

Financial Report

For the quarter ended
31 December 2019

REAL PEOPLE®

**Real People
Investment Holdings Ltd**



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1.1 Group statement of financial position

	Group consolidated - Dec FY2020		
	Actual	Prior Year	Actual vs
	R'm	R'm	Prior Year(%)
Assets			
Loans and advances	956.6	867.2	10.3%
Acquired assets	630.4	600.0	5.1%
Right-of-use asset, equipment and intangible assets	37.8	16.6	> 100%
Investments	32.1	32.3	-0.5%
Other assets	19.5	22.1	-11.6%
Deferred tax assets	21.0	14.3	47.2%
Cash and cash equivalents	377.8	388.1	-2.6%
Total assets	2 075.3	1 940.6	6.9%
Equity and liabilities			
Share capital and share premium	1 308.9	1 308.9	0.0%
Accumulated loss	(845.6)	(897.2)	5.7%
Reserves	1.0	1.0	-0.6%
Equity	464.2	412.6	12.5%
Liabilities			
Borrowings	1 551.4	1 460.2	6.2%
Deferred and current tax liabilities	16.2	20.6	-21.4%
Other liabilities	43.5	47.1	-7.7%
Total liabilities	1 611.1	1 527.9	5.4%
Total equity and liabilities	2 075.3	1 940.5	6.9%
Quarter Average			
Average Productive Assets	1 564.2	1 475.6	6.0%
Average Total Assets	2 077.0	1 947.8	6.6%
Average Productive Assets/Average Total Assets (%)	75.3%	75.8%	-0.6%
YTD Average			
Average Productive Assets	1 527.8	1 482.7	3.0%
Average Total Assets	2 028.3	1 928.8	5.2%
Average Productive Assets/Average Total Assets (%)	75.3%	76.9%	-2.0%

Key take outs:

Assets:

- Loans and advances have increased year on year due to increased disbursements exceeding amortisation levels on the back of improved access to funding lines.
- Acquired assets carrying value has increased year on year as acquisitions exceeded the amortisation of older portfolios.

Equity:

- Equity levels are higher than the prior period as a result of year on year profitability.

Liabilities:

- Higher long term liabilities when compared to prior year is a result of new funding raised in the DMC Evolution and Umuzi SPVs. The recognition of a lease liability in terms of the new Leases statement, IFRS 16, has also contributed to the higher balance relative to the prior year.

	Dec FY2020		Dec FY2019	
	Analysis of Share capital	Attribution of current equity to instruments	Analysis of Share Capital	Attribution of current equity to instruments
	R'm	R'm	R'm	R'm
E PIK Note	493.3	382.7	493.3	340.2
D PIK Note	96.6	30.5	96.6	27.2
C Preference Shares	128.5	21.1	128.5	18.8
B Preference Shares	155.9	8.2	155.9	7.3
A Ordinary Shares	-	17.7	-	15.7
Ordinary Shares	434.5	3.9	434.5	3.5
	1 308.9	464.2	1 308.9	412.6

1.2 Group statement of comprehensive income

Quarter - Dec FY2020				
Actual	ROPA	Prior Year	ROPA	Actual vs
R'm	%	R'm	%	Prior Year(%)
184.4	46.8%	168.7	45.4%	9.3%
(39.2)	-9.9%	(30.1)	-8.1%	-30.4%
6.3	1.6%	6.6	1.8%	-4.8%
14.9	3.8%	13.8	3.7%	7.7%
166.3	42.2%	159.0	42.8%	4.6%
(49.8)	-12.6%	(49.6)	-13.3%	-0.5%
116.4	29.5%	109.4	29.4%	6.4%
8.6	2.2%	9.2	2.5%	-6.4%
13.5	3.4%	14.6	3.9%	-7.9%
3.3	0.8%	4.5	1.2%	-27.0%
141.8	36.0%	137.8	37.1%	2.9%
(128.8)	-32.7%	(131.2)	-35.3%	1.8%
(120.6)	-30.6%	(121.9)	-32.8%	1.1%
(8.1)	-2.1%	(9.2)	-2.5%	12.3%
0.1	0.0%	(0.2)	-0.1%	> -100%
-	0.0%	14.3	3.9%	-100.0%
-	0.0%	-	0.0%	0.0%
13.2	3.3%	20.8	5.6%	-36.6%
(6.8)	-1.7%	(3.7)	-1.0%	-85.6%
2.6	0.7%	0.5	0.1%	> 100%
9.0	2.3%	17.6	4.7%	-48.7%
0.3	0.1%	(1.1)	-0.3%	> -100%
9.3	2.4%	16.5	4.4%	-43.5%

