rebound to 4.0% growth in 2021 after last year's 7% contraction. Growth is projected to be driven mainly by high commodity prices, sustained external demand and a rebound in domestic sales and output.

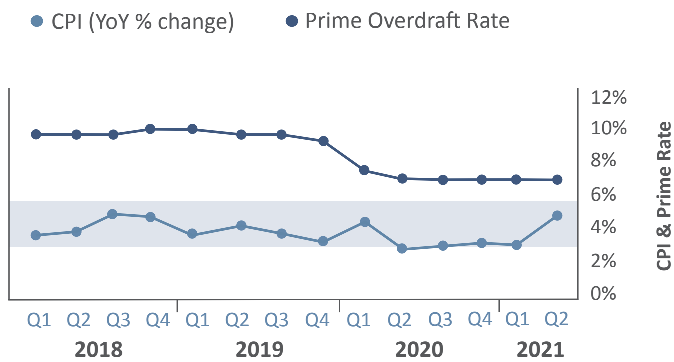


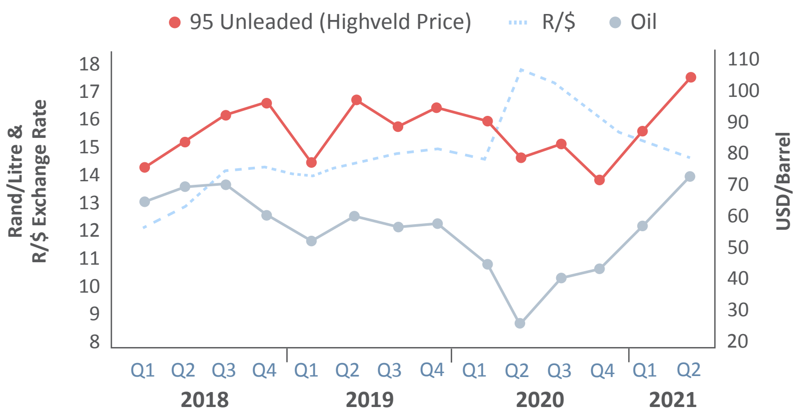
Retail Sales Index

The number of retail accounts, which showed gains of 1.2% in Q1, slipped back by more than 120,000 accounts to its Q4 2020 levels. This was attributed partly to the decline in seasonally adjusted retail sales by 0.8% m-o-m in April and the impact of lockdown measures to curb rising Covid infections. The slow vaccine roll out also contributed to the slow recovery of retail sales and consumer spending.

Consumer Price Index & Prime Rate

The Prime Rate remained unchanged at 7% with annual CPI increasing to 4.8% in Q2 from 3.1% in Q1. This is the highest reading since Q4 2018 when it was 4.9%. However, it is still within the SARB target bounds. The main contributors to inflation were transport and food, as petrol prices reached an all-time high.





Exchange Rate, Oil & Fuel Price

In Q2 petrol prices reached an unprecedented high of R17.23 per litre, outstripping the previous high by 6%. Diesel prices also rose considerably. Crude oil prices increased by 14%, reaching $66.09 from $57.45 in Q1 and attaining levels not seen since Q3 2018. The rand continued to rally into Q2 due to strong global risk appetite, firm commodity prices, a weaker US dollar and positive domestic signals.

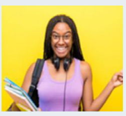
Eighty20 National Segmentation (ENS)

Eighty20 used statistical techniques to overlay credit bureau data with diverse datasets, including national and regional surveys to create the ENS Customer Profiling Tool. This tool allows companies to map thousands of variables to each of their consumers in a POPIA compliant manner. The ENS represents this data in an eight segment national segmentation that provides insight into the entire South African population.

Mass Credit Market

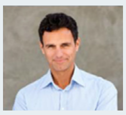
This is the employed, lower middle class, mostly female, some 82% of whom have retail store accounts and 1/5th who have credit cards.

