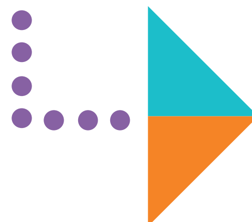
REAL PEOPLE™

Real People Investment Holdings

FINANCIAL RESULTS

for the 9 months ended 31 December 2016

We are Real People for real people



Content

1. Introduction 3
2. Overview: Operating environment 3
3. Regulatory developments 3
4. Corporate actions 4
5. Matters of emphasis 4
6. Capital 6
7. Funding and liquidity 6
8. Group results 8
9. Cluster results 9

* Unless otherwise stated, all financial figures have been rounded off to the nearest Rm.

In certain instances, published calculations may not be exact due to rounding.

The sum of the divisional results per line item may not agree to the consolidated results per line item due to consolidation elimination entries.

1. Introduction

The first three quarters of the financial year were disappointing for the Group as a result of a challenging collections environment in South Africa and a poor operating performance in the East African business. Capital remains below target levels but above minimum requirements post carrying value adjustments in the third quarter, described more fully below.

2. Overview: Operating environment

The South African Reserve Bank (SARB) left rates unchanged at its most recent meeting owing to a marginal improvement in its inflation forecast. Inflation was expected to average 6.6% over the 2016 forecast period. The domestic growth outlook remained subdued, although the low point of the cycle appears to be behind us. The latest available statement of the monetary policy committee of SARB forecasted 0,4% for 2016 offering no respite to an unemployment rate officially confirmed at 27.1% in the third quarter.

In Kenya, the Central Bank of Kenya (CBK) retained the policy rate at 10% in November 2016, which was expected by the markets. A decline in private sector credit growth experienced over the last several months had stabilised at 4.6% in October. The inflation rate increased to 6.5% in October 2016 from 6.3% in September, remaining within the government's single digit target range. The foreign exchange market remained stable, reflecting a narrower current account deficit due to stabilised tourism earnings and export receipts from tea and horticulture exports, lower oil imports, lower imports of machinery and equipment and resilient diaspora remittances. The CBK is of the view that inflationary pressures were mild and inflation will remain within the government target range in the short-term.

3. Regulatory developments

National Credit Amendment Act

The proposed regulations with regard to maximum credit life premiums were published for public comment during November 2015. There have been no further developments published since then. A worst case scenario, that the credit life rates remain as proposed for Developmental Credit Agreements, being R2.00 per R1 000 of the deferred amount (excluding the cost of credit), will have a significant impact on the Home Finance division's risk appetite and accordingly on its origination volumes and long term profitability.

Management did engage with the Department of Trade and Industry (DTI) as part of the public comment process, and a submission was made arguing, *inter alia*, that the rates for Developmental Credit Agreements should be the same as for Unsecured Credit Agreements. The current rate proposed for Unsecured Credit Agreements is R4.50 per R1 000 of the deferred amount (excluding the cost of credit).

There have been no definite further developments, during the reporting period, with regard to maximum credit life premiums.

Authenticated collections

The Payments Association of South Africa (PASA), under the auspices of SARB, is in the process of replacing the current debit order collection mechanism utilised by most mass market financial product providers, NAEDO, with a mechanism that requires greater levels of customer authentication of the payment mechanism named Authenticated Collections (AC). It is critical for the uninterrupted operations of the Group that the AC mechanism incorporates a customer friendly user interface, in the absence of which the Group's ability to obtain payment arrangements will be impaired severely. SARB has approved an extended trial and implementation period with the final implementation date, if successful, set for 2019.

Real People Assurance Company Ltd (RPAC) - Solvency Assessment and Management (SAM)

The Financial Services Board (FSB) indicated that the SAM expected date of implementation has changed from 1 January 2017 to the third quarter of the 2017 calendar year, thus allowing all role players ample time to ensure familiarisation with the requirements, and the Comprehensive Parallel Run (CPR) phase will continue until that date. All governance and risk management requirements of Board Notice 158 have been complied with. An extension was granted for the Group Mock Own Risk and Solvency Assessment (ORSA) report which is now due on 31 January 2017.

East Africa

In Uganda, the Tier 4 Microfinance Institutions and Money Lenders Bill was promulgated into law. The now Act governs operators licensed under the Money Lenders Act under which the Group's business there operates. The main implications of the Act include placing a cap on the maximum rate and loan amounts that money lenders can offer, protection for borrowers who pay off loans early, bringing more of the money lenders into the tax paying bracket and restrictions on payroll loans. These developments are being monitored closely and Management will continue to evaluate any potential impact to business in Uganda.

4. Corporate actions

Capital raise

The Board and Shareholders are currently considering options with respect to raising additional capital for the Group in order to return the Group's capital and profitability to sustainable levels.

Disposal of Aspire Group

The Board has approved an adjusted sale price for the sale of the Aspire Group as a result of a deterioration in the financial performance of the Aspire Schools business and changes in the discounting arrangement in respect of the Aspire Post-Schools business. The effective date of the sale will remain 1 January 2016. In terms of the transaction agreed, the Group will retain contingent exposure on potential closure costs related to the post schools' business until the end of January 2017.

5. Matters of emphasis

5.1. Asset carrying value adjustments

The Group has adjusted carrying values for various asset classes to accommodate current market best practice methodologies, highlighted by Deloitte & Touche during their recent review of the assets, and current collection performance.

The full financial effects of the exercise resulted in carrying value adjustments for the Group of **R49.8m**, which are summarised in the table below.

	R'm
Business Finance	**(18.0)**
DMC	**(31.8)**
Acquired Debt Portfolio	90.1
Legacy General Purpose Lending	(163.6)
Cellular	7.1
Education	34.7
Total carrying value adjustment	**(49.8)**

Home Finance

No adjustments for Home Finance are currently being considered as detailed data analysis is yet to be completed. At this stage the impact on the Group CAR ratio is not expected to be material. Any adjustments required will be passed as part of the annual recalibration exercise at financial year end.

Business Finance

Business Finance has updated the methodology in line with best practice. This resulted in an increase in the Loss Identification Period (LIP) to twelve months to incorporate 95% of the loss emergence. In line with the methodology update an estimated additional provision of **R18m** was raised in December 2016.

DMC

DMC has updated the various methodologies and model inputs as part of its annual review process in preparation for the annual audit.

The material adjustments are summarised as follows:

- The Acquired Debt Portfolio (ADP) portfolio discount rate has been reduced through the refinement of the methodology:
    - To remove the fixed cost absorption rate in terms of the exit price principles of IFRS 13 *Fair value measurement*, and
    - Changing the discount rate from a simple rate to an effective rate.

- The NPL cash flow modelling methodology informing the valuation of the General Purpose Lending (GPL), Cellular and Education portfolios has been changed from an activation role rate model to a run-off triangle/chain ladder methodology, and updated to incorporate the deteriorated collection trend experienced during the year.

5.2. Other matters of emphasis

Business Finance East Africa

The high levels of losses have persisted in this division. Management action is being taken to improve asset quality.

There has been a change in leadership with Daniel Ohonde resigning as CEO of RP Kenya and. Yvonne Godo, Chief Operating Officer, being appointed as acting CEO.

Appointment of Deloitte & Touche as auditors

Deloitte & Touche (Deloitte) have been appointed as the new auditors of the Group, from the 2017 financial year end.

Deferred Tax Asset

The recognition of additional deferred tax assets on taxable losses in Real People Investment Holdings Ltd, Real People (Pty) Ltd, Real People Home Finance (Pty) Ltd and Real People (Tanzania) Ltd legal entities remains suspended and the deferred tax assets have been impaired to reflect recoverable amounts. This has resulted in a distortion of the Group's effective tax rate.

Preference Dividend

In lieu of the payment of preference dividends in the second quarter, the Group issued scrip dividends in settlement thereof. This resulted in an increase in tier I capital of ~R15m.

Early settlement of Group debt

The Group's medium term funding strategy is to move away from Group based funding and enable independent funding and asset and liability management at subsidiary level. The board has approved the selective early settlement of Group debt which envisaged retiring debt at holding company level and replacing this with bespoke funding within the divisions. As funds became available, the Group continued with these settlements which generated a profit of **R49.6m** for the year to date.

6. Capital

The Capital Adequacy Ratio (CAR) remains above the covenant level of **30%** but below target level of **36%**. In the absence of a capital injection or a material improvement in the trading results of the Group in the near term, a breach of the covenant level is a strong possibility.

Capital Adequacy Ratio	Jun 16	Sep 16	Dec 16
RPIH Group	R'000s	R'000s	R'000s
Tier 1 Capital	**359 290**	**346 879**	**304 177**
Capital and reserves*	472 483	456 709	429 667
Investment in financial institutions	(9 016)	(8 443)	(8 940)
Investments in securitisation vehicles	(104 177)	(101 387)	(116 550)
Tier 2 Capital	**319 746**	**320 092**	**294 309**
Subordinated debt	263 866	269 511	219 698
Less: Non qualifying subordinated debt	(27 624)	(41 157)	(4 864)
Qualifying preference shares	173 138	178 835	183 143
General allowance for credit impairment	23 559	22 732	21 822
Investment in financial institutions	(9 016)	(8 443)	(8 940)
Investments in securitisation vehicles	(104 177)	(101 387)	(116 550)
Qualifying capital	**679 036**	**666 971**	**598 486**
Credit risk	1 884 709	1 818 599	1 745 756
Operational risk	54 981	54 981	54 981
Market risk	119 317	101 835	92 319
Total risk weighted exposure	**2 059 008**	**1 975 416**	**1 893 057**
Capital Adequacy Ratio	**32.98%**	**33.76%**	**31.61%**
Tier 1 Capital	17.45%	17.56%	16.07%
Tier 2 Capital	15.53%	16.20%	15.55%

**Reserves exclude FCTR and cashflow hedge reserve*

7. Funding and liquidity

The Group continues to raise new funding at divisional level for ongoing asset origination in line with its stated intention to migrate funding from Group to divisional level. **R634.8m** was raised at a divisional level for the period under review. In December 2016 DMC launched a new securitisation vehicle, Evolution Future Flow Securities 2 (RF) Ltd, for the securitisation of R170m of advances.

Given deteriorating investor sentiment regarding the outlook for the SA economy and consumer, as well as the poor operating performance from the East African business, the Group's continued access to funding to fund growth is cause for specific concern.

The Group's liquidity policy is summarised as follows:

- In the **short-term**, the liquidity policy is designed to ensure that the Group is able to meet all of its operating expenses and debt obligations over the forthcoming twelve months by measuring, whether for the next twelvemonth period, available cash and unutilised credit facilities are sufficient to meet the net cash outflow of the Group When this position turns negative, corrective action is required.

