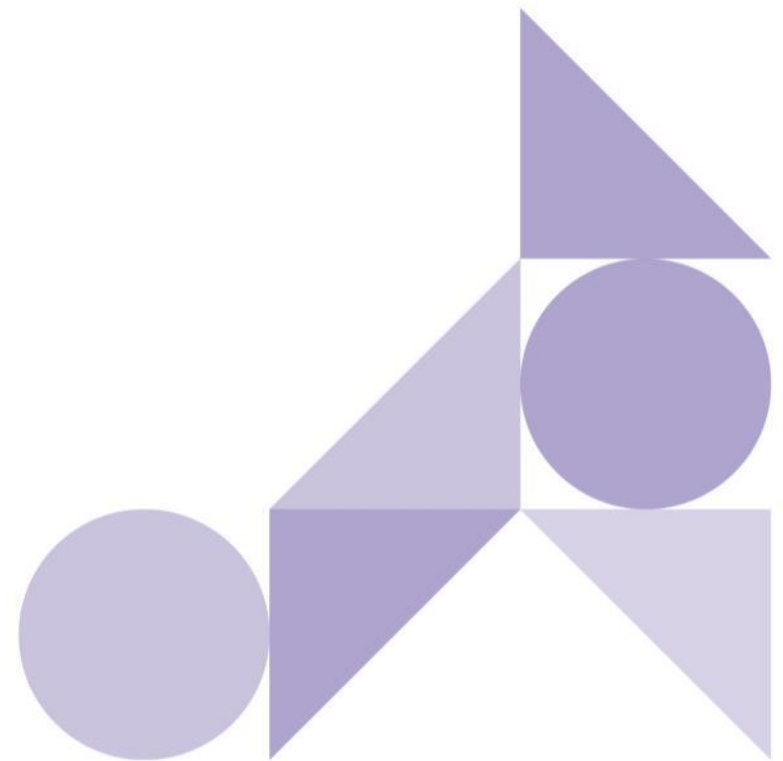


# Real People Kenya Limited

Financial Results

For the six months ended 30 September 2015



# Content page

## Contents

1. Introduction .....	3
2. Overview: Operating environment .....	3
3. Regulatory developments.....	3
4. Corporate actions .....	3
5. Capital .....	3
6. Funding and liquidity .....	4
7. Business Prospects.....	4
8. Financial Results .....	5
9. Credit Performance .....	7



## 1. Introduction

The strategic focus of the business as outlined in the Investment Memorandum produced for the company's recent bond issue - available on the company website [www.realpeoplekenya.co.ke](http://www.realpeoplekenya.co.ke) - remains the same and we continue to focus on deepening our Responsible Finance offering in Kenya. Real People is now well positioned to promote balance sheet growth whilst ensuring stable asset performance, which we expect to translate into improved profitability.

The company is also pleased to report that it was recently honoured to receive an award for the Most Innovative Micro Finance Institute in Kenya for 2015 as sponsored by Citibank and the Association of Micro Finance Institutions in Kenya. We graciously accept the award as an acknowledgment of the hard work and effort that has gone into the development of our business over the past few years.

## 2. Overview: Operating environment

The macro economic environment in Kenya continues to be robust with GDP expectations for 2015 remaining within the **5%-7%** range. This is expected to promote growth within the financial services sector, which is supported by government entrepreneurial programs, and investment by Development Financial Institutions (DFIs) which positively impacts our target market.

Inflation is expected to remain within the single digit targeted range. However, recent currency volatility resulting from a growing trade deficit and global dollar strength is resulting in upward inflationary pressure.

Interest rates are trending higher due to an increase in government borrowing and central bank interventions to protect the currency. As a result financial institutions, particularly banks, have had to revise their lending rates upwards.

## 3. Regulatory developments

Recent industry developments to enhance transparency with regards to the total cost of credit within the financial sector have received significant focus.

The Microfinance (Amendment) Act 2013 requires the Minister of Finance to develop guidelines for regulating non-deposit taking lenders but these are yet to be finalised.

## 4. Corporate actions

Real People successfully launched its maiden bond program in August, raising KSH 1.5 billion from the local and international capital markets. The bonds were issued in two tranches as three and five year fixed rate notes with the majority of the notes being taken up in the five-year space. The issue marks the next stage in the development of the company's balance sheet as the diversification of its funding base reduces its reliance on shareholder funding and positions it well for future growth. The bond issue was significant in recording a number of "firsts" in Kenya: first bonds to be issued and listed by a non-bank MFI; first to be issued by a majority owned South African company and the first bond to offer two tranches on issue. The bonds are listed for trading on the FISMS (Fixed Income Market Segment) of the Nairobi Securities Exchange.