Students and Scholars



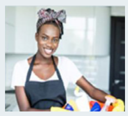
The youth of the nation, with little to no income, no credit beyond retail and no assets. Sub-segments include Future Heavy Hitters, and the Lost Youth.

Heavy Hitters



This is the wealthiest 5% of the population, more assets than any other segment, mostly male, high internet penetration and lots of shopping. Their current debt load is more than 7 times that of the Middle Class Workers segment.

Mothers of the Nation

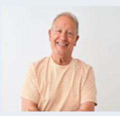


Low income, female grant recipients, mainly unemployed or underemployed. These are the domestic workers and clerks of our country.

Humble Elders

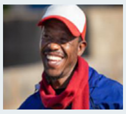
Low income, older grant recipients (the highest average age of all segments), with very little media or credit consumption. The lost apartheid generation.

Comfortable Retirees



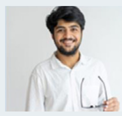
Older, high income credit active and asset rich ex professionals and middle class consumers.

Hustling Males



Mostly male, average age 34, low income, very little credit (not even retail credit) and high unemployment. Although fed the promise of the new South Africa, this has not been realised due to poor schooling, skills or training.

Middle Class Workers



The 4.1m middle income, credit active population with families, mortgages and frequent shopping trips.

In this report we look at three of these segments, the Mass Credit Market, the Middle Class Workers and the Heavy Hitters.

Mass Credit Market
(8.1m people)

Demographics

56% female	**R4 929** income
36 years avg. age	**18%** married
matric education	**12%** medical aid
10% private security	**96%** credit active
63% defaulted	**92%** banked

Mortgages
6% of total loans by number
1% of total loans by value
Avg. **R270K** opening balance

Credit Cards
17% of total loans by number
6% of total loans by value
Avg. **R7k** current balance

Vehicle Asset Finance
2% of total loans by number
1% of total loans by value
Avg. **R190k** opening balance

Retail Accounts
53% of total loans by number
42% of total loans by value
Avg. **R5k** current balance

Unsecured
43% of total loans by number
22% of total loans by value
Avg. **R13k** current balance

The Mass Credit Market is a large segment of employed, lower-middle class, mainly female workers, some 82% of whom have retail store accounts and one in five of whom have credit cards.

The biggest credit threat to this segment is the large number of retail accounts held, with half of all retail accounts held by consumers in this segment. On average, this segment is 3.7 months in arrears on retail accounts, 53% of the total overdue balance on re-tail accounts is held by them. They have a 17% debt-to-net-income ratio.

Middle Class Workers
(4.1m people)

Demographics

38% female	**R12 468** income
39 years avg. age	**47%** married
matric education	**41%** medical aid
30% private security	**89%** credit active
45% defaulted	**96%** banked

Mortgages
25% of total loans by number
14% of total loans by value
Avg. **R486K** opening balance

Credit Cards
27% of total loans by number
21% of total loans by value
Avg. **R17k** current balance

Vehicle Asset Finance
26% of total loans by number
19% of total loans by value
Avg. **R200k** opening balance

Retail Accounts
17% of total loans by number
21% of total loans by value
Avg. **R2k** current balance

Unsecured
28% of total loans by number
41% of total loans by value
Avg. **R38k** current balance

It is tough to define a 'middle class' in South Africa, but this segment aspires to the middle class values of car, home and family. Consumers in this segment have an average of two unsecured loans each per loan holder, and 57% of all credit active individuals in this segment have an unsecured loan.

They are increasingly reliant on credit cards, and while the number of credit cards has decreased by 3% over the last 2 years, the total balance has increased by 25% (R42bn). They have a 75% debt-to-net-income ratio.