- In the **long-term**, the Group safeguards its debt obligations by ensuring that at any point on its funding profile the following limits are not breached:
  - *Cumulative mismatch limit:* 75% of expected cumulative receipting must at any point of the funding profile exceed the cumulative cash outflows relating to debt repayments (capital and interest). This is measured on a monthly basis and excludes cash flows relating to non-recourse funding special purpose entities (SPVs).

  - *Single bucket mismatch limit:* The cash outflows relating to debt repayments (capital and interest) less 90% of expected receipting for each six month bucket between month 13 and month 60 may not exceed 15% of the Group's total assets excluding non-recourse funding SPVs. This requirement is measured each time the Group enters into any new funding agreements.

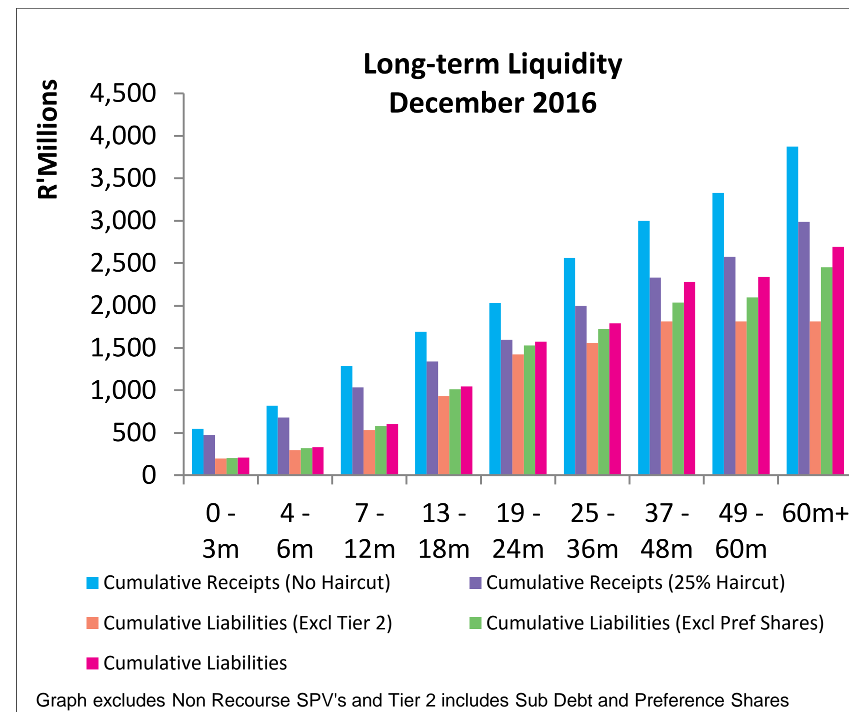
.

	FY2016 Jun R'm	FY2017 Sep R'm	FY2017 Dec R'm
Receipting (10% haircut)	1,031	1,030	919
Committed expenses	(618)	(530)	(498)
Liability re-payment	(568)	(574)	(605)
Total net cash inflow/(outflow)	**(155)**	**(74)**	**(184)**
Available Cash	146	105	153
Available Facilities	70	35	71
Surplus	**61**	**67**	**41**

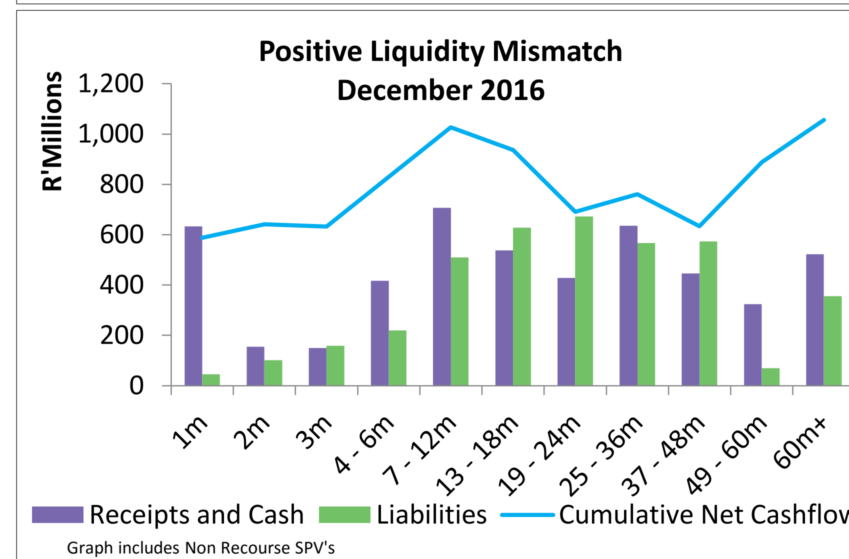
During August 2015 Real People Kenya raised funding on their own balance sheet. Since this time they have been repaying their intercompany loan with the receipting from their assets. Due to Real People Kenya settling their intercompany loan during December 2016, the Group is not expecting any cashflows in the short to medium term from the business. The liquidity coverage ratio was adjusted to exclude all the Real People Kenya receipting, cash balances, operating expenses and liability repayments from December 2016. This calculation below shows that in the absence of further fund raising the Group would run into a liquidity deficit for the forecast period.

Liquidity coverage ratio (excluding Real People Kenya)

	FY2017 Dec R'm
Receipting (10% haircut)	788
Committed expenses	(442)
Liability re-payment	(574)
Total net cash inflow/(outflow)	**(229)**
Available Cash	101
Available Facilities	71
Deficit	**(57)**



Graph excludes Non Recourse SPV's and Tier 2 includes Sub Debt and Preference Shares



Graph includes Non Recourse SPV's

8. Group results

Consolidated Group statement of financial performance

	Q1 FY2017 Jun R'm	Q2 FY2017 Sep R'm	Q3 FY2017 Dec R'm	YTD FY2017 Dec R'm	YTD FY2016 Dec R'm	YTD FY2017 v FY2016 %
Gross yield from assets	255.0	256.2	240.2	751.4	732.2	3%
Impairment provision	(49.2)	(35.1)	(40.4)	(124.6)	(120.2)	-4%
Net assurance income - credit life	14.5	11.2	14.0	39.7	46.8	-15%
Net yield	**220.3**	**232.3**	**213.9**	**666.5**	**658.8**	**1%**
Finance costs	(93.4)	(88.4)	(84.7)	(266.5)	(250.7)	-6%
Net margin	**126.9**	**143.9**	**129.2**	**400.0**	**408.1**	**-2%**
Net assurance income - funeral benefits	8.8	8.9	9.1	26.8	32.8	-18%
Outsourced collection income	9.1	9.9	11.1	30.1	32.3	-7%
Sundry income	0.7	3.9	49.3	53.9	39.1	38%
Net operating income	**145.6**	**166.5**	**198.7**	**510.7**	**512.3**	**0%**
Operating expenditure	(160.4)	(162.3)	(160.9)	(483.6)	(447.5)	-8%
Normalised contribution	**(14.8)**	**4.2**	**37.7**	**27.1**	**64.8**	**-58%**
Attributable to providers of qualifying tier II capital	(16.7)	(17.3)	(18.7)	(52.7)	(50.6)	-4%
Foreign exchange gain/(loss)	(0.9)	(5.0)	(0.9)	(6.8)	(1.1)	> -100%
Attributable to ordinary shareholders - Normalised	**(32.4)**	**(18.1)**	**18.1**	**(32.4)**	**13.0**	**> -100%**
Profit before tax - disposal group	(0.0)	(7.5)	0.0	(7.5)	(3.2)	> -100%
Normalised (Loss)/profit before tax	**(32.4)**	**(25.6)**	**18.1**	**(39.9)**	**9.8**	**> -100%**
Asset carrying value adjustment	-	-	(49.8)	(49.8)	-	-100%
(Loss)/profit before tax	**(32.4)**	**(25.6)**	**(31.7)**	**(89.7)**	**9.8**	**> -100%**
Taxation	10.6	(3.2)	(1.1)	6.3	(21.8)	> -100%
(Loss)/profit after tax	**(21.8)**	**(28.8)**	**(32.8)**	**(83.5)**	**(12.0)**	**> -100%**
Dividends and non-controlling interest expense	(3.3)	(4.8)	5.9	(2.3)	(9.8)	77%
(Loss)/profit for the period	**(25.2)**	**(33.6)**	**(26.9)**	**(85.7)**	**(21.9)**	**> -100%**

Group overview

Overall, Group losses widened on a year on year basis and is more fully explained in the individual units' results below. From a Group perspective, the loss for the quarter includes:

- The asset carrying values adjustments of R49.8m;
- A gain on debt repurchase of R48.1m; and
- The scrip dividend for cumulative preferences shares was accounted for in October at a premium of 20%. Thisresulted in the variance quarter on quarter in the amount attributable to providers of qualifying tier II capital.
- The compulsory convertible preference share dividend accrual was suspended with effect from October 2016 as a result of these instruments not being cumulative in nature. The amounts raised in previous periods were reversed in November 2016.

The Group's effective tax rate is stablising following tax planning initiatives deployed in the 2016 financial year to end off the first nine months of the 2017 financial year at 7% versus the previous year's -222.92%, whilst recognition of additional deferred tax assets within the Real People Investment Holdings Ltd, Real People (Pty) Ltd[1], Real People Home Finance (Pty) Ltd and Real People (Tanzania) Ltd legal entities remain suspended.

