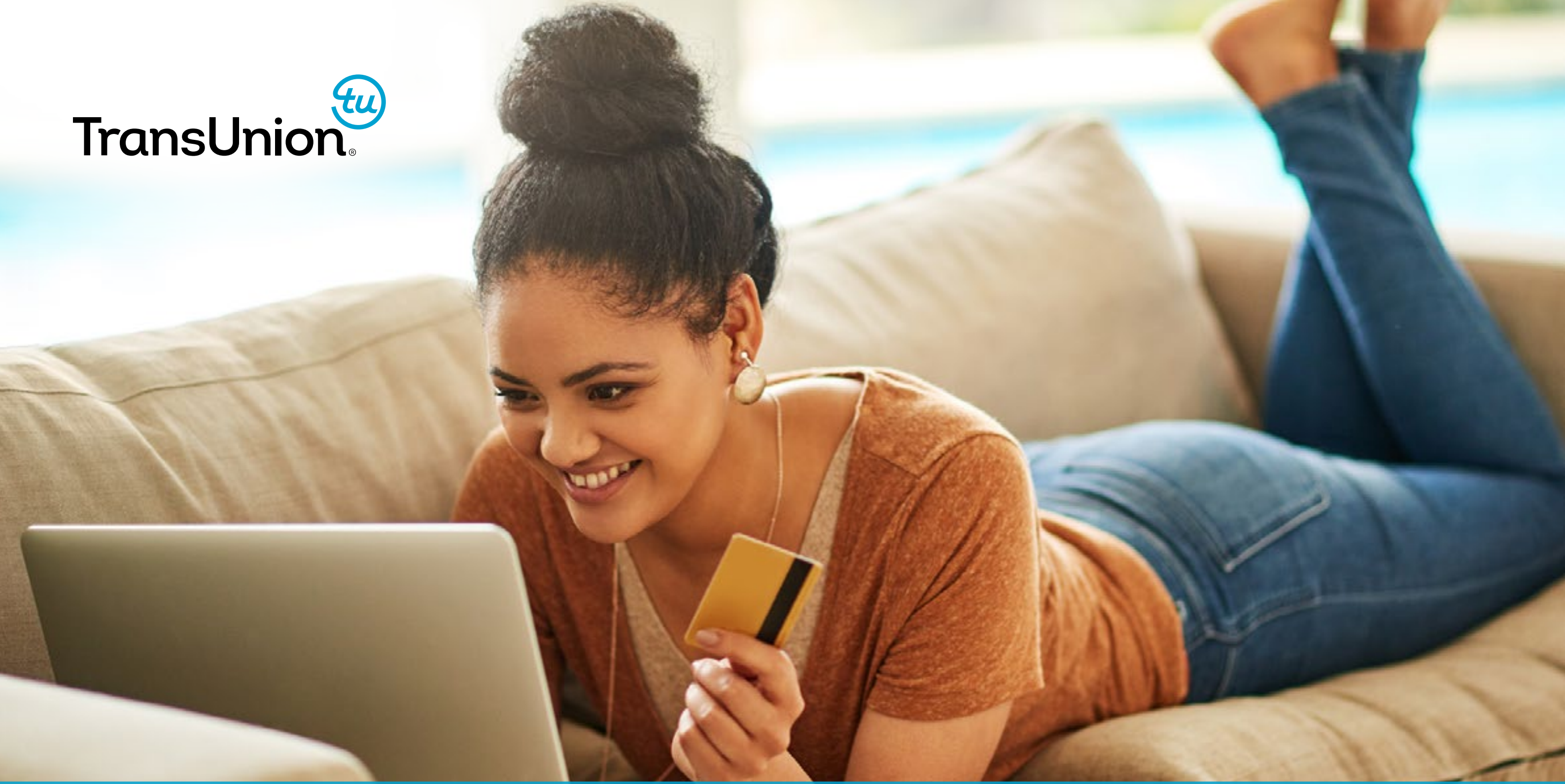


SA Consumer Credit Index | Q1 2019

Executive Summary

Credit index remains below **50** in Q1

Index: 50.0 = breakeven

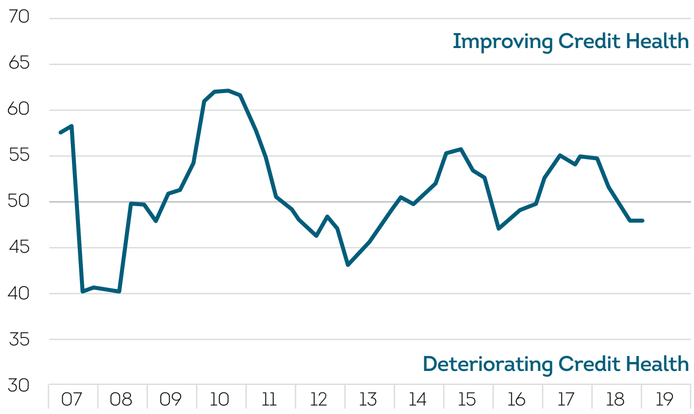
- **The TransUnion SA Consumer Credit Index (CCI) remained unchanged at 48 in Q1 2019*.** The index measures consumer credit health where 50.0 is the break-even level between improvement and deterioration.
- The index has now been below 50 for two straight quarters, having dropped substantially from 55 a year earlier in Q1 2018. This is corroborated by falling consumer confidence and weak retail sales growth**.
- Q4 2018 revision explained: CCI readings are subject to slight subsequent revisions due to underlying data finalisation. The Q4 2018 revision from 45 to 48 is somewhat larger than usual and is due to the excluding of an unreliable supplier of arrears data into the TransUnion data universe. This revision does not change the core CCI trend and defaults continued to worsen in Q1, but it does make the Q4 defaults interpretation less pessimistic.
- **Accounts in early default** (3 months in arrears) increased by 6% y/y in Q1. Loan defaults continue to weigh the overall index down, while household **distressed borrowing** (revolving credit utilisation) appears to be muted. Our distressed borrowing indicator fell 4% y/y, but this is largely on the back of rising credit limits, not slowing borrowing. Overall TransUnion consumer credit behaviour data shows rising consumer stress.
- **Household cash flow** was again virtually unchanged y/y in Q1 (-0.4%). While non-discretionary household inflation was soft in Q1, household income remained very weak (based on Stats SA & SARB data).
- Household **debt service costs** (South African Reserve Bank data) did not change materially during Q1.

*Q4 2018 revised from 45 to 48.

**Bureau of Economic Research & Stats SA.

Q1 2019 CCI: Key Facts and Figures

TransUnion SA Consumer Credit Index



TransUnion, ETM, Macrobond

No. of consumer accounts measured: **56 million**

No. of accounts three months in arrears: **925,000**

