Financial Report

For the quarter
ended 31 December 2020

REAL PEOPLE®

Real People
Investment Holdings Ltd

Contents

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3.1 Group statement of financial position

	Group consolidated - Dec FY2021		
	Actual R'm	Prior Year R'm	Actual vs Prior Year(%)
Assets			
Home Finance	***540.2***	***887.3***	***-39.1%***
Gross performing Loans	465.5	827.2	-43.7%
Performing loans Impairments	(105.6)	(111.2)	5.1%
Net performing loans	**359.9**	**715.9**	**-49.7%**
Net non-performing loans	**180.3**	**171.3**	**5.2%**
Acquired Debt and Legacy assets	***556.0***	***699.8***	***-20.6%***
Discontinued receivables	37.0	69.4	-46.7%
Acquired assets	519.0	630.4	-17.7%
Right-of-use asset, equipment and intangible assets	18.4	37.8	-51.4%
Investments	15.6	32.1	-51.4%
Other assets	25.1	19.5	28.4%
Deferred tax assets	0.0	21.0	-100.0%
Cash and cash equivalents	395.2	377.8	4.6%
Total assets	**1 550.5**	**2 075.3**	**-25.3%**
Equity and liabilities			
Share capital and share premium	1 308.9	1 308.9	0.0%
Accumulated loss	(1 066.5)	(845.6)	-26.1%
Reserves	2.2	1.0	> 100%
Equity	**244.6**	**464.2**	**-47.3%**
Liabilities			
Borrowings	1 249.1	1 551.4	-19.5%
Deferred and current tax liabilities	7.6	16.2	-53.1%
Other liabilities	49.2	43.5	13.1%
Total liabilities	**1 305.9**	**1 611.1**	**-18.9%**
Total equity and liabilities	**1 550.5**	**2 075.3**	**-25.3%**
YoY Average			
Average Productive Assets	1 341.6	1 527.1	-12.1%
Average Total Assets	1 812.9	2 007.9	-9.7%
Average Productive Assets/Average Total Assets (%)	74.0%	76.1%	-2.7%

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 December 2020, although gradually improving.
- DMC's assets continue to amortise and portfolio purchases have declined by 8% YoY during Cov-19, from R149.2 m to R137.3m in purchases on a YTD basis compared to prior year. This is improving.
- 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 and limited new funding has been raised. R58m has been raised YTD by DMC Evolution. Fund raising was deliberately put on hold pending the finalisation of the post C-19 restructure.

	Dec FY2021		Dec 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	201.7	493.3	382.7
D PIK Note	96.6	16.1	96.6	30.5
C Preference Shares	128.5	11.1	128.5	21.1
B Preference Shares	155.9	4.3	155.9	8.2
A Ordinary Shares	-	9.3	-	17.7
Ordinary Shares	434.5	2.0	434.5	3.9
	1 308.9	244.5	1 308.9	464.2

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3.4 Group statement of comprehensive income