Tax rate reconciliation

	YTD FY2017 Dec
Tax calculated at a tax rate of 28%	**28.00%**
Tax effect of:	
Tax not recognised in companies with assessed losses	-14.01%
Different tax rates applied	1.85%
Expenses not deductible for tax purposes	-5.86%
Income exempt for tax purposes	0.59%
Income subject to capital gains tax	0.96%
Withholding tax written off	-4.54%
Effective tax rate	**7.00%**

Group segment statement of financial performance

	Q1 FY2017 Jun R'm	Q2 FY2017 Sep R'm	Q3 FY2017 Dec R'm	YTD FY2017 Dec R'm	YTD FY2016 Dec R'm	YTD FY2017 v FY2016 %
Contribution						
Home Finance	8.5	9.8	16.6	34.9	35.4	-1%
Business Finance	(26.9)	(21.8)	(21.5)	(70.2)	(9.2)	> -100%
Assurance	3.3	3.2	2.8	9.4	15.0	-38%
DMC	(2.2)	9.4	(13.0)	(5.8)	(13.2)	56%
	(17.2)	**0.6**	**(15.1)**	**(31.7)**	**28.1**	**> -100%**
Group Central Services	(8.2)	(14.4)	(9.9)	(32.5)	(42.1)	23%
Hedging gains/losses	(0.6)	1.3	1.5	2.2	4.4	-51%
Gain on debt repurchase	-	1.5	48.1	49.6	37.4	33%
Treasury unallocated net margin	(6.4)	(7.1)	(6.5)	(20.0)	(14.8)	-35%
Attributable to ordinary shareholders - Normalised	**(32.4)**	**(18.1)**	**18.1**	**(32.4)**	**13.0**	**> -100%**
Loss before tax - disposal group	(0.0)	(7.5)	0.0	(7.5)	(3.2)	> -100%
Normalised (Loss)/profit before tax	**(32.4)**	**(25.6)**	**18.1**	**(39.9)**	**9.8**	**> -100%**
Adjustments						
Asset carrying value adjustment	-	-	(49.8)	(49.8)	-	-100%
(Loss)/profit before tax	**(32.4)**	**(25.6)**	**(31.7)**	**(89.7)**	**9.8**	**> -100%**

[1] In the process of being renamed DMC Debt Management (Pty) Ltd

Group statement of financial position

	Q1 FY2017 Jun R'm	Q2 FY2017 Sep R'm	Q3 FY2017 Dec R'm	Q3 FY2016 Dec R'm	Q3 FY2017 v FY2016 %
Assets					
Loans and advances	1,792.4	1,687.4	1,540.9	2,042.3	-25%
Acquired assets	975.9	980.3	1,023.5	945.9	8%
Property and equipment and intangibles	60.2	59.0	52.5	73.6	-29%
Investments	33.1	34.0	34.8	32.1	8%
Assurance assets	65.9	57.7	59.5	69.7	-15%
Other assets	48.8	39.7	39.0	42.5	-8%
Deferred tax assets	197.3	207.1	217.3	183.6	18%
Cash and cash equivalents	526.0	421.8	492.3	436.0	13%
Assets of continuing operations	**3,699.5**	**3,487.1**	**3,459.7**	**3,825.8**	**-10%**
Assets of disposal group	0.0	0.1	0.0	18.5	-100%
Total assets	**3,699.5**	**3,487.1**	**3,459.7**	**3,844.3**	**-10%**
Equity and liabilities					
Equity	**519.7**	**463.8**	**456.3**	**556.1**	**-18%**
Liabilities					
Long term interest bearing borrowings - senior	2,546.3	2,474.2	2,476.1	2,732.0	-9%
Long term interest bearing borrowings - subordinated	260.1	269.5	219.7	267.5	-18%
Long term interest bearing borrowings - preference shares	170.9	178.5	182.8	165.2	11%
Assurance liability	56.5	48.6	50.4	60.6	-17%
Deferred and current tax liabilities	10.7	14.8	26.4	(2.6)	> -100%
Other liabilities	135.3	37.7	47.9	61.4	-22%
Liabilties of continuing operations	**3,179.8**	**3,023.3**	**3,003.4**	**3,284.1**	**-9%**
Liabilities of disposal group	-	-	-	4.1	-100%
Total equity and liabilities	**3,699.5**	**3,487.1**	**3,459.7**	**3,844.3**	**-10%**

9. Cluster results

9.1. Home Finance

Statement of financial performance

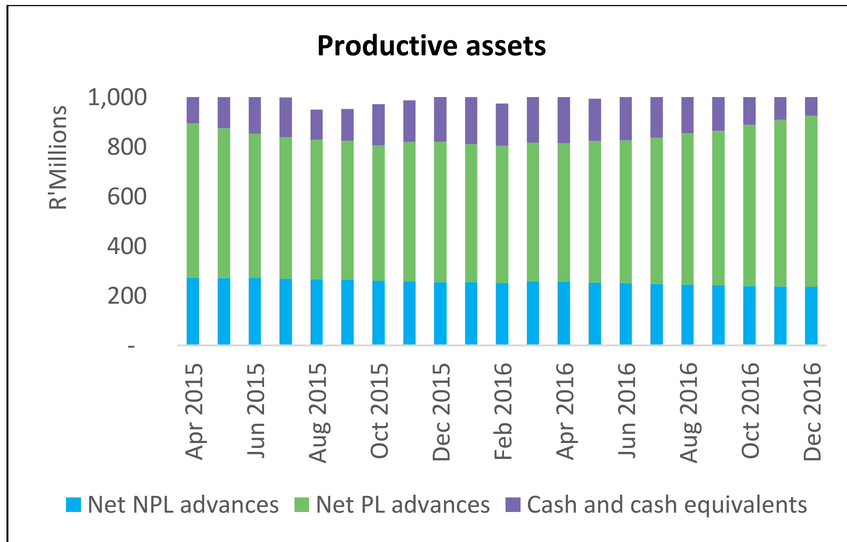
	Q1 FY2017 Jun R'm	Q2 FY2017 Sep R'm	Q3 FY2017 Dec R'm	YTD FY2017 Dec R'm	YTD FY2016 Dec R'm	YTD FY2017 v FY2016 %
Performing loans net yield	**40.9**	**47.2**	**50.5**	**138.6**	**127.7**	**9%**
Interest and fee income	60.8	65.3	70.5	196.6	186.0	6%
Impairment provision	(19.9)	(18.1)	(19.9)	(58.0)	(58.3)	1%
Non performing loans net yield	14.6	17.0	15.2	46.8	46.6	1%
Other interest income	3.8	3.3	2.8	9.9	7.4	34%
Net assurance income - credit life	14.9	11.0	16.4	42.3	46.0	-8%
Net yield	**74.1**	**78.5**	**84.9**	**237.6**	**227.7**	**4%**
Finance costs	(26.4)	(27.3)	(27.2)	(80.8)	(79.4)	-2%
Net margin	**47.8**	**51.3**	**57.8**	**156.8**	**148.3**	**6%**
Operating expenditure	(36.0)	(37.5)	(37.4)	(110.9)	(101.7)	-9%
Normalised contribution	**11.8**	**13.8**	**20.3**	**45.9**	**46.6**	**-2%**
Attributable to providers of qualifying tier II capital	(3.3)	(4.0)	(3.7)	(11.0)	(11.2)	2%
Attributable to ordinary shareholders	**8.5**	**9.8**	**16.6**	**34.9**	**35.4**	**-1%**
Net advances	**827.2**	**865.3**	**926.1**	**926.1**	**821.5**	**13%**

Financial results

Home Finance is reaping the rewards of growth in disbursement volumes combined with improving credit quality, and in return has contributed R16m for the third quarter.

Earnings attributable to ordinary shareholders has declined marginally year on year by 1% due to inflationary pressure on expenditure as well as spend directed at increasing disbursement volumes, which has offset the gains made in net yield.

Yield and finance costs need to be seen in light of the Home Finance asset base. From the graph below, it is evident that the trend of declining net advances continued into the 2017 financial year following the impact of capital and liquidity constraints faced by the business in the second half of the 2015 financial year. Average net advances were 2% down year on year for the first six months. This trend has now reversed in the third quarter with the performing loan book increasing and becoming a larger percentage of the book overall.



Origination volumes have recovered well increasing by 42% year on year to end on R490m year to date.

Requirements for cash balances in securitisation funding structures have on average increased, and so too the associated negative carry. Despite this, the overall net yield has increased to approximately 32% for the current quarter (note the overall yield referred to differs from the vintage view shown in the yield graph below, in that it includes the yield on all vintages, cash balances and a number of small legacy books).

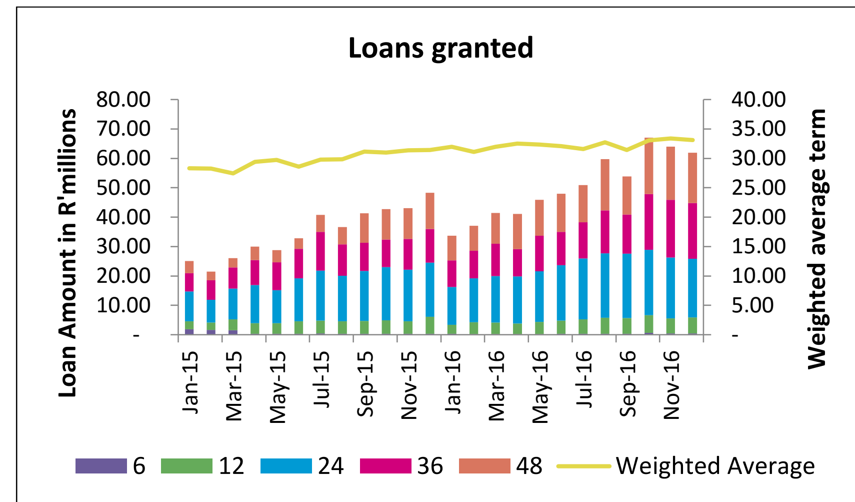
The credit metrics for the business have continued to improve over the past year, with a greater percentage of loans disbursed being directed at lower to medium risk business. This change has had a positive effect on asset and earnings quality.

Finance costs have shown a marginal increase year on year, despite an increasing interest rate environment, this being attributable to a larger percentage of the book being funded through capital than in the prior period.

Operating expenditure has increased by 9% on a year on year basis mainly due to increased staff related and other costs associated with growing disbursement volumes.

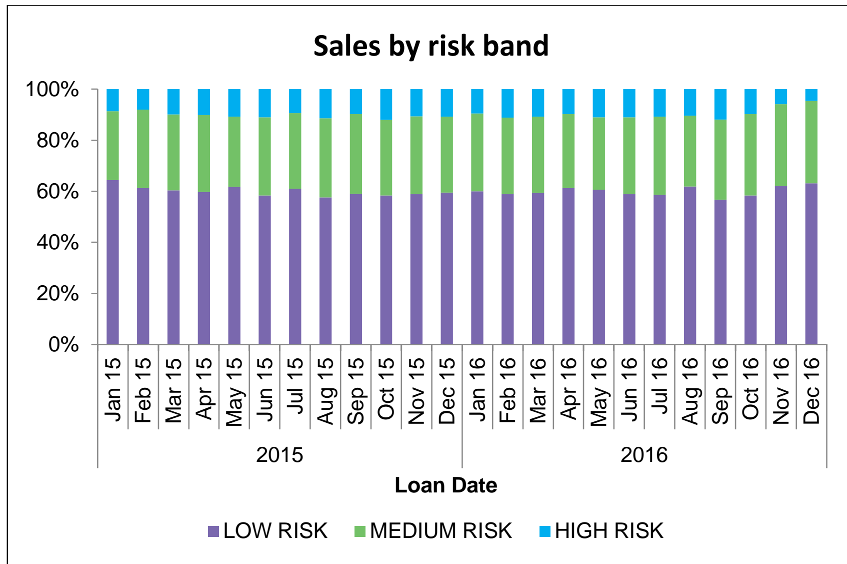
Loans granted

Strong growth in volumes has continued into the third quarter with October volumes reaching R67m. The average term originated has also been increasing as lower risk customers are originated from stores such as those in the Massbuild group.