Value of revolving credit measured: **R158 billion**

Estimated Q1 2019 non-discretionary consumer price inflation (NDCPI): **+4.3% y/y (Q4: +5.6% y/y)**

Estimated Q1 2019 NDCPI-adjusted household disposable income growth: **+0.2% y/y (Q4: -2% y/y)**

Estimated aggregate, annual household disposable income: **R2.3 trillion (Q4: R2.3tr)**

Estimated national household bank debt as a percentage of disposable income: **72.7%**

Prime overdraft rate at end Q1 2019: **10.25%**

DATA WEIGHTING IN THE TRANSUNION CCI

TransUnion Defaults & Distressed Borrowing	Household Cashflow	Debt Servicing Costs
50%	**35%**	**15%**

Unpacking the 1st Quarter 2019 SA Consumer Credit Index

Household credit behaviour

1. Credit defaults

TransUnion data shows that consumer repayment worsened throughout 2018 and into the start of 2019. The number of accounts in early default (3 months in arrears) rose from around 840,000 in Q1 2018 to 925,000 in Q1 2019. Loan defaults continue to weigh the overall index down, but we should note that the proportion of new defaults was higher during the 2012-2016 period following a large unsecured lending cycle. Nonetheless, the rise in default rates reflect household financial strain, which is seen in weaker retail sales growth. According to Stats SA, real retail volumes on a seasonally adjusted basis have not grown since Q4 2017.

Electricity loadshedding in Q1 possibly detracted from retail sales, and therefore weaker sales may overstate household strain. However, loadshedding also hurt business trade and likely reduced job and wage security during the first quarter.

2. Distressed borrowing

Revolving credit (credit cards and store cards) used as a percentage of one's credit limit is a distressed borrowing indicator. According to TransUnion's revolving credit data, distressed borrowing fell slightly in Q1 and remains below 2015/16 highs. Declining distressed borrowing may reflect improved credit risk policies, better customer management and higher average credit quality. Revolving credit is only growing at around 5% y/y, barely keeping ahead of inflation.

