REAL PEOPLE™

# Real People Investment Holdings Limited

## Unaudited condensed group financial statements

For the quarter ended 31 December 2017

# Real People Investment Holdings Limited and subsidiaries

Unaudited condensed group financial statements for the quarter ended 31 December 2017

## Condensed group statement of financial position

| R'000 | Notes | 31-Dec-17 | 31-Mar-17 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | | 16,682 | 28,275 |
| Intangible assets | | 6,238 | 11,621 |
| Deferred tax | | 4,257 | 3,211 |
| Net advances | 8 | 1,543,160 | 2,201,428 |
| Investment in associate and joint venture | | 23,767 | 19,281 |
| Other assets | | 51,101 | 112,762 |
| Derivative assets | | 1,409 | 15,082 |
| Cash and cash equivalents | | 288,984 | 462,138 |
| **Assets of continuing operations** | | **1,935,597** | **2,853,798** |
| Assets of disposal group | 5 | 167,761 | - |
| **Total assets** | | **2,103,358** | **2,853,798** |
| **Equity** | | | |
| Share capital | 2 | 1,308,858 | 556,324 |
| Reserves | | (13,915) | (7,888) |
| Accumulated loss | | (930,926) | (657,273) |
| **Total equity** | | **364,017** | **(108,837)** |
| **Liabilities** | | | |
| Borrowings | | 1,460,847 | 2,791,724 |
| Deferred tax | | 22,962 | 30,962 |
| Other liabilities | | 95,205 | 139,949 |
| **Liabilities of continuing operations** | | **1,579,014** | **2,962,635** |
| Liabilities of disposal group | 5 | 160,327 | - |
| **Total liabilities** | | **1,739,341** | **2,962,635** |
| **Total equity and liabilities** | | **2,103,358** | **2,853,798** |

# Real People Investment Holdings Limited and subsidiaries

Unaudited condensed group financial statements for the quarter ended 31 December 2017

## Condensed group statement of financial performance

| R'000 | Notes | Three months ended 31-Dec-17 | Three months ended 31-Dec-16 | Nine months ended 31-Dec-17 | Nine months ended 31-Dec-16 |
|---|---|---|---|---|---|
| *Continuing operations* | | | | | |
| **Revenue** | 9 | **200,873** | **177,021** | **636,853** | **837,592** |
| | | | | | |
| **Gross yield from assets** | | **181,447** | **156,869** | **575,929** | **628,806** |
| Impairments | | (22,830) | 8,363 | (66,825) | (49,070) |
| **Net yield** | | **158,617** | **165,232** | **509,104** | **579,735** |
| Finance costs | | (59,793) | (94,095) | (176,811) | (285,181) |
| **Net margin** | | **98,823** | **71,137** | **332,292** | **294,554** |
| Net assurance income - funeral benefits | | 7,922 | 9,105 | 22,347 | 26,774 |
| Outsourced collection income | | 11,504 | 11,047 | 34,391 | 30,043 |
| Gain on derecognition of financial liability | | - | - | 50,332 | - |
| Gain on purchase of financial liabilities | | - | 49,619 | - | 49,619 |
| Other income | | 2,746 | 206 | 6,770 | 5,350 |
| **Net operating income** | | **120,995** | **141,114** | **446,132** | **406,340** |
| Operating expenses | | (144,419) | (139,677) | (357,643) | (420,570) |
| **Profit/(loss) before taxation** | | **(23,424)** | **1,437** | **88,488** | **(14,229)** |
| Taxation | | 755 | (8,273) | (16,247) | (15,439) |
| **Profit/(loss) from continuing operations** | | **(22,669)** | **(6,836)** | **72,241** | **(29,668)** |
| *Disposal group* | | | | | |
| Loss from operations classified as a disposal group | 5 | (2,284) | (26,153) | (32,568) | (53,801) |
| **Profit/(loss) for the period** | | **(24,953)** | **(32,989)** | **39,673** | **(83,469)** |
| | | | | | |
| *Profit/(loss) attributable to:* | | | | | |
| *Owners of the parent* | | | | | |
| Continuing operations | | (22,669) | (6,836) | 72,241 | (29,668) |
| Disposal group | | (2,284) | (26,153) | (32,568) | (53,801) |
| **Profit/(loss) for the period** | | **(24,953)** | **(32,989)** | **39,673** | **(83,469)** |

The group has elected to not restate comparative numbers on the adoption of IFRS 9 in the current year (refer to note 3). The numbers disclosed in the Consolidated Statement of Profit or Loss for the 2017 financial year above are therfore not comparable with the current year.