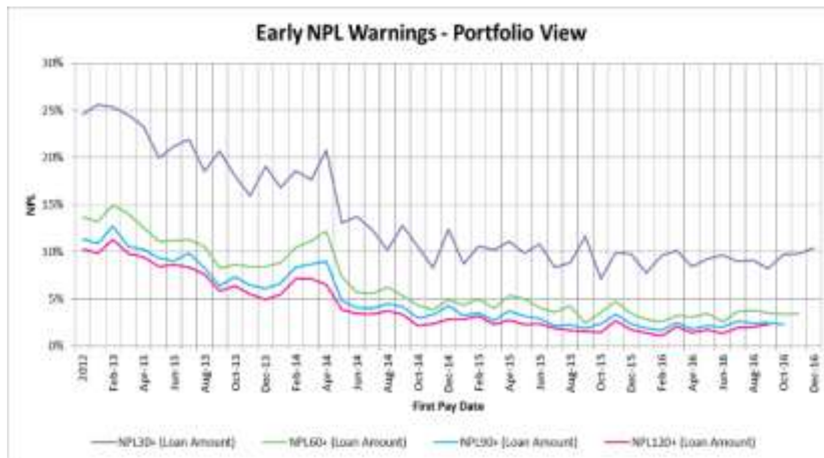
Risk distribution

The risk mix was restated due to the deployment of a new scorecard. Based on the new scorecard the exposure to low risk clients increased marginally during the quarter.



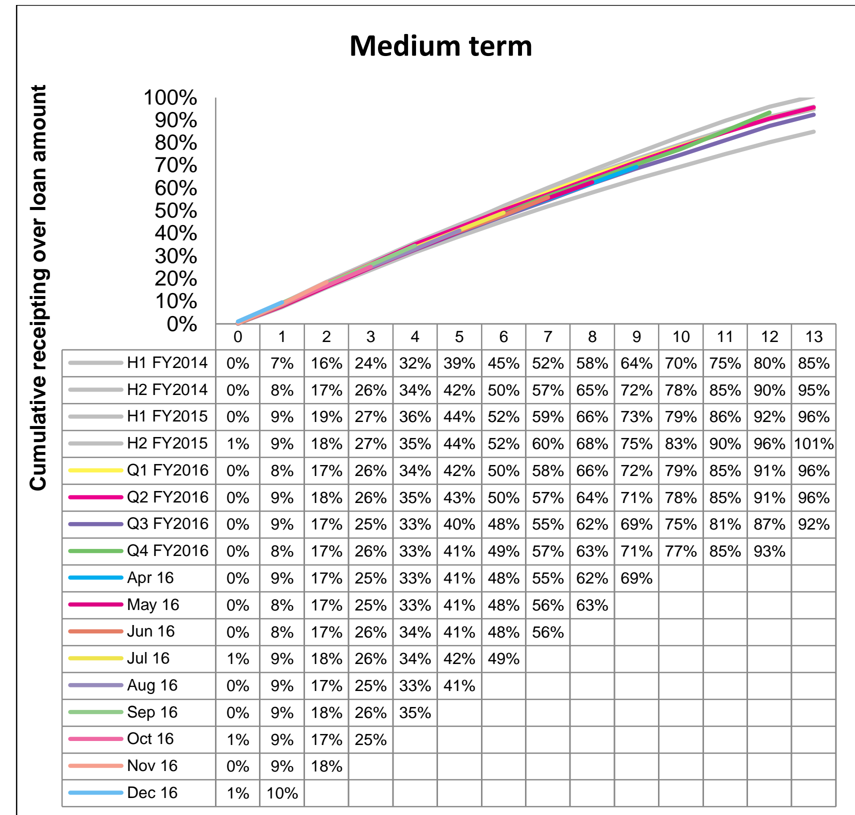
Non-performing loans Early Warning Indicators

Early stage non-performing loans (NPLs) (arrears in the first four months of contract origination) remained within expected levels. Missed four payments in a row remains significantly lower than they have been in prior years.



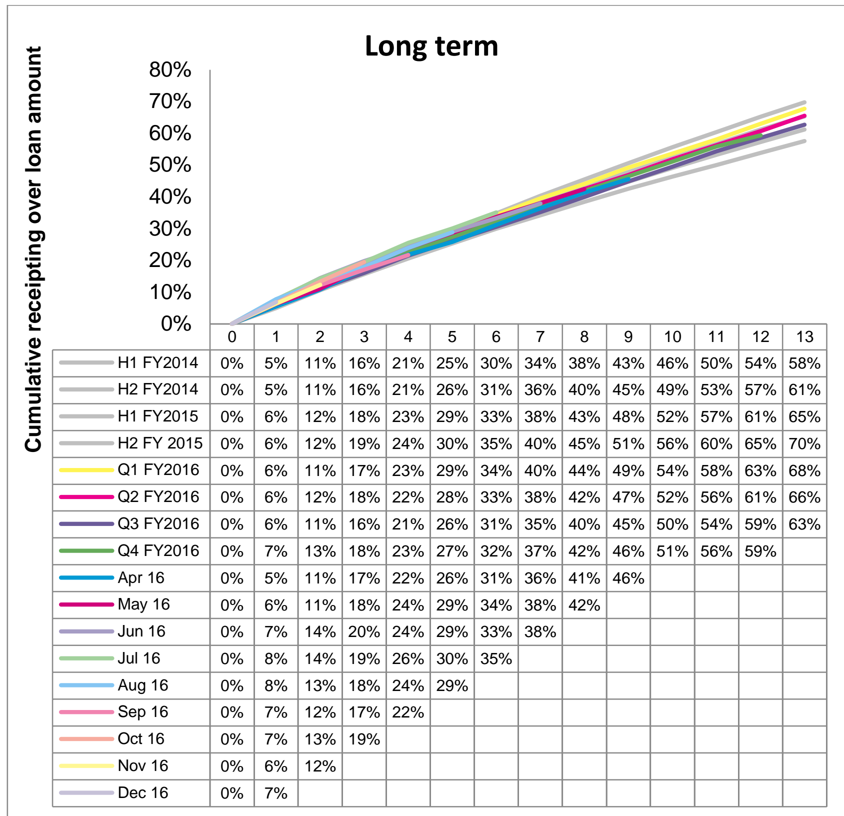
Cumulative receipting

The cumulative receipting percentage represents cumulative receipting as a percentage of original loan amount. The graphs below show this percentage on a vintage basis allowing for comparisons to be made.

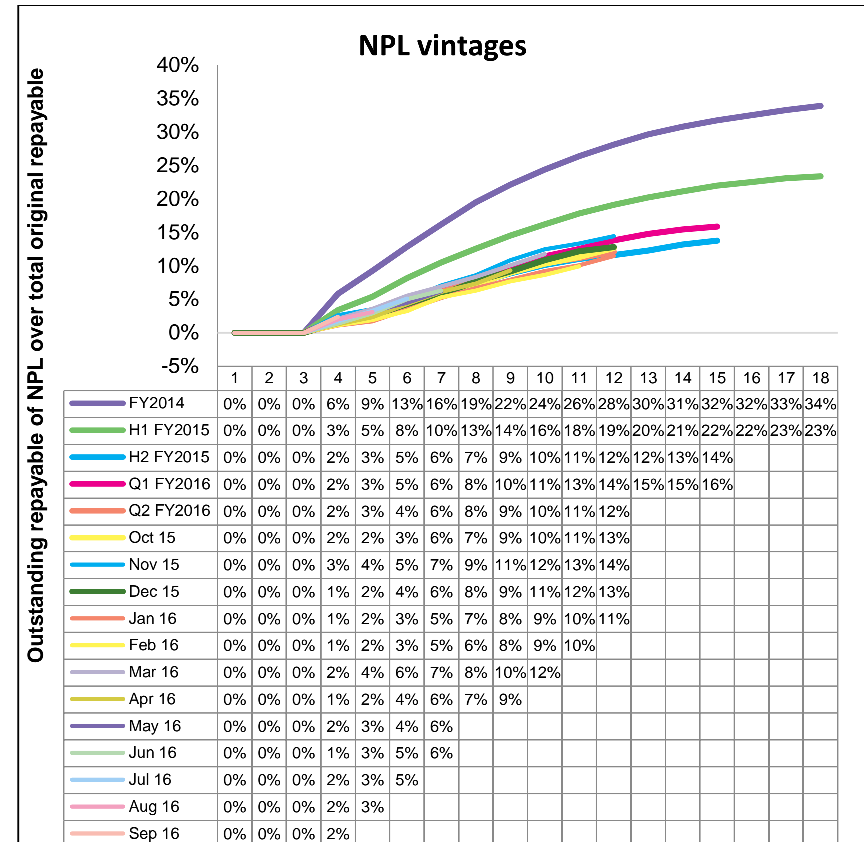


	0	1	2	3	4	5	6	7	8	9	10	11	12	13
H1 FY2014	0%	7%	16%	24%	32%	39%	45%	52%	58%	64%	70%	75%	80%	85%
H2 FY2014	0%	8%	17%	26%	34%	42%	50%	57%	65%	72%	78%	85%	90%	95%
H1 FY2015	0%	9%	19%	27%	36%	44%	52%	59%	66%	73%	79%	86%	92%	96%
H2 FY2015	1%	9%	18%	27%	35%	44%	52%	60%	68%	75%	83%	90%	96%	101%
Q1 FY2016	0%	8%	17%	26%	34%	42%	50%	58%	66%	72%	79%	85%	91%	96%
Q2 FY2016	0%	9%	18%	26%	35%	43%	50%	57%	64%	71%	78%	85%	91%	96%
Q3 FY2016	0%	9%	17%	25%	33%	40%	48%	55%	62%	69%	75%	81%	87%	92%
Q4 FY2016	0%	8%	17%	26%	33%	41%	49%	57%	63%	71%	77%	85%	93%	
Apr 16	0%	9%	17%	25%	33%	41%	48%	55%	62%	69%				
May 16	0%	8%	17%	25%	33%	41%	48%	56%	63%					
Jun 16	0%	8%	17%	26%	34%	41%	48%	56%						
Jul 16	1%	9%	18%	26%	34%	42%	49%							
Aug 16	0%	9%	17%	25%	33%	41%								
Sep 16	0%	9%	18%	26%	35%									
Oct 16	1%	9%	17%	25%										
Nov 16	0%	9%	18%											
Dec 16	1%	10%												

Receipting as measured by the cumulative receipting over loan amount is generally stable.