1 564.2	1 475.6
459.5	404.7
3.4	3.6
11.4%	20.4%
7.8%	17.3%
31.5%	15.3%

-0.6%
Gross yield from assets
Impairment provision
Interest income non debtors
Net assurance income - credit life
Net yield
Finance costs
Net margin
Net assurance income - funeral benefits
Outsourced collection income
Sundry income
Operating income
Total costs
Operating expenditure
Direct costs reallocated from yield
Hedging gain/(loss)
STI provision
Collections performance reserve
Profit before tax
Current tax expense
Deferred tax
Profit after tax
Other comprehensive (loss) / income:
Movement in cash flow hedge reserve
Total comprehensive income for the period

Average productive assets	1 527.8	1 482.7
Average Equity	443.6	381.2
Equity Multiplier	3.4	3.9
Pre-tax return on equity	14.1%	18.0%
Return on Equity	12.2%	18.9%
Effective tax rate	13.4%	-4.9%

YTD- Dec FY2020				
Actual	ROPA	Prior Year	ROPA	Actual vs
R'm	%	R'm	%	Prior Year(%)
536.0	46.6%	514.5	46.1%	4.2%
(105.6)	-9.2%	(82.5)	-7.4%	-28.0%
21.6	1.9%	20.1	1.8%	7.5%
43.2	3.7%	41.7	3.7%	3.4%
495.2	43.0%	493.9	44.2%	0.3%
(151.5)	-13.2%	(151.1)	-13.5%	-0.3%
343.7	29.9%	342.8	30.7%	0.3%
25.0	2.2%	25.9	2.3%	-3.5%
42.3	3.7%	37.5	3.4%	13.0%
11.2	1.0%	13.4	1.2%	-16.4%
422.2	36.7%	419.6	37.6%	0.6%
(375.1)	-32.6%	(371.9)	-33.3%	-0.9%
(351.2)	-30.5%	(346.7)	-31.0%	-1.3%
(23.9)	-2.1%	(25.2)	-2.3%	5.4%
0.1	0.0%	(1.2)	-0.1%	> -100%
-	0.0%	5.2	0.5%	-100.0%
-	0.0%	-	0.0%	0.0%
47.2	4.1%	51.7	4.6%	-8.6%
(13.4)	-1.2%	(10.8)	-1.0%	-23.1%
7.0	0.6%	13.4	1.2%	-47.4%
40.9	3.6%	54.2	4.9%	-24.5%
0.4	0.0%	7.6	0.7%	-94.3%
41.3	3.6%	61.7	5.5%	-33.0%

Gross yield:

Overall, Gross yield is higher than the prior year.

- Gross yield in Home Finance is higher than the prior year due to book growth. Disbursement levels are running at 26% ahead of prior year levels.
- Gross yield has improved in DMC on account of acquisitions growth in the current year.

Impairment Provision and asset valuations:

The impairment charge is higher than in previous year due to:

- Higher disbursement volumes and growth in the performing loans book has resulted in a higher impairment charge as future losses are recognised on an expected loss model.
- In addition the impairment model is sensitive to monthly collections performance. September 2019 and October 2019 were challenging months with collections below targeted levels.

The acquired book valuation methodology is being refined to more accurately predict the performance of older, revalued portfolios. Portfolios acquired during the last 3 years are outperforming valuations. A once-off revaluation adjustment may be implemented during Q4 to eliminate the valuation under-performance on the older portfolios.

Finance costs:

Finance costs for the group are in line with the prior year but these are higher in the Home Finance SPV, Umuzi, due to additional funding raised to fund book growth and lower in DMC as a result of a lower average debt holding in the current year following debt repayments to Group Treasury.

Operating expenditure:

Operating expenditure has been contained to lower than inflation levels as management is actively containing costs.

1.3 Contribution to earnings

Quarter - Dec FY2020				
Actual	ROPA %	Prior Year	ROPA %	Actual vs Prior Year(%)
R'm		R'm		
11.4	2.9%	9.4	2.5%	21%
2.1	0.5%	4.3	1.1%	-50%
6.5	1.6%	12.4	3.3%	-48%
20.1	5.1%	26.1	7.0%	-23%
(6.9)	-1.7%	(5.3)	-1.4%	-29%
13.2	3.3%	20.8	5.6%	-37%

Home Finance
 Assurance
 DMC

 Group Central Services
Profit before tax

YTD- Dec FY2020				
Actual	ROPA %	Prior Year	ROPA %	Actual vs Prior Year(%)
R'm		R'm		
34.3	3.0%	38.4	3.4%	-10.4%
5.8	0.5%	8.4	0.7%	-30.3%
29.4	2.6%	26.7	2.4%	10.1%
69.6	6.0%	73.4	6.6%	-5.3%
(22.3)	-1.9%	(21.8)	-1.9%	-2.6%
47.2	4.1%	51.7	4.6%	-8.6%

Key take outs:

Home Finance: Profit before tax is down year on year despite higher growth in new business volumes with increased performing loan gross yield. Drivers of this outcome include upfront ECL impairment charges under IFRS9. Other underlying drivers of the decline in year on year results are declining net yield in the NPL book which is ageing while the overall book has improved as well as increased finance costs arising from some pre-funding causing negative carry in the net margin. The prior year includes a bonus provision release which also explains the decline in PBT during the current year.