Heavy Hitters
(2.6m people)

Demographics

37% female	**R33 894** income
45 years avg. age	**69%** married
tertiary education	**70%** medical aid
69% private security	**95%** credit active
21% defaulted	**98%** banked

Mortgages
67% of total loans by number
79% of total loans by value
Avg. **R960**K opening balance

Credit Cards
38% of total loans by number
59% of total loans by value
Avg. **R34k** current balance

Vehicle Asset Finance
64% of total loans by number
73% of total loans by value
Avg. **R344k** opening balance

Retail Accounts
11% of total loans by number
19% of total loans by value
Avg. **R4k** current balance

Unsecured
11% of total loans by number
28% of total loans by value
Avg. **R66k** current balance

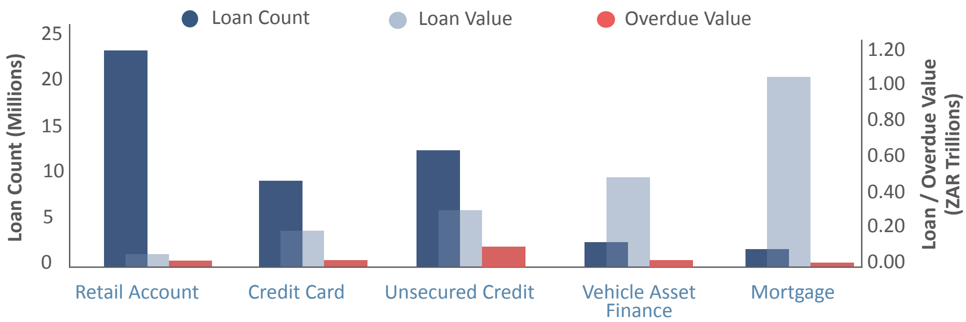
This is the wealthiest 5% of SA, mostly male, and with more assets than any other segment. Their current debt load is more than seven times that of Middle Class Workers, but while they have a 165% debt-to-net-income ratio, 88% of that debt is secured.

The majority of the overdue balance on secured debt is held by this segment, with almost 1 in 10 vehicle asset finance (VAF) holders defaulting on their loan, up from 1 in 20 defaulting 2 years ago.

SECTION TWO: CONSUMER CREDIT STRESS

Unsecured vs Secured Credit

The current balance on all loans is just over 2 trillion, with half of that value in Mortgages, just under a quarter in Vehicle Asset Finance, and Unsecured loans, Credit Cards and Retail Accounts making up the other quarter. There was little overall movement in either current or overdue balances this quarter. That said, the trend for Vehicle Asset Finance is concerning as there has been a 32% increase in overdue balance YoY, with a 17% QoQ increase this quarter alone.