	0	1	2	3	4	5	6	7	8	9	10	11	12	13
H1 FY2014	0%	5%	11%	16%	21%	25%	30%	34%	38%	43%	46%	50%	54%	58%
H2 FY2014	0%	5%	11%	16%	21%	26%	31%	36%	40%	45%	49%	53%	57%	61%
H1 FY2015	0%	6%	12%	18%	23%	29%	33%	38%	43%	48%	52%	57%	61%	65%
H2 FY 2015	0%	6%	12%	19%	24%	30%	35%	40%	45%	51%	56%	60%	65%	70%
Q1 FY2016	0%	6%	11%	17%	23%	29%	34%	40%	44%	49%	54%	58%	63%	68%
Q2 FY2016	0%	6%	12%	18%	22%	28%	33%	38%	42%	47%	52%	56%	61%	66%
Q3 FY2016	0%	6%	11%	16%	21%	26%	31%	35%	40%	45%	50%	54%	59%	63%
Q4 FY2016	0%	7%	13%	18%	23%	27%	32%	37%	42%	46%	51%	56%	59%	
Apr 16	0%	5%	11%	17%	22%	26%	31%	36%	41%	46%				
May 16	0%	6%	11%	18%	24%	29%	34%	38%	42%					
Jun 16	0%	7%	14%	20%	24%	29%	33%	38%						
Jul 16	0%	8%	14%	19%	26%	30%	35%							
Aug 16	0%	8%	13%	18%	24%	29%								
Sep 16	0%	7%	12%	17%	22%									
Oct 16	0%	7%	13%	19%										
Nov 16	0%	6%	12%											
Dec 16	0%	7%												



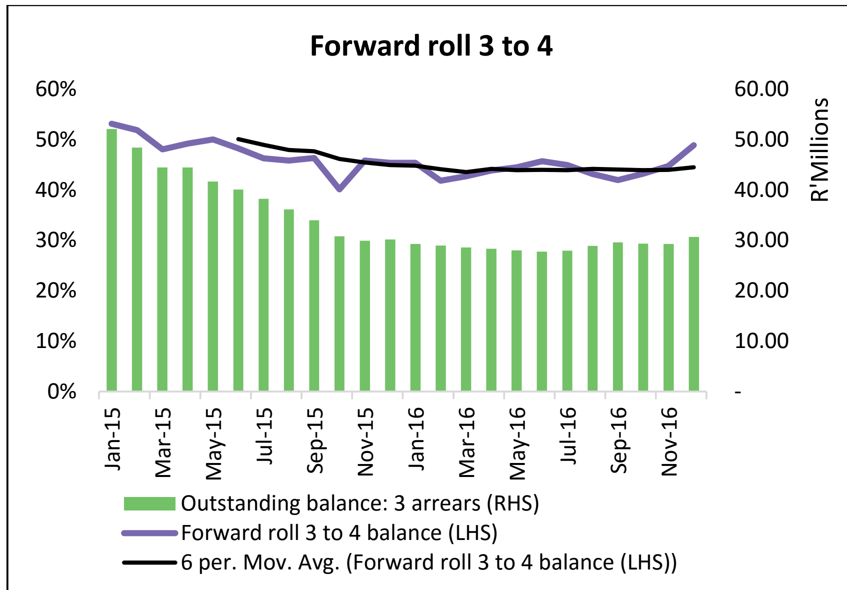
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
FY2014	0%	0%	0%	6%	9%	13%	16%	19%	22%	24%	26%	28%	30%	31%	32%	32%	33%	34%
H1 FY2015	0%	0%	0%	3%	5%	8%	10%	13%	14%	16%	18%	19%	20%	21%	22%	22%	23%	23%
H2 FY2015	0%	0%	0%	2%	3%	5%	6%	7%	9%	10%	11%	12%	12%	13%	14%			
Q1 FY2016	0%	0%	0%	2%	3%	5%	6%	8%	10%	11%	13%	14%	15%	15%	16%			
Q2 FY2016	0%	0%	0%	2%	3%	4%	6%	8%	9%	10%	11%	12%						
Oct 15	0%	0%	0%	2%	2%	3%	6%	7%	9%	10%	11%	13%						
Nov 15	0%	0%	0%	3%	4%	5%	7%	9%	11%	12%	13%	14%						
Dec 15	0%	0%	0%	1%	2%	4%	6%	8%	9%	11%	12%	13%						
Jan 16	0%	0%	0%	1%	2%	3%	5%	7%	8%	9%	10%	11%						
Feb 16	0%	0%	0%	1%	2%	3%	5%	6%	8%	9%	10%							
Mar 16	0%	0%	0%	2%	4%	6%	7%	8%	10%	12%								
Apr 16	0%	0%	0%	1%	2%	4%	6%	7%	9%									
May 16	0%	0%	0%	2%	3%	4%	6%											
Jun 16	0%	0%	0%	1%	3%	5%	6%											
Jul 16	0%	0%	0%	2%	3%	5%												
Aug 16	0%	0%	0%	2%	3%													
Sep 16	0%	0%	0%	2%														

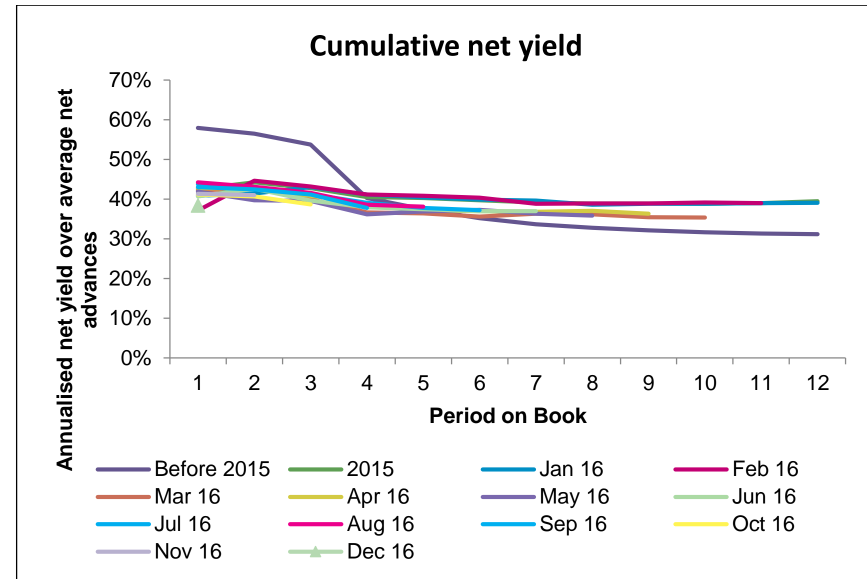
NPL rates

In measuring the quality of credit granted, reference is made to the outstanding balance of NPL loans as a percentage of the original balance, on a vintage basis.

The highest NPLs on the book were experienced in 2014. Product development and underwriting risk enhancements are having a beneficial effect on NPLs. The rate of non-performing loans has improved as the most recent vintages are on track to exceeding expectations.

There has also been continuous improvement in the forward roll on the book from 3 to 4 in arrears (loans 4 in arrears being classified as NPL). The size of the 3 in arrears bucket has started increasing slightly as disbursement volumes have increased. The December increase in forward rolls can be attributed to seasonality.





Yield

Changes in provisioning policy have impacted the carrying values of PL and NPL loans and have resulted in a change in the profile of the cumulative net yield percentage (post the 2015 FY). Incurred but not reported (IBNR) impairments were increased with provisions for losses being recognised earlier on in the life of the loan. The current product mix and portfolio performance is resulting in an improved and more sustainable net yield of slightly 40%. This is the yield on the net advances book, exclusive of the impact of cash balances.

9.2. Business Finance

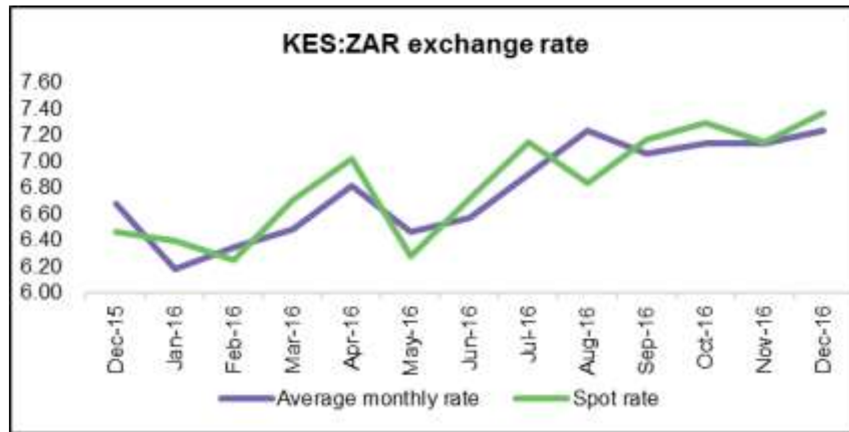
Statement of financial performance

	Q1 FY2017 Jun R'm	Q2 FY2017 Sep R'm	Q3 FY2017 Dec R'm	YTD FY2017 Dec R'm	YTD FY2016 Dec R'm	YTD FY2017 v FY2016 %
Gross yield from assets	48.8	35.2	38.1	122.1	113.7	7%
Impairment provision	(29.3)	(16.6)	(21.1)	(67.0)	(17.0)	> -100%
Net yield	**19.5**	**18.6**	**17.0**	**55.1**	**96.7**	**-43%**
Finance costs	(15.5)	(11.3)	(11.9)	(38.7)	(32.9)	-18%
Net margin	**4.0**	**7.3**	**5.1**	**16.4**	**63.8**	**-74%**
Operating expenditure	(23.8)	(21.0)	(22.9)	(67.7)	(64.9)	-4%
Normalised contribution	**(19.8)**	**(13.7)**	**(17.8)**	**(51.4)**	**(1.1)**	**> -100%**
Restructure provision	(3.2)	-	-	(3.2)	(0.3)	> -100%
Contribution	**(23.0)**	**(13.7)**	**(17.8)**	**(54.5)**	**(1.5)**	**> -100%**
Attributable to providers of qualifying tier II capital	(3.0)	(3.1)	(2.9)	(8.9)	(7.8)	-15%
Foreign exchange gain/(loss)	(0.9)	(5.0)	(0.9)	(6.8)	-	-100%
Attributable to ordinary shareholders - Normalised	**(26.9)**	**(21.8)**	**(21.5)**	**(70.2)**	**(9.2)**	**> -100%**
Adjustments						
Asset carrying value adjustment	-	-	(18.0)	(18.0)	-	-100%
(Loss)/profit before tax	**(26.9)**	**(21.8)**	**(39.5)**	**(88.2)**	**(9.2)**	**> -100%**
Net advances	**273.6**	**273.6**	**216.9**	**216.9**	**455.6**	**-52%**

Operational overview

The operating environment in East Africa has deteriorated and is placing pressure on the performance of the business. Planned corrective actions are currently being implemented within the underwriting and collections functions, the benefits of which it is hoped will yield results in the near term.

