Financial Report

For the half-year
ended 30 September 2020

REAL PEOPLE®

Real People Investment Holdings Ltd

Contents

Group statement of financial position

	Group consolidated - Sep FY2021		
	Actual R'm	Prior Year R'm	Actual vs Prior Year(%)
Assets			
Home Finance	***582.8***	***846.8***	***-31.2%***
Gross performing Loans	535.5	777.5	-31.1%
Performing loans Impairments	(130.8)	(105.5)	-24.0%
Net performing loans	**404.7**	**672.0**	**-39.8%**
Net non-performing loans	**178.1**	**174.8**	**1.8%**
DMC	***491.8***	***694.5***	***-29.2%***
Discontinued receivables	39.3	77.0	-48.9%
Acquired assets	452.4	617.5	-26.7%
Right-of-use asset, equipment and intangible assets	21.2	33.2	-36.0%
Investments	14.5	32.0	-54.7%
Other assets	29.0	21.3	36.1%
Deferred tax assets	0.0	18.7	-100.0%
Cash and cash equivalents	380.9	432.1	-11.8%
Total assets	**1 520.2**	**2 078.6**	**-26.9%**
Equity and liabilities			
Share capital and share premium	1 308.9	1 308.9	0.0%
Accumulated loss	(1 134.1)	(854.6)	-32.7%
Reserves	1.8	0.6	> 100%
Equity	**176.6**	**454.9**	**-61.2%**
Liabilities			
Borrowings	1 273.6	1 565.2	-18.6%
Deferred and current tax liabilities	4.7	10.1	-53.6%
Other liabilities	65.4	48.5	34.8%
Total liabilities	**1 343.6**	**1 623.7**	**-17.3%**
Total equity and liabilities	**1 520.2**	**2 078.6**	**-26.9%**
YoY Average			
Average Productive Assets	1 307.9	1 512.6	-13.5%
Average Total Assets	1 799.4	2 016.8	-10.8%
Average Productive Assets/Average Total Assets (%)	72.7%	75.0%	-3.1%

Key take outs:

Assets:

- The opening balances for Home Finance loans and advances, DMC acquired assets and discontinued receivables, equity investments and deferred tax asset balances were impaired for the impact of Covid-19.
- Home Finance loans and advances continue to decrease month on month following no production in April and limited production in May through to September 2020.
- DMC's assets continue to amortise and portfolio purchases have declined by 46% YoY during the lockdown, from R97m to R52m in purchases on a YTD basis compared to prior year.
- The group has not recognised any deferred tax assets arising from tax losses or temporary differences.

Equity:

- Equity levels are lower than the prior year following significant Covid-19 related impairments at 31 March 2020.

Liabilities:

- Borrowings are lower year on year following loan repayments. No new funding has been raised. Fund raising was deliberately put on hold during finalisation of the post C-19 restructure plan.

	Sept FY2021		Sept FY2020	
	Analysis of Share capital R'm	Attribution of current equity to instruments R'm	Analysis of Share Capital R'm	Attribution of current equity to instruments R'm
E PIK Note	493.3	145.6	493.3	375.0
D PIK Note	96.6	11.6	96.6	29.9
C Preference Shares	128.5	8.0	128.5	20.7
B Preference Shares	155.9	3.1	155.9	8.0
A Ordinary Shares	-	6.7	-	17.3
Ordinary Shares	434.5	1.5	434.5	3.9
	1 308.9	176.6	1 308.9	454.9