## 5. Capital

Real People covenants to maintain a minimum capital level for the protection of senior funders of 20% of qualifying capital to total assets, where qualifying capital includes ordinary shareholders equity, subordinated debt and preference shares. The business remains adequately capitalised at 29.5%, comfortably above the covenanted level. The decrease since 31 March is due to balance sheet growth as a result of the steady increase in lending volumes since March 2015 and following the successful capital raise in August (still largely reflected as cash at the end of September).

KES million	Mar-15	Sep-15
Qualifying Capital	991	1 021
Total Assets	2 145	3 465
<b>Capital Ratio</b>	<b>46.2%</b>	<b>29.5%</b>

## 6. Funding and liquidity

### 6.1. Funding

The company strengthened its funding position with the launch of its bond programme in August, introducing 5 new local institutional investors and an international investor and reducing its reliance on funding from its parent company on which it had hitherto been wholly reliant. The average term of the notes issued is over 4 years, providing a healthy liquidity position given that the company's assets are all relatively short-term.

### 6.2. Liquidity Management

#### Short-term liquidity Policy

Real People vigilantly manages liquidity risk through strict adherence to its liquidity policy. The short-term liquidity policy was developed from the principles of Basel II's Liquidity Coverage Ratio and designed to ensure that the company is able to meet all of its short obligations during any 12 month rolling period as follows:

Net cash position over the forthcoming 12 months is calculated as follows:

- Expected receipting less 10% haircut, less
- Committed operating expenses, less
- All contractual interest and capital repayments

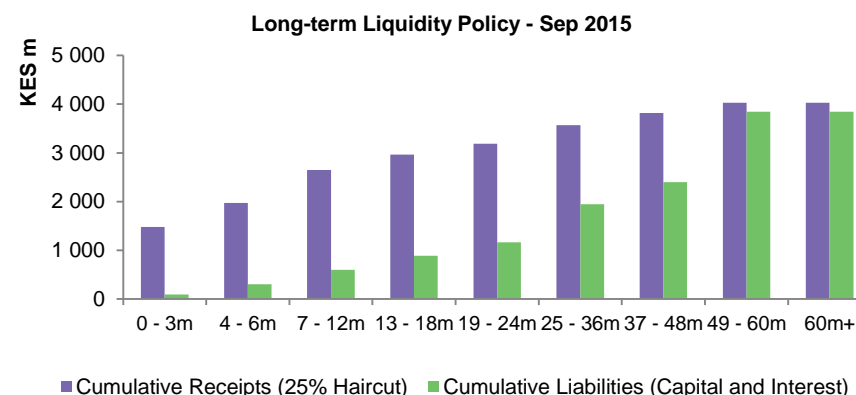
Unencumbered cash together with unutilised committed credit facilities are required to cover any shortfall and, as at 30 September, comfortably meets this requirement as can be seen in the table below.

	KES 'm
Receipting (10% haircut)	1,919
Committed expenses	(624)
Liability payments	(598)
<b>Total net cash inflow</b>	<b>696</b>
Available cash and facilities	972
<b>Surplus</b>	<b>1 669</b>

### Long-term liquidity risk management

In the long term, the business safeguards its debt obligations by ensuring that at any point on its funding profile the following limits are strictly adhered to:

- *Cumulative mismatch limit:* 75% of expected cumulative receipting must at any point on the funding profile exceed the cumulative cash outflows related to contractual debt payments (capital and interest). This is measured and monitored on a monthly basis.



The business intends to raise additional funding for ongoing asset origination and balance sheet growth in what is considered a positive economic environment for business finance origination and is currently focused on raising up to an additional KES1 billion from local and international investors.

## 7. Business Prospects

Management remains confident that the business will achieve a profitable outcome at the end of the financial year, although this will be lower than the forecast estimates provided in the bond programme Information Memorandum for FY16 given a much tougher operating environment than initially foreseen. Initiatives to restore origination volumes and asset growth following origination restrictions in the second half of the previous year, due to funding constraints at group level, are now bearing fruit as new asset origination continues to rise with each month, albeit still below the capacity of the business as it seeks to balance increased growth against asset quality amidst a higher interest rate environment.