Assurance: Profit before tax has underperformed versus the prior year, due to suppressed retention rates and average premium not growing at the required rate. Lower premium policies continue to replace older higher premium policies.

DMC: Profit before tax for the year to date has outperformed the prior year. The higher purchases during the first half of the year have had a positive impact on the gross yield. Repayments of internal debt earlier than expected have resulted in lower finance costs for the division. Operating expenditure is tracking in line with the prior year. Back testing is in progress on the valuation methodology for the acquired books.

Group Central Services: Overall the loss before tax is higher than the prior year. The prior year included a bonus provision reversal. Excluding the reversal, operating expenditure has reduced year on year as a result of savings in legal, consulting and audit fees and management actively manages costs.

2. 12 month rolling compliance ratios

Group Capital Adequacy Ratio

	Minimum per Covenant	Actual Dec FY2020 R'm	Actual Dec FY2019 R'm
Permanent Capital / Total adjusted assets	20.0%	33.9%	34.5%
Equity per statement of financial position		464.2	412.6
Cash flow hedge add back		8.2	8.2
Qualifying equity		472.4	420.8
Assurance equity		(35.2)	(22.1)
SPV equity		118.2	115.2
Intangible and deferred tax assets to be funded with equity		(0.5)	(2.0)
SPV junior loans		(323.5)	(246.4)
Permanent Capital (on balance sheet equity)		231.4	265.5
Assets per statement of financial position		2 075.3	1 940.6
Cash and Cash equivalents (on balance sheet)		(82.6)	(128.1)
Intangible and deferred tax assets to be funded with equity		(0.5)	(2.0)
Assurance Assets		(42.0)	(31.5)
SPV assets		(1 268.5)	(1 009.5)
Total adjusted assets (on balance sheet assets)		681.6	769.5

Cost to Income Ratio***

	Maximum per Covenant	Actual Dec FY2020	Actual Dec FY2019
Operating Expenses		469.2	451.2
Operating Income		725.1	714.0
Cost to income ratio	68%	64.7%	63.2%

Debt Service Cover Ratio

	Minimum per Covenant	Actual Dec FY2020	Actual Dec FY2019
Free Cash Flow		208.5	265.4
Debt Service		190.4	137.5
Debt Service Coverage Ratio (times)	1.05	1.09	1.93

*** For purposes of this report the cost to income ratio is calculated using the applicable IFRS 9 methodology as opposed to the management account view which does not.

3. Glossary

Ratio	Definition
Permanent capital / Total adjusted assets (reported quarterly)	<p>Group equity reduced by:</p> <ul style="list-style-type: none"> -The cash flow hedge -Equity in SPVs and regulated Assurance Company -Junior equity instruments in SPVs -Deferred taxation & Intangible assets on balance sheet <p>Total assets reduced by:</p> <ul style="list-style-type: none"> -Assets in SPVs and regulated Assurance Company - Cash and cash equivalents on balance sheet -Deferred taxation & Intangible assets on balance sheet
Gross yield on productive assets	Annualised Net yield / Simple average Loans and advances and Acquired assets
Net yield on productive assets	Annualised Net yield / Simple average Loans and advances and Acquired assets
Net yield on total assets	Annualised net yield / Simple average total assets
Return on total assets	Annualised profit or loss after tax / Simple average total assets
Return on productive assets (ROPA %)	Annualised profit or loss after tax/ Simple average Loans and advances and Acquired assets
Outsourced contributions on productive assets	Annualised outsourced contributions / Simple average productive assets
Cost of funds	Annualised Finance costs / Simple average Long term interest bearing borrowings
Debt service cover (reported quarterly)	Free cash flow/Debt service
Cost to income (reported quarterly)	Operating expenses / Net yield (adjusted by direct costs reallocated from yield), Net assurance income - funeral benefits, Outsourced collection income and Sundry income
Equity multiplier	Average productive assets or Average total assets/Average equity
Pre-tax return on equity	Equity multiplier x Pre-tax return as a % of productive assets
Return on equity	Equity multiplier x Return as a % of productive assets

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