## Real People Investment Holdings Limited and subsidiaries

Unaudited condensed group financial statements for the quarter ended 31 December 2017

# Condensed group statement of comprehensive income

| R'000 | Nine months ended 31-Dec-17 | 31-Dec-16 |
|---|---|---|
| **Profit/(loss) for the period** | **39,673** | **(83,469)** |
| *Other comprehensive income/(loss):* | | |
| Cash flow hedges: | | |
| Effects of cash flow hedges | (4,493) | 16,825 |
| Tax | - | (4,711) |
| Exchange differences on translating foreign operations | (1,534) | (21,708) |
| Total other comprehensive loss | (6,027) | (9,594) |
| **Total comprehensive income (loss) for the period** | **33,646** | **(93,063)** |

# Condensed group statement of changes in equity

| R'000 | Share capital and share premium | Foreign currency translation reserve | Cash flow hedging reserve | Retained Income | Total attributable to equity holders of the parent | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| ***For the nine months ended 31 December 2017*** | | | | | | | |
| Opening balance | 556,324 | (7,888) | - | (657,273) | (108,837) | - | (108,837) |
| Profit for the period | - | - | - | 39,673 | 39,673 | - | 39,673 |
| Other comprehensive loss | - | (1,534) | (4,493) | - | (6,027) | - | (6,027) |
| Effect on retained earnings as a result of early adoption of IFRS 9 | - | - | - | (313,326) | (313,326) | - | (313,326) |
| Conversion of ordinary shares into Convertible Preference Shares | (61,467) | - | - | - | (61,467) | - | (61,467) |
| Convertible Preference Shares converted into B Preference Shares | (115,707) | - | - | - | (115,707) | - | (115,707) |
| Issue of B Preference Shares | 177,174 | - | - | - | 177,174 | - | 177,174 |
| Issue of C Preference Shares | 141,247 | - | - | - | 141,247 | - | 141,247 |
| Issue of D Payment-In-Kind notes | 102,766 | - | - | - | 102,766 | - | 102,766 |
| Issue of E Payment-In-Kind notes | 508,521 | - | - | - | 508,521 | - | 508,521 |
| **Closing balance** | **1,308,858** | **(9,422)** | **(4,493)** | **(930,926)** | **364,017** | **-** | **364,017** |
| ***For the nine months ended 31 December 2016*** | | | | | | | |
| Opening balance | 541,183 | 20,383 | 15,877 | (27,302) | 550,141 | (13,537) | 536,604 |
| Loss for the period | - | - | | (83,469) | (83,469) | - | (83,469) |
| Other comprehensive loss | - | (21,708) | 12,114 | - | (9,594) | - | (9,594) |
| Scrip dividends | 15,140 | - | - | - | 15,140 | - | 15,140 |
| Transfer of non-controlling interest | - | - | - | (13,537) | (13,537) | 13,537 | - |
| Preference dividend | - | - | - | (2,268) | (2,268) | - | (2,268) |
| **Closing balance** | **556,323** | **(1,325)** | **27,991** | **(126,576)** | **456,413** | **-** | **456,413** |
| ***For the twelve months ended 31 March 2017*** | | | | | | | |
| Opening balance | 541,183 | 20,383 | 15,877 | (27,302) | 550,141 | (13,537) | 536,604 |
| Loss for the year | - | - | - | (614,166) | (614,166) | - | (614,166) |
| Other comprehensive loss | - | (28,271) | (15,877) | - | (44,148) | - | (44,148) |
| Scrip dividends | 15,141 | - | - | - | 15,141 | - | 15,141 |
| Transfer of non-controlling interest | - | - | - | (13,537) | (13,537) | 13,537 | - |
| Preference dividend | - | - | - | (2,268) | (2,268) | - | (2,268) |
| **Closing balance** | **556,324** | **(7,888)** | **-** | **(657,273)** | **(108,837)** | **-** | **(108,837)** |