	Quarter - Dec FY2021					YTD - Dec 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(%)
Home Finance net yield - PL	29.0	8.6%	45.7	11.9%	-36.4%	69.8	6.9%	129.9	11.3%	-46.2%
Gross yield - PL	44.9	13.3%	82.4	21.4%	-45.4%	169.5	16.8%	231.2	20.1%	-26.7%
Impairment provision	(15.9)	-4.7%	(36.7)	-9.5%	56.7%	(99.6)	-9.9%	(101.4)	-8.8%	1.7%
Home Finance yield - NPL	24.3	7.2%	19.2	5.0%	26.4%	56.8	5.6%	59.6	5.2%	-4.6%
Home Finance - movement in FLI	14.7	4.4%	-	0.0%	100.0%	40.1	4.0%	-	0.0%	100.0%
Net assurance income - credit life	11.1	3.3%	14.9	3.9%	-25.3%	38.8	3.8%	43.2	3.8%	-10.0%
Home Finance net yield from assets	79.2	23.4%	79.7	20.7%	-0.7%	205.6	20.3%	232.6	20.2%	-11.6%
Acquired Debt net yield from assets	105.7	31.3%	82.7	21.5%	27.9%	230.5	22.8%	248.6	21.6%	-7.3%
Interest income non debtors	4.5	1.3%	4.0	1.1%	11.8%	13.5	1.3%	14.5	1.3%	-6.5%
Net yield	**189.4**	**56.0%**	**166.4**	**43.2%**	**13.8%**	**449.6**	**44.5%**	**495.7**	**43.1%**	**-9.3%**
Finance costs	(32.5)	-9.6%	(49.8)	-12.9%	34.7%	(110.3)	-10.9%	(151.5)	-13.2%	27.2%
Net margin	**156.9**	**46.4%**	**116.6**	**30.3%**	**34.5%**	**339.3**	**33.6%**	**344.2**	**29.9%**	**-1.4%**
Net assurance income - funeral benefits	6.2	1.8%	8.6	2.2%	-27.8%	20.5	2.0%	25.0	2.2%	-18.1%
Outsourced collection income	12.3	3.6%	13.5	3.5%	-8.9%	34.9	3.4%	42.3	3.7%	-17.6%
Credit management revenue	1.7	0.5%	1.6	0.4%	2.7%	4.3	0.4%	5.0	0.4%	-14.0%
Sundry income	0.3	0.1%	1.4	0.4%	-76.8%	12.5	1.2%	5.6	0.5%	> 100%
Operating income	**177.4**	**52.5%**	**141.7**	**36.8%**	**25.2%**	**411.5**	**40.7%**	**422.2**	**36.7%**	**-2.5%**
Total costs	**(104.5)**	**-30.9%**	**(128.8)**	**-33.4%**	**18.9%**	**(326.0)**	**-32.2%**	**(375.1)**	**-32.6%**	**13.1%**
Operating expenditure	(103.0)	-30.4%	(120.6)	-31.3%	14.7%	(323.5)	-32.0%	(351.2)	-30.5%	7.9%
Direct costs reallocated from yield	(1.5)	-0.4%	(8.1)	-2.1%	81.5%	(2.5)	-0.2%	(23.9)	-2.1%	89.6%
Hedging gain/(loss)	0.0	0.0%	0.1	0.0%	-67.2%	1.0	0.1%	0.1	0.0%	> 100%
Profit (loss) before tax	**73.0**	**21.6%**	**13.1**	**3.4%**	**> 100%**	**86.4**	**8.5%**	**47.2**	**4.1%**	**83.0%**
Current tax expense	(3.7)	-1.1%	(6.8)	-1.8%	45.6%	(9.8)	-1.0%	(13.5)	-1.2%	27.3%
Deferred tax	-	0.0%	2.6	0.7%	-100.0%	-	0.0%	7.0	0.6%	-100.0%
Profit (loss) after tax	**69.3**	**20.5%**	**8.9**	**2.3%**	**> 100%**	**76.6**	**7.6%**	**40.7**	**3.5%**	**88.0%**
Other comprehensive (loss) / income:										
Movement in cash flow hedge reserve	0.4	0.1%	0.3	0.1%	27.5%	(0.3)	0.0%	0.4	0.0%	> -100%
Total comprehensive (loss) / income for the period	**69.6**	**20.6%**	**9.2**	**2.4%**	**> 100%**	**76.3**	**7.6%**	**41.2**	**3.6%**	**85.4%**
Average productive assets	**1 341.6**		**1 527.1**			**1 341.6**		**1 527.1**		
Average Equity	**209.7**		**438.4**			**354.4**		**438.4**		
Equity Multiplier	**6.4**		**3.5**			**3.8**		**3.5**		
Pre-tax return on equity	**138.1%**		**11.8%**			**32.4%**		**14.3%**		
Return on Equity	**131.1%**		**8.1%**			**28.7%**		**12.3%**		
Effective tax rate	**5.1%**		**31.9%**			**11.4%**		**13.7%**		

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. In December R8.3m was released from the collections over performance provision.
- In Acquired Debt Portfolios (ADP), yields have outperformed relative to collections expectations derived from the Job Loss Index. In December R35.3m was released from the collections over performance provision.
- Sundry income includes R10.5m profit on sale of the Dorreal property.
- Net assurance income – death claims have risen year on year but not at levels causing significant concern. Reduced sales related costs have helped to compensate for 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 contained as a result of the lower business volumes, organisational restructure, remuneration adjustments and general austerity measures.

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3.6 Quality of Earnings by Segment