The majority of the East African operations are conducted in Kenyan Shillings. The graph below demonstrates movement in the KES: ZAR exchange rate.



Gross yield

Gross yield increased by 7% year on year as average net advances were higher in the first half of the 2017 financial period compared to the prior year. (normalised asset origination resumed only in May 2015 after a slowdown from September 2014).

Impairments

The business has reported extraordinary high impairment charges over the first 3 quarters of the financial year. The deterioration is attributable to the high NPLs arising from assets originated after the first 2 quarters of the 2016 financial year in Kenya.

The business has further updated the methodology for the General Purpose Facility (GPF) in line with best practice. This resulted in an increase in the Loss Identification Period (LIP) to twelve months to incorporate 95% of the loss emergence. In line with the methodology update an additional provision of **R18m** was raised in December 2016.

Finance costs

Finance costs increased year on year and is attributable to the bond issue in Kenya being priced at a higher rate than the internal Group rate.

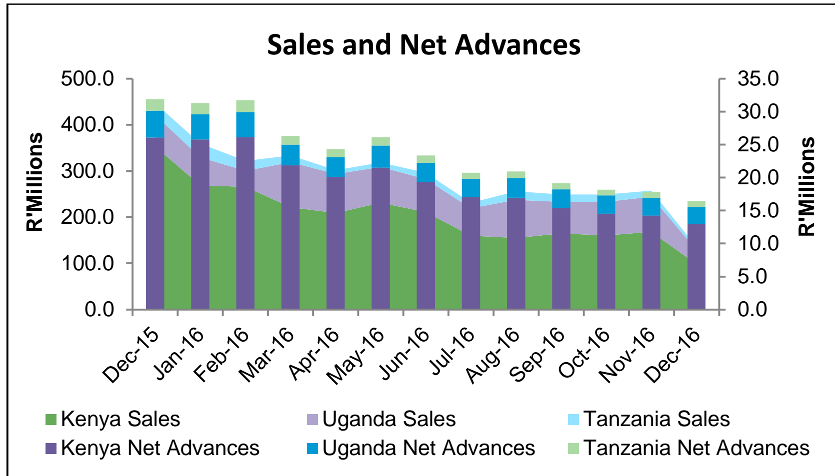
Operating costs

Normalised operating costs increased marginally year on year by **4%** and is due to:

- Increased staff costs associated with medical cover and retirement benefits funding (at 5% from 4% to comply with the legal minimum) and a cost of living adjustment implemented in June 2016; and
- Property rental escalations.

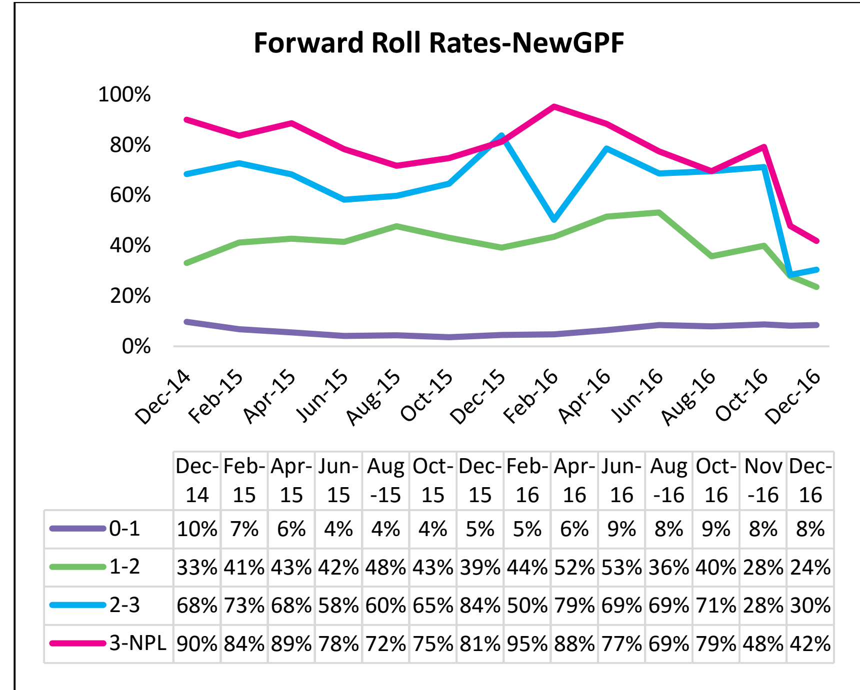
Origination

Origination volumes remain low as management focusses on improving portfolio quality through refining the credit underwriting and collections processes in the business. These initiatives will continue into the very near term and will be lifted once they gain traction.



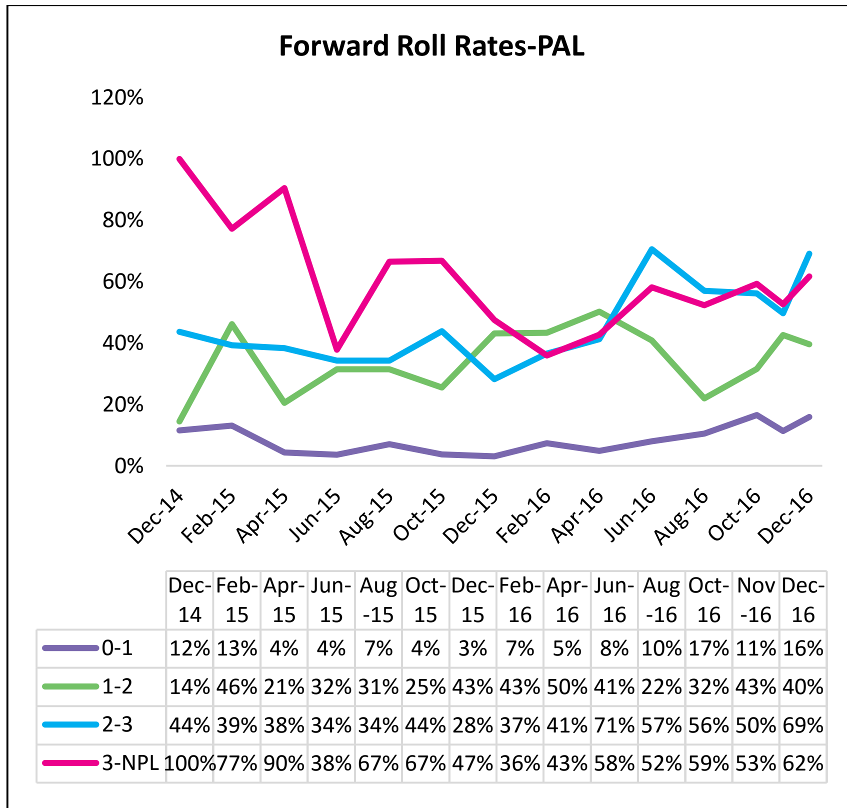
Forward Roll Rates

Forward roll rates refer to the percentage of contracts in value terms that have "rolled" from the previous arrears bucket to the next arrears bucket.



	Dec-14	Feb-15	Apr-15	Jun-15	Aug-15	Oct-15	Dec-15	Feb-16	Apr-16	Jun-16	Aug-16	Oct-16	Nov-16	Dec-16
0-1	10%	7%	6%	4%	4%	4%	5%	5%	6%	9%	8%	9%	8%	8%
1-2	33%	41%	43%	42%	48%	43%	39%	44%	52%	53%	36%	40%	28%	24%
2-3	68%	73%	68%	58%	60%	65%	84%	50%	79%	69%	69%	71%	28%	30%
3-NPL	90%	84%	89%	78%	72%	75%	81%	95%	88%	77%	69%	79%	48%	42%

The forward roll rates for general purpose facilities (GPFs) graph depicts an improvement in the last quarter. Collection strategies are being monitored continuously with a view to ensure that these improvements are maintained.

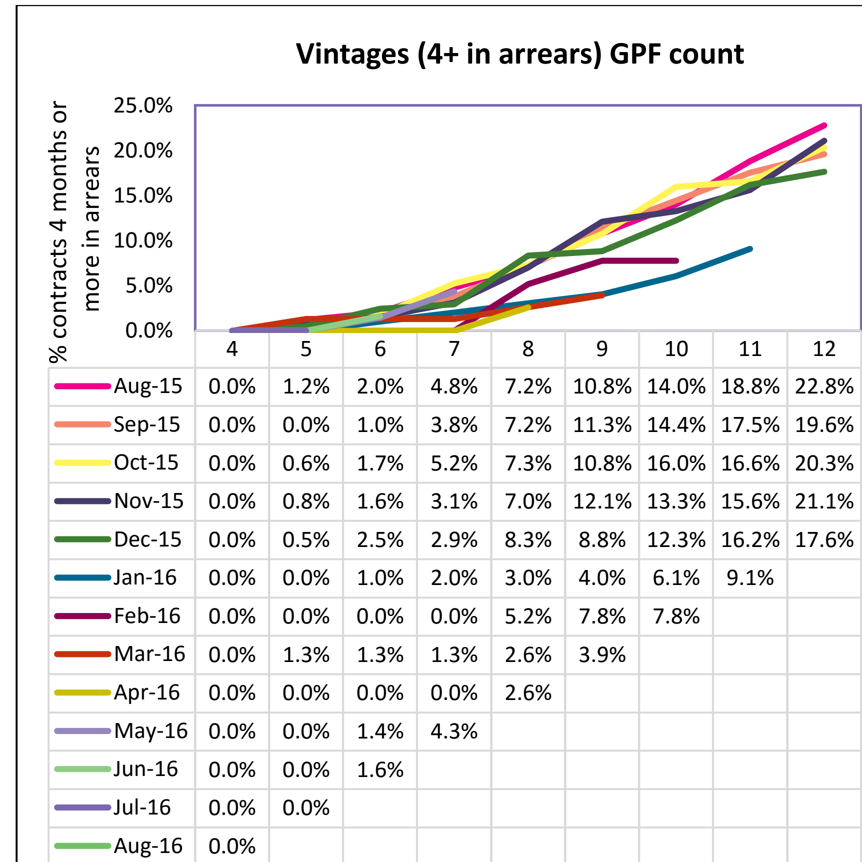


	Dec-14	Feb-15	Apr-15	Jun-15	Aug-15	Oct-15	Dec-15	Feb-16	Apr-16	Jun-16	Aug-16	Oct-16	Nov-16	Dec-16
0-1	12%	13%	4%	4%	7%	4%	3%	7%	5%	8%	10%	17%	11%	16%
1-2	14%	46%	21%	32%	31%	25%	43%	43%	50%	41%	22%	32%	43%	40%
2-3	44%	39%	38%	34%	34%	44%	28%	37%	41%	71%	57%	56%	50%	69%
3-NPL	100%	77%	90%	38%	67%	67%	47%	36%	43%	58%	52%	59%	53%	62%

The forward roll rates for productive asset loans (PALs) have increased across all buckets as at 31 December 2016. Collection strategies are currently under review in order to improve the current trend.