# Real People Investment Holdings Limited and subsidiaries

Unaudited condensed group financial statements for the quarter ended 31 December 2017

## Condensed group statement of cash flows

| R'000 | 31-Dec-17 | 31-Dec-16 |
|---|---|---|
| **Cash flows used in operating activities** | | |
| Cash generated by operations | 624,282 | 342,575 |
| Finance costs | (176,811) | (319,175) |
| Tax refunded (paid) | (5,283) | 5,421 |
| | **442,187** | **28,821** |
| **Cash flows from investing activities** | | |
| Additions to property, plant and equipment and intangible assets | (6,297) | (5,180) |
| Proceeds on sale of plant and equipment | 517 | 4,403 |
| | **(5,780)** | **(777)** |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | - | 634,762 |
| Repayment of borrowings | (561,867) | (778,856) |
| | **(561,867)** | **(144,094)** |
| **Total cash movement for the period** | **(125,460)** | **(116,050)** |
| Cash and cash equivalents at the beginning of the period | 462,138 | 608,392 |
| **Total cash and cash equivalents at the end of the period** | **336,678** | **492,342** |

## Notes to the condensed financial statements

The registration number of Real People Investment Holdings Limited (RPIH) is 1999/020093/06.

### 1. Basis of preparation

The condensed financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These financial statements do not include all of the information required by International Financial Reporting Standards (IFRS) for full financial statements and should be read in conjuction with the annual financial statements for the year ended 31 March 2017.

The principal accounting policies are consistent with those of the annual financial statements for the year ended 31 March 2017, as described in those annual financial statements with the exception of the adoption of IFRS 9 which is set out in note 3 below.

The financial statements are presented in South African Rands.

### 2. Group capital restructure

The group capital restructure was completed on 5 December 2017 and had the following effect:

- 41% of the Senior Instruments (together with 55% of converted subordinated debt) at 31 March 2017 have been exchanged for E Payment-In-Kind Notes ("E PIK Notes") issued by RPIH and held by the holders of the Senior Instruments.
- 55% of Subordinated Debt at 31 March 2017 has been converted into Senior Debt. The remaining Subordinated Debt at 31 March 2017 has been exchanged for D Payment-In-Kind Notes ("D PIK Notes") issued by RPIH and held by the holders of the Subordinated Debt.
- The Preference Shares at 31 March 2017 were exchanged for C Preference Shares issued by RPIH, and held by holders of the Preference Shares. The outstanding balance on the C Preference shares was reduced to a lower level than the outstanding balance on the Preference Shares at 31 March 2017, by an amount equal to the discount to face value at 31 March 2017.
- The Convertible Preference Shares at 31 March 2017 were exchanged for B Preference Shares issued by RPIH, and held by the holders of the Convertible Preference Shares pro-rata to their Convertible holdings.
- The lenders agreed to a 12 month moratorium on payments to unsecured senior debt from 1 April 2017.

### 3. Changes in accounting policies and disclosures

The group has adopted IFRS 9 Financial Instruments with effect from 1 April 2017.

The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. As permitted by IFRS 9, the group has elected to apply the hedge accounting requirements.

The group has elected not to restate comparative numbers in accordance with 7.2.15 and 7.2.17 of IFRS 9.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as an adjustment to opening equity.

Accordingly, the information presented for the 2017 financial year do not reflect the requirements of IFRS 9 and is therefore not comparable to the information presented for the 2018 financial year under IFRS 9.