Evidence to suggest credit quality is improving is that credit providers are increasing credit limits at a notably faster pace than consumers are using it. This may also reflect some pre-emptive market share plays by lenders sensing that the interest rate outlook is benign and that borrowers could be in better shape in the quarters ahead. One caution would be that card providers may be increasing credit limits to keep pace with instore product inflation, but this view seems to lack corroboration from broader inflation trends.

Household cash flow

Household cash flow was again virtually unchanged y/y in Q1 (-0.4%), continuing a fairly well-worn trend since 2015. Employment conditions remained very weak in Q1*. Weak employment conditions don't just affect hiring but wage increases as well. Evidently household incomes are roughly stagnating after adjusting for the cost of living. Loadshedding may also have played a role in depressing real income growth in Q1 by suppressing general trading conditions and corporate revenues - this would have affected overtime pay, bonuses and so on. Households now face the prospect of higher petrol prices again, and rising administered prices for basic utilities, and this is likely to keep delaying meaningful household cash flow improvements.

Household debt serviceability

Household debt service costs were roughly unchanged in Q1 2019. The Reserve Bank (SARB) left the repo rate at 6.75%. In January 2019, the SARB lowered its inflation forecasts and indicated a monetary policy stance less prone to hiking rates. Given the softer stance on rate hikes globally and very weak growth conditions domestically, there is very little expectation among investment professionals that the central bank will hike rates in 2019.

Further Insight: Election 2019

Good or Bad for Credit Health?

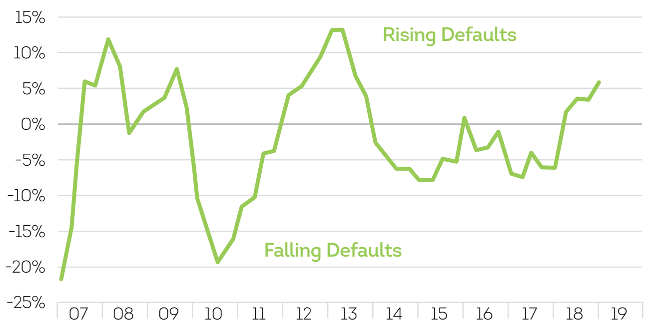
As we write this, indications are that the governing ANC will win the 2019 national election with around 57-58% of the vote. This was a widely expected result and the initial financial market reaction appears to have been rather benign. Of course, investors will now be awaiting presidential decisions around key cabinet posts and whether president Ramaphosa can deepen his promised reform agenda.

In the short term, this implies that the risk of rate hikes to indebted households remains relatively contained. This has a somewhat ambiguous impact on credit health. While it keeps repayment costs from escalating, it may encourage credit providers who were waiting to see how election risks unfolded to loosen credit provision in the months ahead.

Longer term, the election does not guarantee that policy certainty improves in South Africa. This would likely require a much broader reform consensus than the election results indicate actually exists. Such reform is also a lot deeper than electoral politics, requiring the forging of complex social and business coalitions. Economically speaking, therefore, this election itself does not signal a new macroeconomic trajectory for the country.

TransUnion: Accounts in Default

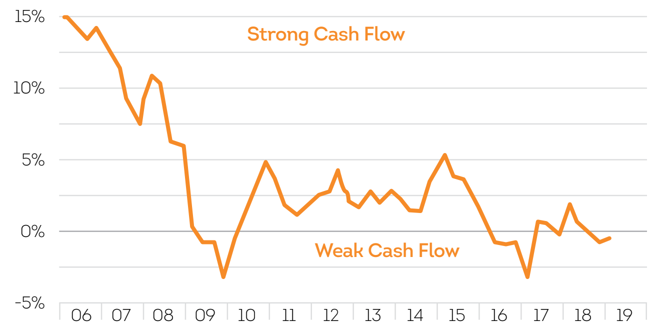
3m Arrear Acc/Total Accounts, y/y %chg



TransUnion, ETM, Macro Advisors, Macrobond

ETM: Household Cash Flow

NDCPI-adj. money supply & disposable income, avg y/y %chg



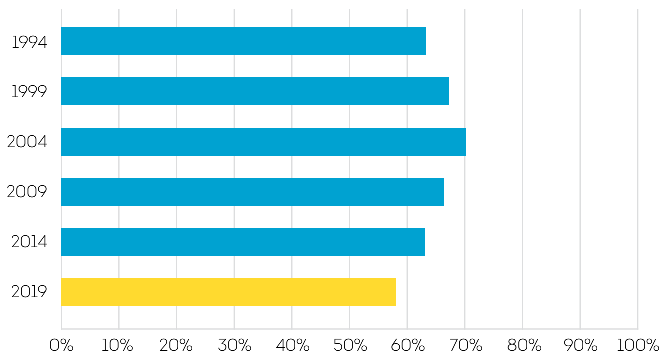
TransUnion, ETM, Macro Advisors, Macrobond

TransUnion: Revolving Credit Utilisation

Revolving credit current/opening balance, avg y/y %chg

TransUnion, ETM Macro Advisors, Macrobond

ANC National Election Vote Share (%), by year



ETM Macro Advisors, Macrobond

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* SACCI, Stats SA QLFS, BER surveys

The TransUnion SA Consumer Credit Index: Key Information

What is the Consumer Credit Index?