Group statement of comprehensive income

Quarter - Sep FY2021						YTD - Sep FY2021				
Actual R'm	ROPA %	Prior Year R'm	ROPA %	Actual vs Prior Year(%)		Actual R'm	ROPA %	Prior Year R'm	ROPA %	Actual vs Prior Year(%)
35.3	10.7%	42.3	11.1%	-16.4%	Home Finance net yield - PL	40.8	6.2%	84.2	11.1%	-51.6%
54.8	16.6%	76.9	20.2%	-28.8%	Gross yield - PL	124.5	19.0%	148.9	19.6%	-16.4%
(19.5)	-5.9%	(34.7)	-9.1%	43.9%	Impairment provision	(83.7)	-12.8%	(64.7)	-8.5%	-29.5%
24.5	7.4%	20.6	5.4%	19.4%	Home Finance yield - NPL	32.6	5.0%	40.4	5.3%	-19.3%
(0.3)	-0.1%	-	0.0%	-100.0%	Home Finance - movement in FLI	25.4	3.9%	-	0.0%	100.0%
62.6	19.0%	84.7	22.2%	-26.1%	DMC net yield from assets	127.5	19.5%	160.6	21.2%	-20.6%
4.0	1.2%	8.0	2.1%	-50.2%	Interest income non debtors	8.9	1.4%	15.3	2.0%	-41.9%
12.7	3.9%	14.3	3.7%	-11.0%	Net assurance income - credit life	27.7	4.2%	28.3	3.7%	-2.0%
138.8	**42.1%**	**169.7**	**44.5%**	**-18.2%**	**Net yield**	**262.9**	**40.1%**	**328.9**	**43.4%**	**-20.1%**
(34.6)	-10.5%	(51.4)	-13.5%	32.6%	Finance costs	(77.8)	-11.9%	(101.7)	-13.4%	23.5%
104.2	**31.6%**	**118.3**	**31.0%**	**-11.9%**	**Net margin**	**185.1**	**28.2%**	**227.2**	**30.0%**	**-18.5%**
6.4	1.9%	8.2	2.1%	-22.1%	Net assurance income - funeral benefits	14.2	2.2%	16.4	2.2%	-13.0%
12.1	3.7%	14.6	3.8%	-17.2%	Outsourced collection income	22.6	3.4%	28.9	3.8%	-21.7%
10.9	3.3%	3.6	0.9%	> 100%	Sundry income	12.2	1.9%	7.9	1.0%	53.5%
133.5	**40.5%**	**144.7**	**38.0%**	**-7.7%**	**Operating income**	**234.1**	**35.7%**	**280.4**	**37.0%**	**-16.5%**
(130.1)	**-39.5%**	**(126.5)**	**-33.2%**	**-2.8%**	**Total costs**	**(221.5)**	**-33.8%**	**(246.3)**	**-32.5%**	**10.1%**
(129.3)	-39.2%	(117.9)	-30.9%	-9.7%	Operating expenditure	(220.5)	-33.6%	(230.6)	-30.4%	4.4%
(0.8)	-0.2%	(8.7)	-2.3%	90.7%	Direct costs reallocated from yield	(1.0)	-0.1%	(15.8)	-2.1%	93.8%
0.6	0.2%	(0.0)	0.0%	> -100%	Hedging gain/(loss)	0.9	0.1%	0.0	0.0%	> 100%
4.0	**1.2%**	**18.2**	**4.8%**	**-78.0%**	**Profit (loss) before tax**	**13.5**	**2.1%**	**34.0**	**4.5%**	**-60.2%**
(0.4)	-0.1%	(3.9)	-1.0%	90.0%	Current tax expense	(4.4)	-0.7%	(6.6)	-0.9%	33.4%
-	0.0%	2.8	0.7%	-100.0%	Deferred tax	-	0.0%	4.4	0.6%	-100.0%
3.6	**1.1%**	**17.1**	**4.5%**	**-78.8%**	**Profit (loss) after tax**	**9.2**	**1.4%**	**31.9**	**4.2%**	**-71.3%**
					Other comprehensive (loss) / income:					
(0.3)	-0.1%	0.8	0.2%	> -100%	Movement in cash flow hedge reserve	(0.6)	-0.1%	0.1	0.0%	> -100%
3.3	**1.0%**	**17.9**	**4.7%**	**-81.6%**	**Total comprehensive (loss) / income for the period**	**8.5**	**1.3%**	**32.0**	**4.2%**	**-73.4%**
1 307.9		**1 512.6**			**Average productive assets**	**1 307.9**		**1 512.6**		
315.7		**425.8**			**Average Equity**	**315.7**		**425.8**		
4.1		**3.6**			**Equity Multiplier**	**4.1**		**3.6**		
5.0%		**17.0%**			**Pre-tax return on equity**	**8.5%**		**15.9%**		
4.6%		**15.9%**			**Return on Equity**	**5.8%**		**14.9%**		
9.6%		**5.9%**			**Effective tax rate**	**32.4%**		**6.4%**		

Key take outs:

- In Home Finance, gross yields are down year on year due to book amortisation. The unwind of the Home Finance Cov19 forward looking indicator (FLI) overlay is shown separately in the accounts in order to show normal provision model movements separately from the Cov19 provision model movements. YTD R4.6m of outperformance has been held back in the provision on the grounds that it is too soon to confirm the outcome of Covid-19 in the portfolio.
- In DMC, yields have outperformed relative to collections expectations derived from the Group's Job Loss Index. In September R6.9m was transferred to the provision. YTD total outperformance in provision, not released to net yield, is R19.3m.
- Net assurance income – death claims have risen year on year but not at levels causing significant concern. Reduced sales related costs largely offset the decline in net insurance margin.
- Outsourced collections volumes are lower compared to prior year, due to lockdown collections constraints in Q1.
- Operating expenditure continues to be managed down with payroll cuts and general cost containment.