# Notes to the condensed financial statements

### 3. Changes in accounting policies and disclosures (continued)

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9:

| | IAS 39 categorisation | IFRS 9 categorisation | Opening balance IAS 39 R'000 | IFRS 9 initial application R'000 | Opening balance IFRS 9 R'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| ***Net advances*** | | | | | |
| ***Home Finance*** | Loans and receivables at amortised cost | Amortised cost | 841,432 | (78,835) | 762,597 |
| ***DMC*** | | | | | |
| Acquired debt | Fair value through profit or loss | Amortised cost | 918,425 | (209,357) | 709,068 |
| Education asset | Fair value through profit or loss | Amortised cost | 79,620 | (11,422) | 68,198 |
| General purpose lending | Loans and receivables at amortised cost | Amortised cost | 149,008 | (19,484) | 129,523 |
| Cellular | Loans and receivables at amortised cost | Amortised cost | 42,765 | (10,612) | 32,153 |
| SME Business Finance | Loans and receivables at amortised cost | Amortised cost | 9,766 | (3,592) | 6,174 |
| ***East Africa **** | Loans and receivables at amortised cost | Amortised cost | 160,411 | - | 160,411 |
| Derivative financial assets | Fair value through profit or loss | Fair value through profit or loss | 15,082 | - | 15,082 |
| Other receivables | Loans and receivables at amortised cost | Amortised cost | 104,781 | - | 104,781 |
| Cash and cash equivalents | Loans and receivables at amortised cost | Amortised cost | 462,138 | - | 462,138 |
| Other assets | | | 70,369 | | 70,369 |
| **Total assets** | | | **2,853,798** | **(333,302)** | **2,520,496** |
| **Equity and liabilities** | | | | | |
| **Equity** | | | (108,837) | (313,326) | (422,163) |
| **Liabilities** | | | | | |
| Borrowings | Financial liabilities at amortised cost | Amortised cost | 2,791,724 | - | 2,791,724 |
| Trade and other payables | Financial liabilities at amortised cost | Amortised cost | 64,381 | - | 64,381 |
| Derivative financial liabilities | Fair value through profit or loss | Fair value through profit or loss | 17,541 | - | 17,541 |
| Deferred tax | | | - | (19,976) | (19,976) |
| Other liabilities | | | 88,989 | - | 88,989 |
| **Total equity and liabilities** | | | **2,853,798** | **(333,302)** | **2,520,496** |

** The East Africa adjustment is still being quantified.*

# Notes to the condensed financial statements

## 4. Accounting estimates and judgements

*Impairment of advances*

The group assesses its advances portfolio for impairment on a monthly basis and conducts an annual evaluation of estimates used and judgements applied during the year. As a result of the uncertainties inherent in business activities, impairment allowances cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. Management has used judgement, taking into consideration the micro-finance industry, in the development of the impairment practices.

Impairment is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

*Recognition of deferred tax asset*

The group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing taxation laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

## 5. Disposal group

The board approved the sale of the East African subsidiaries as part of the group capital restructure referred to in note 2 above. The income, expenses, assets and liabilities of the East African operations have therefore been reclassified as a disposal group. The statement of financial performance has been restated for both the current and prior period while the statement of financial position has been reclassified in the current period. The disposal is expected to be finalised before 31 March 2018, the end of the financial year.

## 6. Dividends

No ordinary dividends were declared or paid to shareholders during the nine months ended 31 December 2017.

## 7. Deferred tax

The recognition of additional deferred tax assets on taxable losses in Real People Investment Holdings Limited and subsidiaries has been suspended. Although it is likely that a portion of the deferred tax asset will be recoverable in future; a decision has been taken to impair the assets until a proven historical taxable income run rate has been established. This has resulted in a distortion of the group’s effective tax rate.

The current tax charge is primarilly due to profits in the group's special purpose entities and assurance company.