The TransUnion SA Consumer Credit index is an **indicator of consumer credit health** compiled by **TransUnion, a global leader in risk and information solutions** with technical support from **ETM Macro Advisors**, and released quarterly.

It measures the aggregate consumer loan repayment record, tracks the use of revolving consumer credit facilities as an indicator of distressed borrowing, estimates household cash flow as a means of determining financial pressure/relief, and quantifies the relative cost of servicing outstanding debt.

The indicator combines actual consumer borrowing and repayment behaviour with key macroeconomic variables impacting on household finances.

A 'diffusion' index

The index is designed to fluctuate within the set logical minimum and maximum of zero to 100, with 50.0 as the so-called 'breakeven' point. **Levels above 50.0** are associated with higher rates of loan repayment, lower credit card utilisation, improving household cash flow, lower interest rates, and credit deleveraging, and vice versa for **levels below 50.0**.

- 50-60/40-50: **moderate** improvement/deterioration.
- 60-70/30-40: **strong** improvement/deterioration.
- 70-90/10-30: **extreme/unusual** improvement/deterioration.
- 90-100/0-10: **highly improbable** improvement/deterioration.

The data

The Index has three main data components:

- **TransUnion Credit Bureau data***
- **Official public domain statistics**
- **Proprietary analytics of public domain statistics**

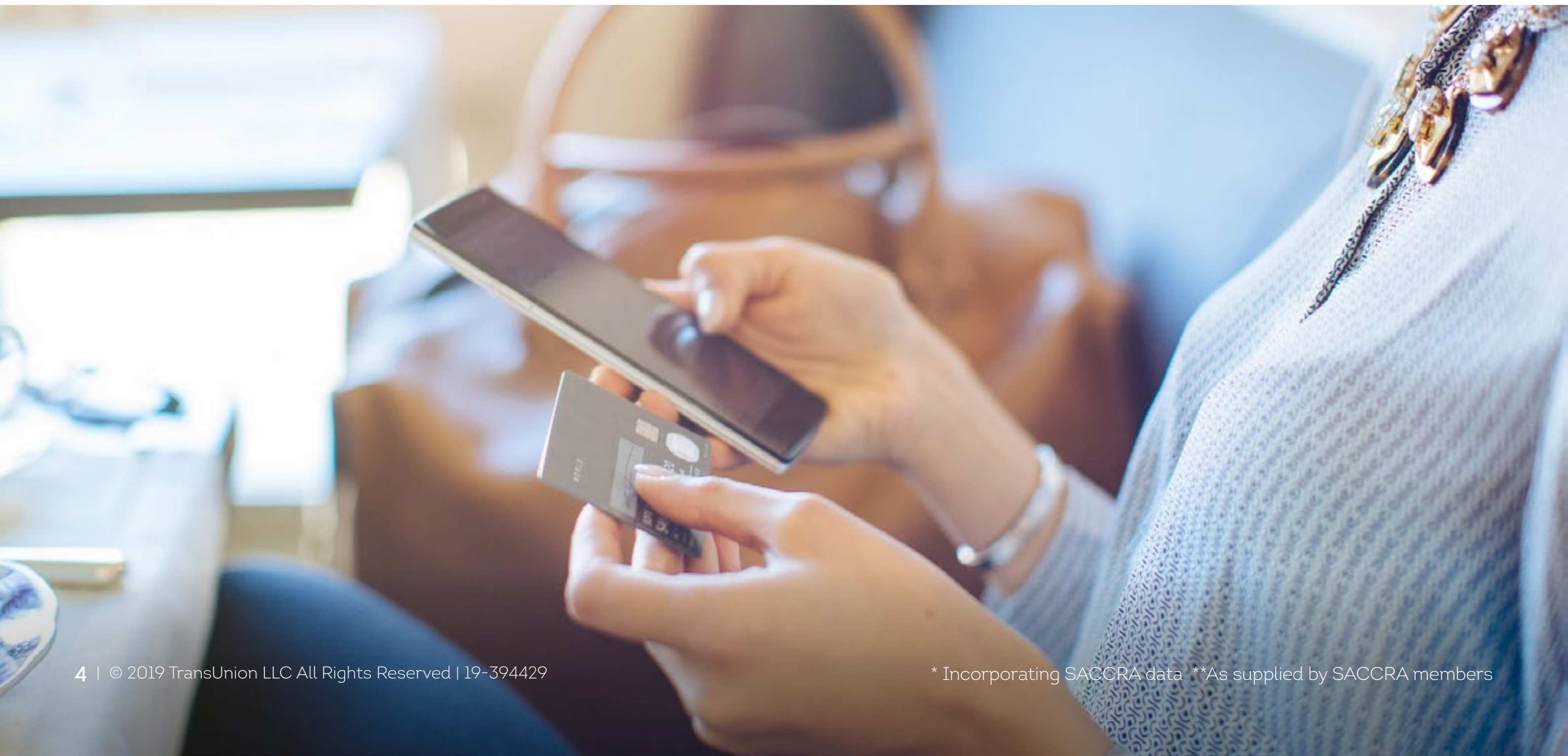
TRANSUNION CREDIT BUREAU
Consumer credit card utilisation**; number of consumer credit accounts in arrears (TransUnion).

