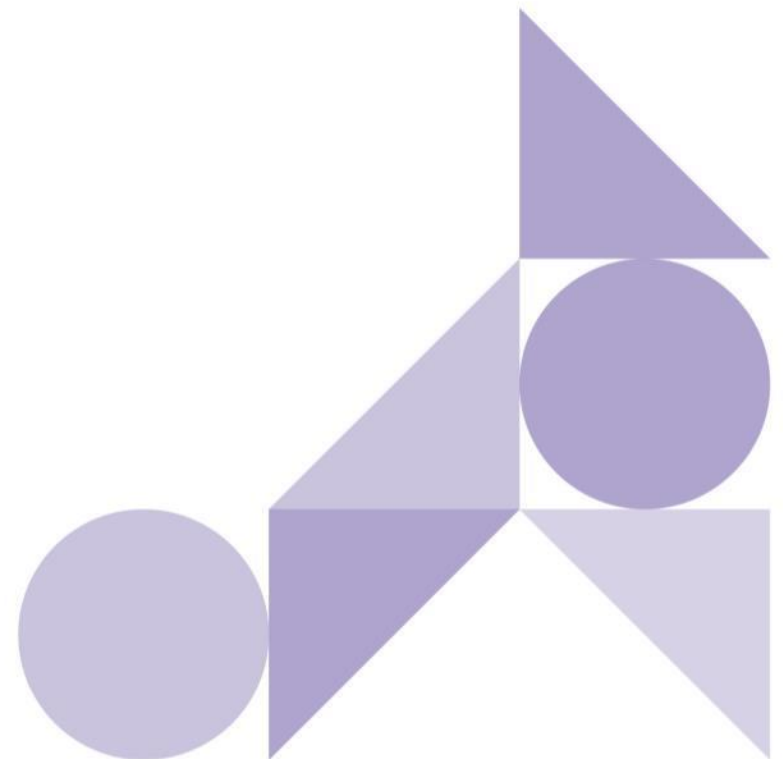


# Real People Kenya Limited

Financial Results

For the nine months ended 31 December 2015



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## 1. Introduction

Over the last nine months, the business has kept a strategic focus of deepening our responsible finance offering to entrepreneurs on the back of steady asset growth. With the closing of the first tranche of our bond program in August 2015, Real People Kenya is now well positioned to promote quality balance sheet growth whilst ensuring stable asset performance, which we expect to translate into improved profitability.

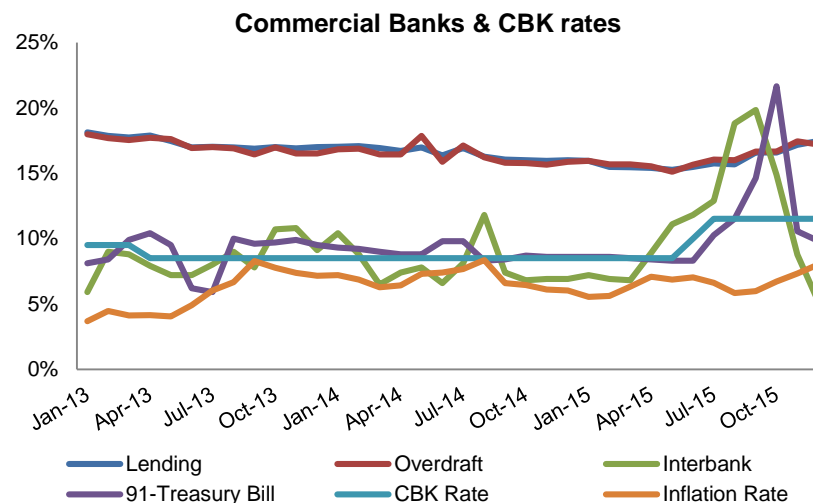
As a company, we have also continued to strengthen our human capital capacity by ensuring that the skills we have on board are able to deliver the strategic challenge we have set for ourselves.

## 2. Overview: Operating environment

The macroeconomic environment appears to portend stability with analysts predicting GDP growth of between 5.5 - 6.5% in 2015/ 2016. Private sector credit has grown at a lower than expected rate due to the recent base lending rate increases by the CBK intended to cushion the Kenya Shilling exchange rate from entering into free fall.