## 8. Net advances

| | 31-Dec-17<br>R'000 | 31-Mar-17<br>R'000 |
|---|---|---|
| *Credit products at amortised cost* | | |
| Gross advances | 2,385,450 | 1,365,371 |
| Impairment of advances | (1,655,589) | (498,543) |
| Present value of estimated cash flows on written off advances | 129,283 | 336,555 |
| | 859,144 | 1,203,383 |
| *Education asset* | 33,474 | 79,620 |
| *Acquired debt* | 650,542 | 918,425 |
| **Net advances** | **1,543,160** | **2,201,428** |

**8. Net advances (continued)**

| | 31-Dec-17 R'000 | 31-Dec-16 R'000 |
|---|---|---|
| Net advances opening balance | 2,201,428 | |
| IFRS 9 transitional adjustment (refer note 3 above) | (333,302) | |
| **Revised opening balance** | **1,911,226** | |

**9. Revenue**

| | 31-Dec-17 R'000 | 31-Dec-16 R'000 |
|---|---|---|
| Interest and similar income | 474,904 | 154,092 |
| Fee income | 33,693 | 34,372 |
| Fair value yield on acquired debt | - | 361,858 |
| Net premiums received | 89,203 | 96,411 |
| Other non-interest income | 39,054 | 84,124 |
| | **636,853** | **730,857** |

Revenue from financial assets in the prior year is calculated on the basis of IAS 39 whereas revenue in the current year is calculated on the basis of IFRS 9. Refer to note 3 above for the change in accounting policy.

In addition, the effective interest rate under IFRS 9 includes collection costs for the Acquired Debt Portfolio and Education asset.

**11. Segment information**

The presentation of segment information corresponds to the current operational and management-related structure of the group.

The segments are as follows:
- Home Finance provides credit and related financial services to customers of building supply merchants in South Africa;
- Assurance provides a variety of life, disability and loss of income benefits to the broader Real People and DMC customer bases;
- DMC provides debt collection and rehabilitation solutions to credit providers and retail customers in South Africa and includes the discontinued receivables; and
- Group Central Services houses the centralised functions which operate across the group.

The operations of the Business Finance division have been reclassified as a disposal group.

| | Net operating income R'000 | Operating expenses R'000 | Profit (loss) before tax R'000 |
|---|---|---|---|
| ***For the nine months ended 31 December 2017*** | | | |
| Home Finance | 173,617 | (103,706) | 69,911 |
| Assurance | 27,100 | (20,246) | 6,854 |
| DMC | 220,113 | (180,355) | 39,758 |
| Group Central Services | 25,302 | (53,337) | (28,035) |
| | **446,132** | **(357,643)** | **88,488** |

**11. Segment information (continued)**

| | Net operating income R'000 | Operating expenses R'000 | Profit (loss) before tax R'000 |
|---|---|---|---|
| ***For the nine months ended 31 December 2016*** | | | |
| Home Finance | 145,788 | (110,866) | 34,921 |
| Assurance | 26,428 | (17,071) | 9,357 |
| DMC | 202,380 | (239,980) | (37,601) |
| Group Central Services | 31,744 | (52,652) | (20,907) |
| | **406,340** | **(420,570)** | **(14,229)** |

| | Assets R'000 | Liabilities R'000 |
|---|---|---|
| ***31 December 2017*** | | |
| Home Finance | 905,518 | 778,189 |
| Assurance | 50,449 | 24,652 |
| DMC | 964,427 | 683,484 |
| Group Central Services | 15,204 | 92,689 |
| Business Finance * | 167,761 | 160,327 |
| | **2,103,358** | **1,739,341** |

* Classified as a disposal group in the current period.

| | Assets R'000 | Liabilities R'000 |
|---|---|---|
| ***31 December 2016*** | | |
| Home Finance | 1,074,223 | 907,041 |
| Assurance | 79,933 | 57,010 |
| DMC | 1,775,578 | 1,496,975 |
| Group Central Services | 216,997 | 38,571 |
| Business Finance | 360,361 | 551,083 |
| | **3,507,092** | **3,050,679** |
| ***31 March 2017*** | | |
| Home Finance | 1,023,353 | 892,526 |
| Assurance | 83,753 | 58,524 |
| DMC | 1,402,028 | 1,464,735 |
| Group Central Services | 124,637 | 46,249 |
| Business Finance | 220,027 | 500,601 |
| | **2,853,798** | **2,962,635** |