## 8. Financial Results

### 8.1.1. Income Statement

#### Statement of financial performance

	Mar 2015 Kes 'm	Sep 2015 Kes 'm	Sep 2014 Kes 'm	2015 v 2014
	Audited	Act	Act	Var
Gross yield from assets	961.4	493.8	565.0	-13%
Impairment provision	(213.6)	(89.1)	(140.5)	-37%
<b>Net yield</b>	<b>747.8</b>	<b>404.8</b>	<b>424.5</b>	<b>-5%</b>
Finance costs	(218.1)	(117.9)	(104.8)	13%
<b>Net margin</b>	<b>529.7</b>	<b>286.8</b>	<b>319.7</b>	<b>-10%</b>
Operating expenditure	(399.0)	(237.8)	(196.5)	21%
<b>Profit before other income</b>	<b>130.7</b>	<b>49.0</b>	<b>123.2</b>	<b>-60%</b>
Other income (FX)	81.1	16.3	49.5	-67%
<b>Profit Before Tax</b>	<b>211.8</b>	<b>65.3</b>	<b>172.7</b>	<b>-62%</b>

#### Gross yield

The decline in gross yield by 13% year-on-year can be attributed to the slowdown in origination during the second half of FY15 due to the constrained funding position at group level resulting in significantly reduced interest income. The decline was offset somewhat by increased fee income due to the growth in new customers during H1FY16 and given the fixed rate of the monthly fee.

#### Impairments

Impairment charges declined by 37% year on year due to:

- the discontinuation of the Group lending product in the prior year which resulted in a shift within the loan portfolio from performing to non-performing loans which carry a higher impairment provision and therefore a higher impairment charge expensed in the prior-year comparative figures;

- the shift in the product mix towards General Purpose Facility loans (“GPF”) and Performing Asset Loans “PAL” (secured); and
- an increased focus on collections.

However, impairment levels are expected to increase, returning to more normalised levels over the second half of the year, as the lag between the resumption in loan origination in January and the point at which those loans first roll into NPL (four months) is eliminated (refer to first graph under “Asset Origination” below).

#### Finance costs

Finance costs increased by 13% year-on-year due largely to the additional funding raised during August compared to the prior year and, to a lesser extent, the rise in the South African Prime lending rate upon which the Intercompany loans are based.

#### Operating costs

The 21% growth in operating costs is primarily attributable to:

- Increased staff costs in accordance with an increase in the staff count and inflation adjusted annual increases
- Amortisation of costs related to upgraded origination and credit assessment technology (Project Victoria),
- Marketing activations, and
- An increase in the costs relating to collections

Overall, the operational expenses remain under control and within the budgeted plan for the business as it gears towards full capacity and economies of scale.

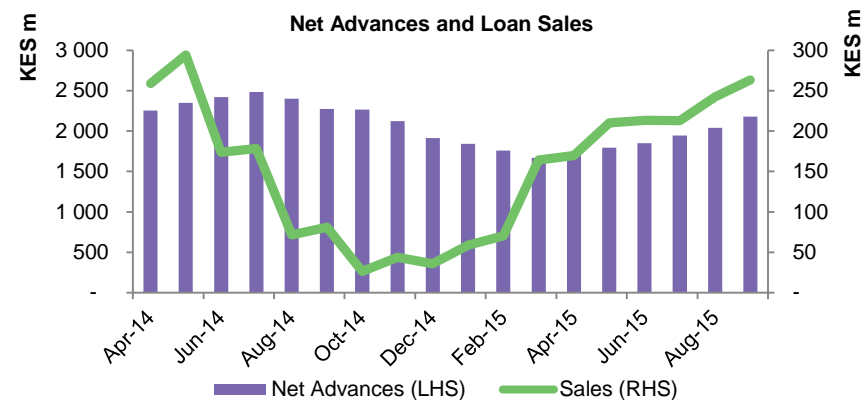
## 8.1.2. Balance Sheet

### Statement of financial position

	Mar 2015 Kes 'm	Sep 2015 Kes 'm	Sep 2014 Kes 'm	2015 v 2014
	Audited	Act	Act	Var
<b>Assets</b>				
Cash and cash equivalents	129	980	287	>100%
Loans & Net Advances	1 697	2 180	2 274	-4%
Property & Equipment	230	135	110	23%
Other assets	89	170	154	11%
<b>Total Assets</b>	<b>2 145</b>	<b>3 465</b>	<b>2 825</b>	<b>23%</b>
<b>Liabilities &amp; Capital</b>				
Borrowed Funds	1 069	2 435	1 662	46%
Other liabilities	85	9	282	-97%
Equity	991	1 021	880	16%
<b>Total Equity &amp; Liabilities</b>	<b>2 145</b>	<b>3 465</b>	<b>2 825</b>	<b>23%</b>