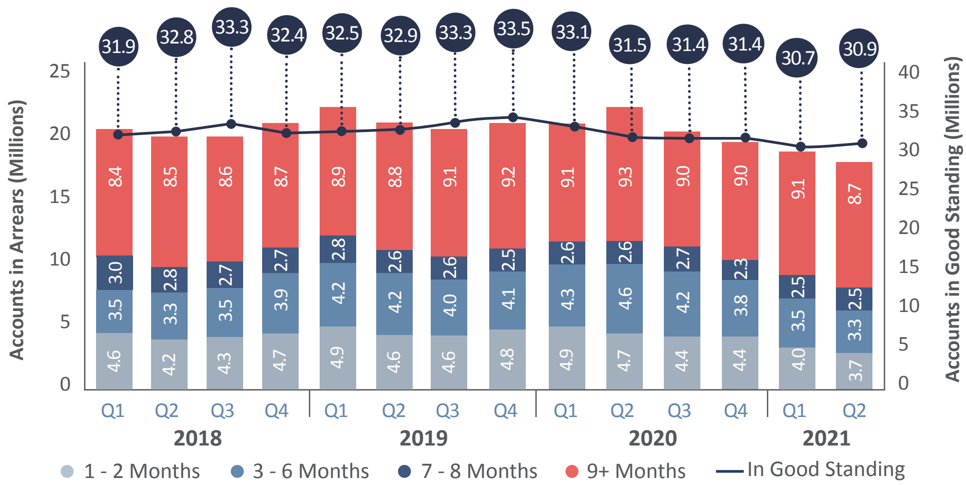


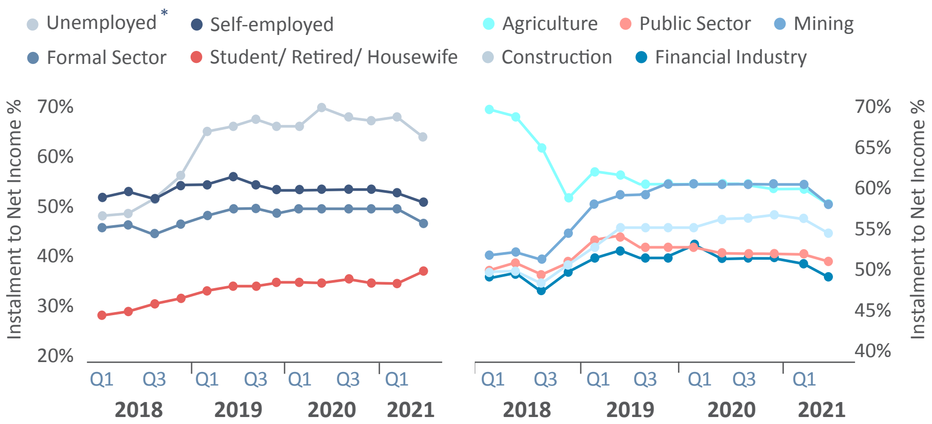
Year-on-Year Change			
Credit Product	Loan Count	Loan Value	Overdue Value*
Retail Account	-5%	-4%	10%
Credit Card	-9%	2%	1%
Unsecured Credit	-14%	1%	11%
Vehicle Asset Finance	-1%	4%	32%
Mortgage	-1%	7%	24%

* Change in Overdue Value as a % of total loan value.

Credit Accounts by Arrears Status

At its peak in 2020 Q2, 40% of all loans were in arrears. That percentage has decreased by 7%, with 18.4 m loans in arrears. While the number of loans in good standing increased this quarter by 1%, overall that number has shown a 2% decrease YoY. The total number of loans in arrears is down 4% QoQ, with mostly unrecoverable loans (9+ months in arrears) decreasing by 3% (262k) over the same period.