OFFICIAL PUBLIC DOMAIN STATISTICS
Prime interest rate; household debt to disposable income ratio (SARB).

PROPRIETARY ANALYTICS OF PUBLIC DOMAIN STATISTICS
Non-discretionary CPI derived from the official Consumer Price Index, 'Alternative Money Supply' derived from official money supply and credit data (ETM Analytics; SARB, Stats SA).

Data weighting in the TransUnion CCI

TransUnion Data	50%
Proprietary Analytics	35%
Official Public Data	15%

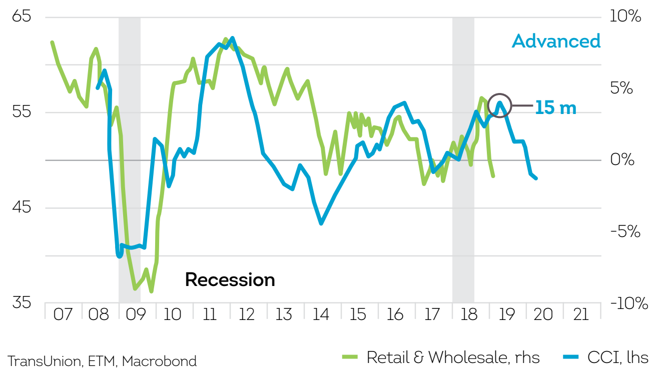


* Incorporating SACCRA data **As supplied by SACCRA members

Real world application

The index may be considered a credible indicator of macroeconomic events and growth cycles for sectors affected by consumer finances and credit behaviour. In the following chart, the TransUnion SA CCI is compared to year-on-year retail & wholesale sales growth, with a 15-month lag. The relationship suggests slower growth in retail & wholesale sales volumes over the coming 18 months.

The sub-components of the index provide valuable business insights in their own right, which can be used to evaluate consumer behaviour, financial distress, household cash flow, and household budget dynamics. **Contact TransUnion to gain access to more granular CCI insights.**



Consumer Credit Report

Information is a powerful thing. As a credit bureau we provide you with credit data which credit lenders use to evaluate your credit history when you apply for loans and credit. Your credit report gives you a view of all your debt and payments in the last 24 months.

To order your credit report: Call the TransUnion Interactive Call Centre at **0861 482 482** or visit us at **www.mytransunion.co.za**.

Monday–Friday, 07h30–18h00 Saturday, 09h00–13h00

CreditVision

A TransUnion analysis identified 3 million consumers who could not gain access to credit based on traditional scoring models. **What would an extra 3 million potential customers mean for your business?**

CreditVision not only allows you to say yes more, but now you can say yes more confidently. By using trended and alternative data in how you score a consumer, our analysis also showed we could improve risk predictability by 56%.

Find out how you can safely expand your borrower universe in a competitive market.

Visit us at **transunion.co.za/business**.

Contact Us

TransUnion SA Consumer Credit Index queries can be sent to:
Lizette Swart **SA_MkrtComms@transunion.com** or on: **+27 11 214 6000**.

You can view the index online at **transunion.co.za/lp/CCI**.

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