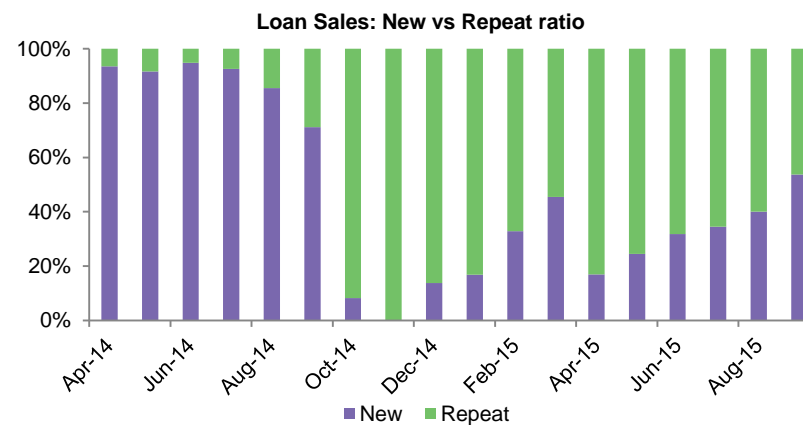
### Asset Origination

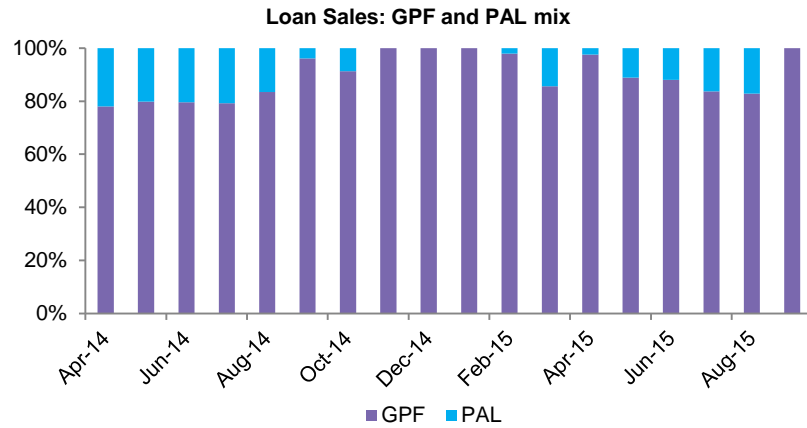
The effects of the significant slowdown in asset origination experienced in the latter parts of 2014 are now beginning to reverse. The increase in loan origination activity since the decrease in group funding constraints earlier in the year and, more latterly, the bond issue has resulted in average monthly loan origination of KES250 million with net advances rising to KES2.2 billion from KES1.7 billion at the end of March 2015 (KES2.3b: Sep-14).



Whilst the business maintains a watchful eye on credit quality, monthly loan origination levels are still somewhat behind their peak of KES380 million prior to the slowdown in origination last year although we remain confident of achieving these levels by the end of H1 2016.

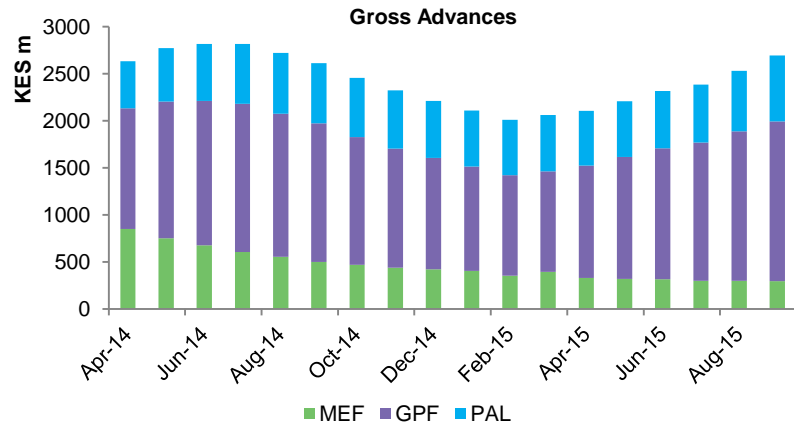
The resumption towards more normalised lending activities has resulted in an improved balance between the new and repeat mix, approaching management's preferred levels of roughly 50% whilst our most popular loan product remains our GPF offering as evidenced in the graphs below.