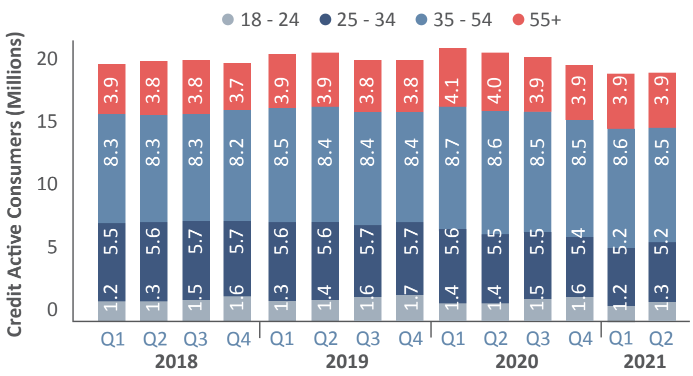
Instalment-to-Net-Income by Industry

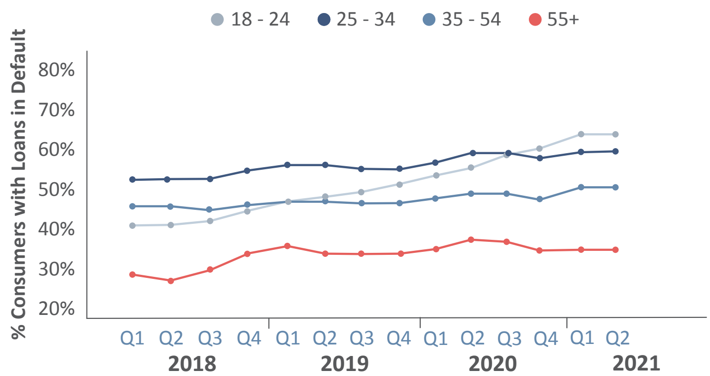
The instalment-to-net income ratio for credit active consumers within the mining sector has improved by 3.6% in the last quarter. This could be due to the fact that metal commodities are experiencing prices not seen in decades as demand for raw materials (especially from China) surges.

* Income includes grants

Consumer Default by Age

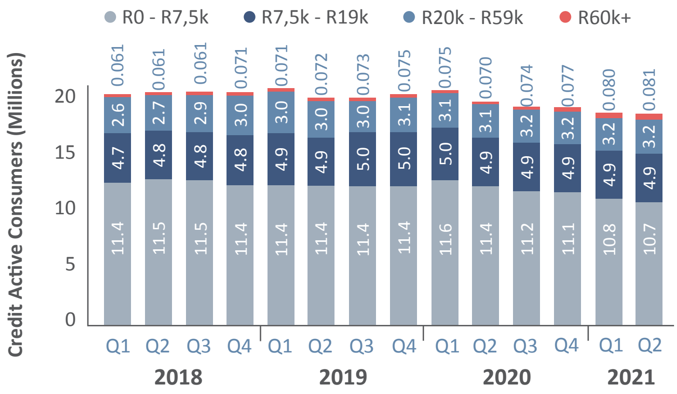
While there has been a 10% YoY growth in the default proportion of those in the 18-24 age group, it appears to have stabilised this quarter.

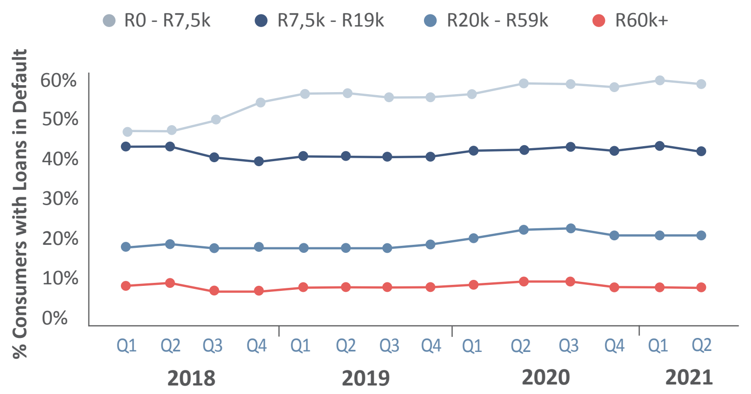




Consumer Default by Income

This quarter saw a decrease in the proportion of defaulters across all income brackets. Most noticeable was a 13% QoQ decrease in default rate in the wealthiest income bracket, which was hardest hit in the previous quarter. Along with a decrease in default rate, this income segment showed a 2% decrease in debt-to-net-income ratio, bringing the ratio for this bracket to 4.32. This staggering number, however, is less worrying than the ratio for lower income brackets as 94% of the wealthy's debt is secured compared to just 15% for the those in the lowest income bracket.