Vintage (4+ in arrears) rates

In measuring the quality of credit granted, the cumulative percentage count of contracts that have defaulted are grouped by origination month (vintages).



	4	5	6	7	8	9	10	11	12
Aug-15	0.0%	1.2%	2.0%	4.8%	7.2%	10.8%	14.0%	18.8%	22.8%
Sep-15	0.0%	0.0%	1.0%	3.8%	7.2%	11.3%	14.4%	17.5%	19.6%
Oct-15	0.0%	0.6%	1.7%	5.2%	7.3%	10.8%	16.0%	16.6%	20.3%
Nov-15	0.0%	0.8%	1.6%	3.1%	7.0%	12.1%	13.3%	15.6%	21.1%
Dec-15	0.0%	0.5%	2.5%	2.9%	8.3%	8.8%	12.3%	16.2%	17.6%
Jan-16	0.0%	0.0%	1.0%	2.0%	3.0%	4.0%	6.1%	9.1%	
Feb-16	0.0%	0.0%	0.0%	0.0%	5.2%	7.8%	7.8%		
Mar-16	0.0%	1.3%	1.3%	1.3%	2.6%	3.9%			
Apr-16	0.0%	0.0%	0.0%	0.0%	2.6%				
May-16	0.0%	0.0%	1.4%	4.3%					
Jun-16	0.0%	0.0%	1.6%						
Jul-16	0.0%	0.0%							
Aug-16	0.0%								

The most recent GPF vintages are tracking below historical levels, which is indicative of an improvement in the quality of credit granted.

9.3. Assurance (excluding credit life)

Statement of financial performance

	Q1 FY2017 Jun R'm	Q2 FY2017 Sep R'm	Q3 FY2017 Dec R'm	YTD FY2017 Dec R'm	YTD FY2016 Dec R'm	YTD FY2017 v FY2016 %
Premiums received	13.9	13.7	13.6	41.2	46.7	-12%
Benefits paid	(2.5)	(2.2)	(2.5)	(7.2)	(8.4)	13%
Assurance liability expense	(2.2)	(2.1)	(1.9)	(6.2)	(4.8)	-29%
Net reinsurance	(0.3)	(0.5)	(0.1)	(0.9)	(0.7)	-27%
Net assurance income - funeral benefits	**8.8**	**8.9**	**9.1**	**26.8**	**32.8**	**-18%**
Other income	0.1	0.1	0.1	0.3	0.3	11%
Net operating income	**8.9**	**9.0**	**9.2**	**27.1**	**33.0**	**-18%**
Operating expenditure	(5.0)	(5.9)	(6.2)	(17.1)	(17.2)	1%
Contribution	**3.9**	**3.1**	**3.1**	**10.0**	**15.8**	**-37%**
Attributable to providers of qualifying tier II capital	(0.5)	0.1	(0.2)	(0.6)	(0.8)	22%
Attributable to ordinary shareholders	**3.3**	**3.2**	**2.8**	**9.4**	**15.0**	**-38%**

Policy book size

Policies on book are still below expectation, and is mainly due to the sales in the call centres being exceeded by the number of lapsed policies. Management is actively engaging with call centres to develop the capacity to sell, in order to build the book size.

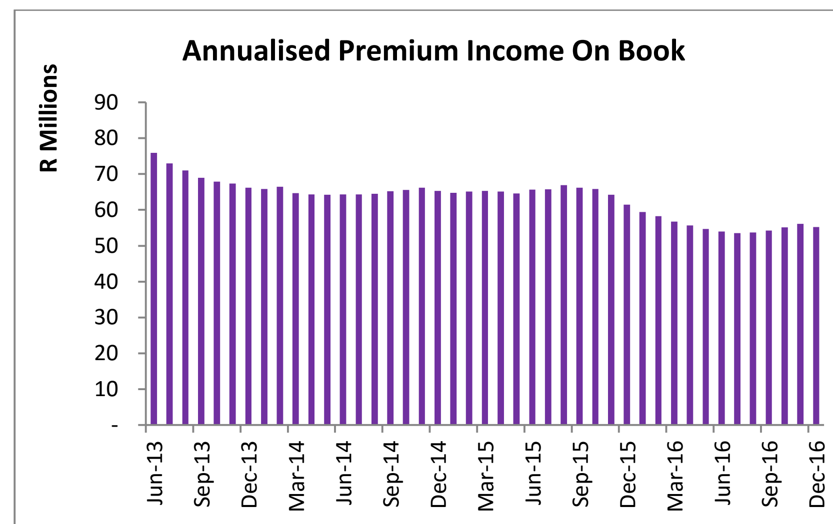
Financial performance

Net assurance income

Lower premium policies continue to replace older higher premium policies. This, coupled with lower in force policy numbers as a result of the sales lag, has resulted in lower premium income overall. Benefits paid remains difficult to predict, the increase is due to group life claims paid in the current quarter. The actuarial liability expense decrease is due to the decreased value of linked policies; the remaining policy is due to mature in the last quarter of the 2018 financial year. The impact of reinsurance is a result of benefits paid recovered from the reinsurer in line with higher benefits paid.

Expenses

The increase in expenditure from the previous quarter is as a result of an increase in origination costs due to increase in sales and as a result of the establishment of an East London based call centre that commenced operations in September 2016.



Annualised Premium Income (API) on book has been declining steadily since the sales lag began in September 2015. The improvement of API in the second and third quarter is attributable to the increase in sales over this period, both in terms of volume and average premium. Sales have increased due to the implementation of various strategic interventions.

9.4. DMC

Statement of financial performance

	Q1 FY2017 Jun R'm	Q2 FY2017 Sep R'm	Q3 FY2017 Dec R'm	YTD FY2017 Dec R'm	YTD FY2016 Dec R'm	YTD FY2017 v FY2016 %
Net yield	124.3	135.6	109.7	369.6	322.2	15%
Finance costs	(47.4)	(45.4)	(44.1)	(136.9)	(125.9)	-9%
Net margin	**76.8**	**90.3**	**65.6**	**232.7**	**196.3**	**18%**
Outsourced collection income	9.1	9.9	11.1	30.1	32.3	-7%
Internal servicing income	9.4	9.8	9.2	28.4	33.4	-15%
Net operating income	**95.4**	**109.9**	**85.9**	**291.2**	**262.0**	**11%**
Operating expenditure	(88.2)	(90.9)	(89.3)	(268.4)	(249.8)	-7%
Normalised contribution	**7.2**	**19.0**	**(3.4)**	**22.8**	**12.3**	**85%**
Attributable to providers of qualifying tier II capital	(9.4)	(9.6)	(9.6)	(28.5)	(25.4)	-12%
Attributable to ordinary shareholders - Normalised	**(2.2)**	**9.4**	**(13.0)**	**(5.8)**	**(13.2)**	**56%**
Adjustments						
Asset carrying value adjustment	-	-	(31.8)	(31.8)	-	-100%
(Loss)/profit before tax	**(2.2)**	**9.4**	**(44.8)**	**(37.6)**	**(13.2)**	**> -100%**
Net advances	**1,532.0**	**1,519.5**	**1,404.6**	**1,404.6**	**1,695.5**	**-17%**

Financial performance

Productive assets

	Net advances - Rm		Net advances - %		Net yield - Rm		Net yield % pa	
	Q 1 - Q3 FY 2017	Q 1 - Q3 FY 2016	Q 1 - Q3 FY 2017	Q 1 - Q3 FY 2016	Q 1 - Q3 FY 2017	Q 1 - Q3 FY 2016	Q 1 - Q3 FY 2017	Q 1 - Q3 FY 2016
Externally acquired	1 023.5	945.9	73%	56%	280.7	248.2	33%	31%
Internally acquired - General purpose	222.4	555.7	16%	33%	54.4	67.7	24%	16%
Internally acquired - Education	109.6	113.6	8%	7%	24.9	25.6	26%	26%
Internally aquired - Cellular	49.1	80.4	3%	5%	10.2	(19.3)	42%	42%
	1 404.6	**1 695.5**			**370.2**	**322.2**		

The net yield of the business has grown as a result of two main drivers:

- A change in relative asset mix towards higher yielding externally acquired assets; and
- An increase in the acquired assets via a R228m acquisition concluded in June 2015.

Although total receipting has been largely in line with asset valuation requirements, continued underperformance on legacy assets has negatively impacted the financial performance for the reporting period.

Finance costs have increased primarily through:

- Changes in mix and methodology of allocating Group debt to divisional balance sheets; and
- A R228m acquisition concluded in June 2015, with R140m of new debt funding.

The Group funding instruments applied to DMC have been hardened from 1 April 2016 and stability is expected on the basis of allocating debt and the cost thereof to DMC on a forward basis.

In December 2016, R144m of new funding was raised to increase the funding from non-group funding lines to 30%. Over the medium term all Group liabilities should be replaced with DMC specific funding lines.

Increases in costs relate primarily to the R228m acquisition which resulted in an increase in call centre capacity and increased costs incurred on collections via external debt collectors.

The DMC cost structure is currently under review with the aim of implementing a cost rationalisation process in the fourth quarter.

Asset quality

Actual receipting up to December 2016 was 98.6% of the receipting requirement supporting asset valuations. The cause of the deficit has been the consistent underperformance of the legacy assets. The carrying value of these assets were adjusted downward in December 2016 in the management accounts. Continued improvement in the acquired debit order collections has helped improve the collections stability of the asset class.