Quarter - Dec FY2021 Actual R'm	ROPA %	Prior Year R'm	ROPA %	Actual vs PY (%)		YTD - Dec FY2021 Actual R'm	ROPA %	Prior Year R'm	ROPA %	Actual vs PY (%)
42.3	12.5%	25.6	6.6%	65%	Acquired Debt	112.4	11.1%	80.5	7.0%	39.6%
45.7	13.5%	22.7	5.9%	> 100%	Home Finance	99.8	9.9%	68.5	6.0%	45.6%
1.5	0.4%	4.4	1.1%	-65%	RP Life	9.9	1.0%	11.9	1.0%	-16.5%
3.7	1.1%	3.0	0.8%	22%	Outsourced income	12.5	1.2%	13.2	1.2%	-5.8%
93.3	**27.6%**	**55.7**	**14.5%**	**67%**	**Channel contribution**	**234.5**	**23.2%**	**174.1**	**15.1%**	**34.7%**
(25.0)	-7.4%	(28.2)	-7.3%	11%	Evolution Credit Management	(87.9)	-8.7%	(84.3)	-7.3%	-4.4%
(19.4)	-5.7%	(14.5)	-3.8%	-34%	Group Central Services	(42.4)	-4.2%	(42.5)	-3.7%	0.3%
48.9	**14.5%**	**13.1**	**3.4%**	**> 100%**	**Normalised Profit / (Loss) Before Tax**	**104.2**	**10.3%**	**47.3**	**4.1%**	**> 100%**
					Revenue not associated with core operations					
19.5	5.8%				Acquired Debt C-19 collection outperformance release	-	0.0%			
4.6	1.4%				Home Finance C-19 collection outperformance release	-	0.0%			
-	0.0%				Profit on sale of Dorreal Property	10.5	1.0%			
-	0.0%				IFRS 9 Covid-19 Audit Adjustment	(4.1)	-0.4%			
					Costs not associated with core operations					
-	0.0%				Lease amendment profit	1.6	0.2%			
-	0.0%				Restructure costs	(25.9)	-2.6%			
73.0	**22.1%**	**13.1**	**3.4%**	**> 100%**	**Profit / (Loss) Before Tax**	**86.3**	**13.2%**	**47.3**	**6.2%**	**82.2%**

Direct Cost Allocation:

The channel contribution consists of channel income less direct channel cost and directly attributable collection costs.

The directly attributable collection costs have been on charged from ECM to the channels using an activity based costing methodology. These include call centre, debit order, tracing commissions, external debt collector commissions and SMS's costs. All other costs not directly attributable to the channel are held at the centre in ECM and GCS support functions.

The prior year's operating costs have also been restated to cater for the new organisational structure although there are some anomalies that cannot be reported on a like for like basis.

Key take outs:

- **Home Finance:** YTD collections outperformance relative to the C19 base case has compensated for book amortisation with limited new volume in the merchant channel during lockdown. There has been a significant reduction in finance costs due to debt amortisation as well as lower operating expenditure achieved from the operating model restructure. The net result is contribution running ahead of prior year.
- **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 reduction in revenue has been compensated for by 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.
- **Acquired:** There is a year on year drop in net yield from the lower asset base in Acquired and lower Outsourced collections due to Cov-19 related collections shortfalls. Reduced revenues have been more than offset by lower directs costs, as well as reduced payroll. Finance costs are lower year on year due to amortising debt and limited fund raising. The result has been normalised by removing the effect of the R10.5m profit on sale of the Dorreal Property.
- **GCS**: Restructure costs have been incurred centrally in GCS, with GCS delivering a similar result year on year after excluding restructure costs.

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4. RPIH Covenants : 12 month rolling compliance ratios

Group Capital Adequacy Ratio

	Minimum per Covenant	Actual Dec FY2021 R'm	Actual Dec FY2020 R'm
Permanent Capital / Total adjusted assets	**22.5%**	**49.1%**	**33.9%**
Equity per statement of financial position		244.6	464.2
Cash flow hedge add back		5.6	8.2
Qualifying equity		250.2	472.4
Assurance equity		(14.2)	(35.2)
SPV equity		234.0	118.2
Intangible and deferred tax assets to be funded with equity		(0.0)	(0.5)
SPV junior loans*		(222.5)	(323.5)
Permanent Capital (on balance sheet equity)		**247.5**	**231.3**
Assets per statement of financial position		1 550.5	2 075.3
Cash and Cash equivalents (on balance sheet)		(160.9)	(82.6)
Intangible and deferred tax assets to be funded with equity		(0.0)	(0.5)
Assurance Assets		(14.2)	(42.0)
SPV junior loans at fair value*		167.8	-
SPV assets		(1 038.8)	(1 268.5)
Total adjusted assets (on balance sheet assets)		**504.4**	**681.6**

Cost to Income Ratio**

	Maximum per Covenant	Actual Dec FY2021	Actual Dec FY2020
Operating Expenses		451.8	469.2
Operating Income		692.8	725.1
Cost to income ratio	**70%**	**65.2%**	**64.7%**

Debt Service Cover Ratio

	Minimum per Covenant	Actual Dec FY2021	Actual Dec FY2020
Free Cash Flow		196.0	208.5
Debt Service		164.2	190.4
Debt Service Coverage Ratio (times)	**1.05**	**1.19**	**1.09**

Debt service cover ratio waiver is in place

* *The Group's Capital Adequacy Ratio was amended in September 2020 and has treated the SPV junior loans differently to the prior period.*
** *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.*

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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 -Junior 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 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
Evolution Credit Management (ECM)	Evolution Credit Management, formerly the DMC & HF related collections and support operations, comprising – Call Centre, Cybertrac, IT, Collections operations, Credit management, Digital communication, Facilities

We are Real People, for real people

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