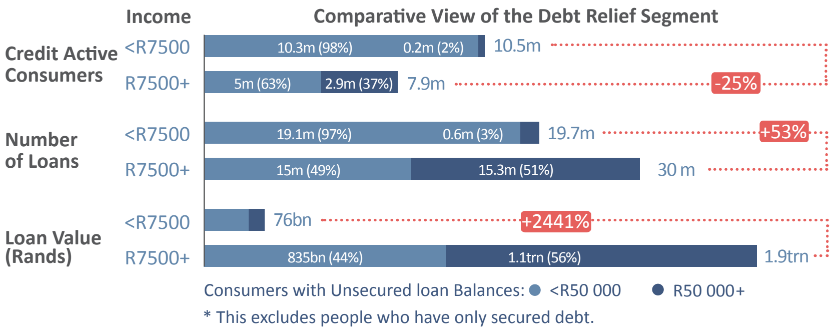


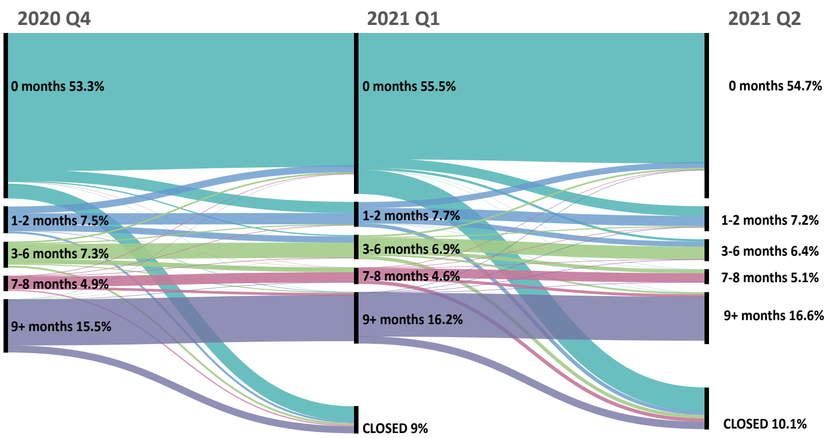


Debt Relief Segment

This quarter brought good news for those in the Debt Relief Segment with a decrease in the number of consumers, number of loans, and defaulters in this segment. Additionally, the total loan value held by these consumers decreased by almost R1bn QoQ.

* The Debt Relief Segment is affected by the National Credit Amendment Bill. People earning less than R7,500/month and have unsecured debt less than R50,000 can apply to have their debt suspended or extinguished.





Quarterly Loan State Movement

In 2021 Q2, 5m new loans entered the system while 5.7m loans were paid off resulting in a net decrease of 700k loans. The total number of loans has decreased by 3m YoY.

Metric	2021 Q1 Movement	2021 Q2 Movement
Loans that remained in the same state	39.5m	38.9m
Loans that recovered (<3 months in arrears)	481.5k	563.6k
Loans that defaulted	1.5m	1.3m

The Eighty20 Financial Wellness Diagnostic

Financial stress is a material hidden cost for all employers. The Eighty20 Financial Wellness Diagnostic gives employers a view of staff indebtedness, levels of financial stress and the resulting cost to company. This helps build a business case to invest in interventions to help staff lower their financial stress, and the associated costs to the employer. We enable employers to set achievable targets and track financial stress over time. Applying our analytics capabilities helps improve the targeting and effectiveness of financial wellness interventions, lowering employees financial stress and reducing the cost to company of financial stress.

Notes:

1. The Economic Context graph in Section One is not an exhaustive list. Only events that are highly publicised and believed to have a significant influence on the economy and the political environment are included.
2. Retail Sales Index: Retail trade sales at constant 2015 prices.
3. All economic data sourced from the South African Reserve Bank (SARB), excluding the consumer confidence Index and oil/fuel prices.
4. The consumer confidence index is sourced from the Bureau for Economic Research (BER) and First National Bank (FNB).
5. The oil price is sourced from the U.S. Energy Information Administration.
6. The 95 Unleaded inland fuel price is sourced from the South African Petroleum Industry Association.
7. GDP forecast for Q4 2020 and 2021 are according to the Bloomberg Consensus and BNP Paribus forecasts.
8. All consumer credit related measures are sourced from XDS.
9. The Leading Indicator was developed by the South African Reserve Bank and shows the expected business cycle movements in the SA economy. The indicator is based on building plans, job adverts, commodity prices, vehicle sales, manufacturing and money supply growth.

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