Operating environment

Generally, debt collectors and credit providers have experienced a difficult year in collections performance, largely attributable to consumer stress and confidence.

Collections on behalf of the Home Finance business have been stable, largely attributable to good underwriting.

New business

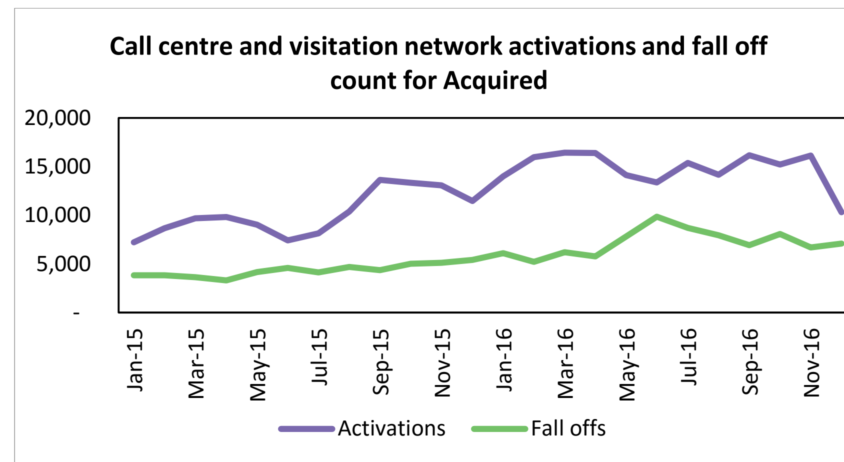
There has been a strong flow of debt sales for the period ending December 2016. DMC has been selective in its acquisitions and pricing in light of the uncertain macro-economic outlook. Acquisitions were R80m versus R101m in the 2016 financial period for the same period (Note: The first half of the 2016 financial period acquisitions have been normalised by the removal of a large once off acquisition). Competitors appear to have taken strategic decisions to take increased market share through higher pricing levels. Current pricing levels are above where DMC sees sustainable value considering the risks, and market share has reduced to 25% vs 34% achieved in 2015. DMC has sufficient existing stock to maintain operations and collections, and will be investing more resources into existing portfolios until value returns.

Outsourced (agency) handover volumes were subdued in the first quarter but have improved during the year. Levels of competition between panel member's remains high. The balance to be managed in the outsourced business is between sustainable panel performance and operating margins. The business has managed to improve margins through improved cost efficiencies.

Operations

The two primary drivers of receipting levels are activations (accounts paying for the first time in three months) and fall offs (accounts that were paying and have not paid for three months).

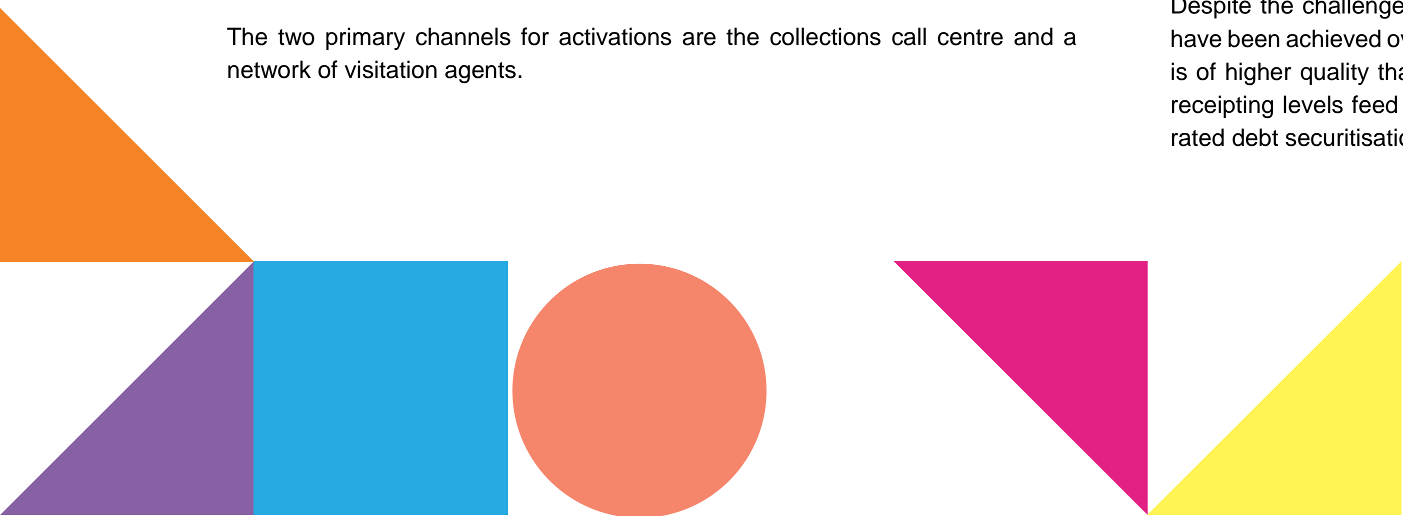
The two primary channels for activations are the collections call centre and a network of visitation agents.

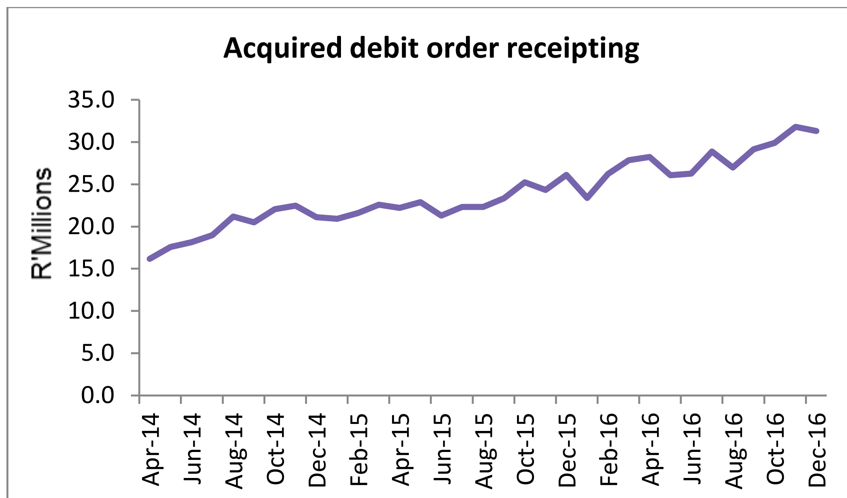


Both activation and fall off levels were significantly adversely impacted in the first quarter by adverse market conditions. The "jaws" between activations and fall offs have improved over the remainder of the year. The annual December holidays have resulted in lower than normal activations in December. Activations and fall off levels have stabilised in the third quarter.

The primary driver of the increase in fall off levels has been increased levels of customers stopping payments on their debit orders. This has been an industry wide trend. This spike in stop payment behaviour has moderated in the second quarter, albeit settling at a higher rate than the 2015 calendar year levels. Changes in debit order tactics have assisted to reduce the negative impact in the second and third quarter.

Despite the challenges, steady increases in the levels of debit order receipting have been achieved over the past two years. Receipting derived from debit orders is of higher quality than other sources of debt collection receipting. Debit order receipting levels feed into the DMC funding strategy in that they are capable of rated debt securitisation.





Regulatory

Prescription

DMC has adopted an internal policy of not collecting on debt where internal data proves the debt to be prescribed. Systems have been implemented to manage the prescription status of each debt. Approximately R10bn of this older debt identified as prescribed has been written off and debts becoming newly prescribed are written off on a monthly basis.

A recent Supreme Court of Appeals judgement has lent support to the collection policies and practices currently employed by DMC in respect of prescription.

Authenticated Collections

A project is being managed by the Payments Association of South Africa (PASA) in order to replace the current Naedo industry direct debit mechanism with the new AC mechanism. Essentially the new mechanism requires a specific customer initiated mandate before a deduction can be made in the early deduction window.

Initial project implementation timeframes were for a full implementation by October 2016. These timeframes were not able to be met due to the complexity and scale of the project and the systemic risk probability of a hasty implementation. The SARB has now acknowledged the risks and current state of readiness, and revised project timeframes have been approved. Under the new timeframes users will convert to the new system from February 2018, with the existing Naedo system still available as a backstop during this process.

9.5. Group Central Services and unallocated interest

	Q1 FY2017 Jun R'm	Q2 FY2017 Sep R'm	Q3 FY2017 Dec R'm	YTD FY2017 Dec R'm	YTD FY2016 Dec R'm	YTD FY2017 v FY2016 %
Net margin	(5.8)	(6.4)	(4.1)	(16.4)	(9.4)	-75%
Hedging gain/loss	(0.6)	1.3	1.5	2.2	4.4	-51%
Gain on debt repurchase	-	1.5	48.1	49.6	37.4	33%
Operating expenditure	(8.2)	(11.0)	(9.4)	(28.6)	(38.1)	25%
Attributable to providers of qualifying tier II capital	(0.6)	(0.7)	(2.3)	(3.6)	(5.4)	33%
	(15.3)	**(15.3)**	**33.8**	**3.2**	**(11.0)**	**> -100%**
Closed divisions	0.0	(3.4)	(0.5)	(3.9)	(4.0)	3%
	(15.3)	**(18.6)**	**33.2**	**(0.7)**	**(15.0)**	**95%**

The profit for the quarter is due to the gain on debt repurchase of R48.1m. This also caused a significant variance year on year as the gain on debt repurchase is R12.2m higher than the previous period.

Removing the effects of the gain on debt repurchase results in a decrease in loss quarter on quarter.

- *Net margin:* An increase in the JIBAR rate contributed to higher funding costs in the second quarter, while in the third quarter the effect of debt buy backs can be seen in a reducing funding cost.
- *Hedging gain/loss:* There was a hedging gain of R1.5m for the third quarter.
- *Operating expenditure:* The increase in costs in the second quarter included the reversal of the short term incentive provision released in June 2016 in error of R1.7m as an unallocated amount in the Home Finance pool was not carried forward.
- *Attributable to providers of qualifying tier II capital:* A scrip dividend for cumulative preferences shares was accounted for at a premium of 20% in October which resulted in the variance attributable to providers of qualifying tier II capital.

- *Closed divisions*: Closed divisions includes a R2 million impairment provision in the second quarter against the Business Finance South Africa portfolio. The impairment was recorded in the Group division as a result of an internal agreement that the DMC division should not be penalised since assuming responsibility for collecting the receivable. This portfolio is being collected by DMC post closure of the operating activities.

.