### Gross Advances – Total Portfolio

Total advances at the end of September are approaching KES2.7 billion, approaching the high of KES2.8bn of June 2014, serving as confirmation that the business has returned to more normalised lending levels. Whilst the discontinued MEF (Micro Enterprise Finance) product continues to run down, the GPF product, at 63%, constitutes the bulk of the advances portfolio.

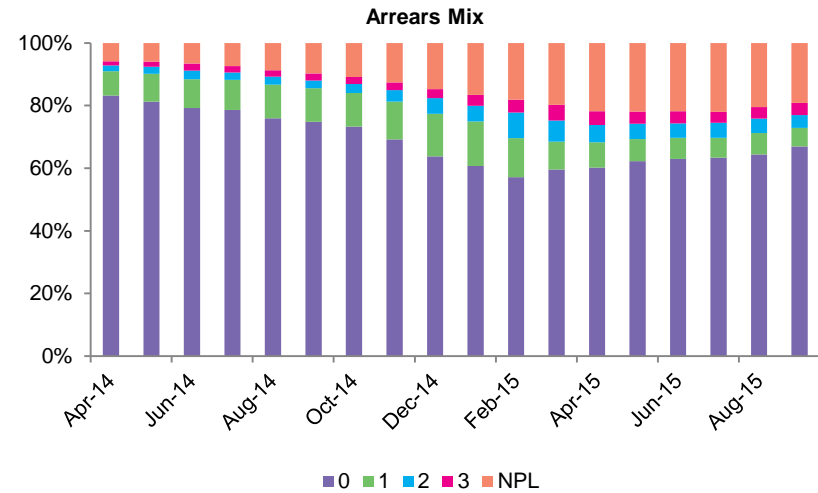


## 9. Credit Performance

The loan book has exhibited signs of improvement as tracked through various credit performance indicators reviewed on a monthly basis.

### Arrears Mix (Gross)

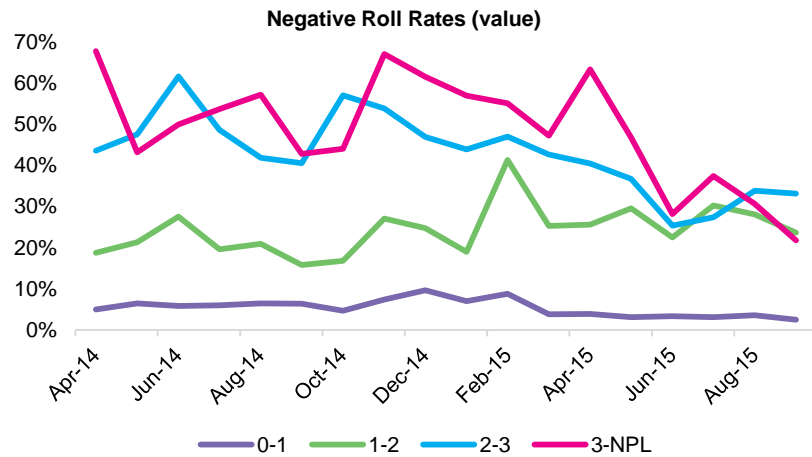
The impact of the increase in loan origination levels is evidenced in the steadily improving arrears mix as the portfolio mix starts returning to more normalised levels within management’s target levels. The arrears mix is expected to continue to improve during the remainder of the financial year given the focus on credit quality and collections in conjunction with the increase in originations.



### Roll Rates

The increased focus on collections and attention to credit quality with respect to loan origination following the resumption of increased lending levels since the beginning of the year is evident in the overall improvement in roll rates across the portfolio. The 1-2 month bucket has however seen a marginal increase in negative rolls over the last 18 months, attributable to overall asset growth and once-off challenges experienced in specific PAL accounts in Feb 2015. Management is determined to ensure that early arrears rolls (in the 1 month -2

month arrears buckets) continue to decline further as they have in the last few months.



**P@R 30**

The inverse relationship between loan origination and portfolio at risk is evident in the graph below and we expect the trend in improved P@R levels to continue to improve now that lending practices are returning to normal. Although still higher than management’s tolerable P@R level of below 10% - which it expects to achieve during H117 - it should be noted that the portfolio is well provided for as reflected in the much lower net P@R ratios.