Quality of Earnings by Segment

Quarter - Sep FY2021						YTD - Sep FY2021				
Actual R'm	ROPA %	Prior Year R'm	ROPA %	Actual vs Prior Year(%)		Actual R'm	ROPA %	Prior Year R'm	ROPA %	Actual vs Prior Year(%)
22.9	6.9%	10.9	2.8%	> 100%	Home Finance	23.9	3.6%	22.9	3.0%	4.5%
1.5	0.5%	1.3	0.4%	12%	Assurance	5.4	0.8%	3.7	0.5%	46.5%
11.6	3.5%	13.4	3.5%	-13%	DMC	22.4	3.4%	22.9	3.0%	-2.0%
36.0	**10.9%**	**25.6**	**6.7%**	**41%**		**51.8**	**7.9%**	**49.5**	**6.5%**	**4.6%**
(32.0)	-9.7%	(7.4)	-1.9%	> -100%	Group Central Services	(38.3)	-5.8%	(15.3)	-2.0%	> -100%
4.0	**1.2%**	**18.2**	**4.8%**	**-78%**	**Profit (loss) before tax**	**13.5**	**2.1%**	**34.2**	**4.5%**	**-60.4%**

Key take outs:

- **Home Finance:** YTD there is a significant reduction in net yield on account of book amortisation with limited new volume in the merchant channel during lockdown. This was offset by significant reduction in finance costs due to debt amortisation as well as lower operating expenditure, during the operating model restructure. The net result is PBT slightly ahead of prior year. Collections performance has exceeded expectations in the Group’s Covid-19 impairment model. This positive variance is held in a provision until the annual provision re-calibration is complete and amounts to R4.6m on a YTD basis. Employment numbers released by Stats SA support the view that the impairments are likely, although the exact timing is uncertain.

- **Assurance:** Underwriting margin for the year to date has declined relative to prior year due to origination constraints in the call centres during lockdown and increased death claims, albeit not at concerning levels under the circumstances. The improved performance relative to the prior year is a result of a significant decrease in operating expenditure attributable to lower payroll costs, less commissions being paid while one of the call centres was closed during lockdown and the impact of the Cell implementation costs in the prior year.

- **DMC:** A year on year drop in revenue follows the lower asset base in Acquired and lower Outsourced collections due to Cov-19 related collections shortfalls. Reduced revenues have been partially offset by lower operating costs as a result of lower variable costs, as well as reduced payroll. Finance costs are lower year on year due to amortising debt and limited fund raising. The result includes the effect of a R10.5m profit on the sale of Property, without which YTD PBT would be R11.9m.

- **GCS**: Restructure costs have been incurred centrally in GCS, with GCS delivering an improved cost run rate year on year after excluding these once off costs. The restructure costs have been incurred to implement the retrenchments required for the new operating model and other costs related to the Group’s Covid-19 re-organisaiton.

12 month rolling compliance ratios

Group Capital Adequacy Ratio

	Minimum per Covenant	Actual Sep FY2021 R'm	Actual Sep FY2020 R'm
Permanent Capital / Total adjusted assets	**20.0%**	**32.8%**	**30.8%**
Equity per statement of financial position		176.6	454.9
Cash flow hedge add back		6.1	8.5
Qualifying equity		182.7	463.4
Assurance equity		(42.0)	(27.3)
SPV equity		260.6	116.5
Intangible and deferred tax assets to be funded with equity		-	(0.9)
SPV junior loans		(253.4)	(327.5)
Permanent Capital (on balance sheet equity)		**147.8**	**224.3**
Assets per statement of financial position		1 520.2	2 078.6
Cash and Cash equivalents (on balance sheet)		(131.1)	(58.3)
Intangible and deferred tax assets to be funded with equity		(0.1)	(0.9)
Assurance Assets		(42.0)	(33.7)
SPV assets		(999.8)	(1 256.5)
SPV junior loans at fair value		103.4	-
Total adjusted assets (on balance sheet assets)		**450.6**	**729.3**

Cost to Income Ratio***

	Maximum per Covenant	Actual Sep FY2021	Actual Sep FY2020
Operating Expenses		469.5	453.4
Operating Income		678.0	717.1
Cost to income ratio	**70%**	**69.3%**	**63.2%**

Debt Service Cover Ratio

	Minimum per Covenant	Actual Sep FY2021	Actual Sep FY2020
Free Cash Flow		206.2	236.5
Debt Service		199.2	183.8
Debt Service Coverage Ratio (times)	**1.05**	**1.03**	**1.29**

A covenant waiver is in place.

**** 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.*

8. Glossary

Ratio	Definition
Permanent capital / Total adjusted assets (reported quarterly)	**Group equity reduced by:** -The cash flow hedge -Equity in SPVs and regulated Assurance Company -Impairments in jiunior equity instruments in SPVs -Deferred taxation & Intangible assets on balance sheet **Total assets reduced by:** -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 gross 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 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

We are Real People, for real people

Real People Investment Holdings Ltd
1999\020093\06

Website: www.realpeoplegroup.co.za
Contact details:+27(0)10 245 8000/1
Registered office: 160 Jan Smuts Ave
North Tower, Upper Group
Rosebank, Johannesburg