Over the nine months to Dec 2015, inflation was contained within the Treasury's medium term target levels of 2.5-7.5%, although it surpassed this range in December 2015 to 8.1% owing to the introduction of new excise taxes.

The July – Oct 2015 period saw significant volatility in interest rates in the market as commercial banks raised their loan rates to highs of 24+% following huge spikes in the TB bill rates. Despite the volatility, we took a longer-term view and did not revise our lending rates. As at end December 2015 and following sustained pressure from CBK, and reduced / diversified borrowing by Government, the Treasury bill (91 day) rates have recently settled at about 11% from a high of 24% in September with expectations that price stability will be the CBK's main priority for the next twelve months.



## 3. Regulatory developments

No significant regulatory developments were noted over the period. However, cognisance is taken of the significant emphasis by the CBK of the financial sectors need to lower the overall cost of credit and we expect this focus to continue over the foreseeable future.

The envisaged guidelines for credit only institutions arising from The Microfinance (Amendment) Act 2013 are yet to be developed and finalised. In essence, the credit only space remains unregulated, albeit government has shown its intention to develop the necessary operating guidelines for such industry participants.

## 4. 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 33.5%, significantly above the covenanted level. The increase in the capital ratio since September 2015 is due to the decrease in total assets as the long-term liabilities were partially repaid out of receiving from debtors.

KES million	Mar-15	Sept-15	Dec-15
Qualifying Capital	991	1 021	1 076
Total Assets	2 145	3 465	3 211
<b>Capital Ratio</b>	<b>46.2%</b>	<b>29.5%</b>	<b>33.5%</b>

## 5. Funding and liquidity

### 5.1. Funding

The company is funded through a mix of local currency long-term debt raised from the local capital markets and a South African rand denominated loan from its parent company. The company's stated intention is to repay the shareholder loan in order to remove currency volatility from its earnings line and it has been successful in reducing the outstanding loan amount over the past six months. Real People maintain a healthy liquidity position given the positive liquidity gap between its assets and liabilities.

### 5.2. 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 is designed to ensure that the company is able to meet all of its short-term 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 unutilized committed credit facilities are required to cover any shortfall and, as at 31 December, comfortably meets this requirement as can be seen in the table below.

Sept-15 Dec-15

KES 'm KES 'm

Receipting (10% haircut)

Committed expenses

Liability payments

**Total net cash inflow**

Available cash and facilities

**Surplus**

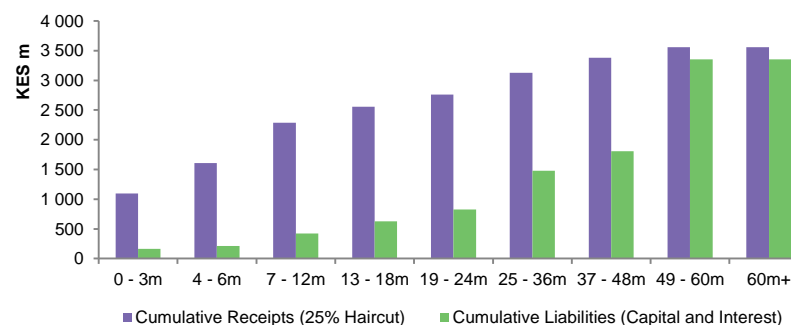
1,919	2,075
(624)	(642)
(598)	(480)
<b>696</b>	<b>953</b>
972	498
<b>1 669</b>	<b>1 451</b>

#### 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.*

Long-term Liquidity Policy - Dec 2015



## 6. Business Prospects

Though competitive pressure in the market is expected to continue to increase, Management is of the view that the market opportunity in our selected microenterprise and SME segments remains significant. Consequently and in order to ensure our Productive Asset Loan (PAL) product remains competitive and attractive to our customers, we intend to conduct a product review to further enhance the customer value proposition for this product.

Overall in the short term (for the next two quarters), Management will take a conservative approach to asset growth as we consolidate our efforts in further building collections expertise, conduct a product re-price exercise and review our provisioning methodology.

With this approach, management expects a consistent enhancement of asset quality and steady growth on the book, in line with our responsible growth agenda.

## 7. Financial Results

### 7.1.1. Income Statement

#### *Statement of financial performance*

#### *Gross yield*

The growth in gross yield of 4% year-on-year is attributed to the increase in loan origination volumes during the past quarter made possible following the bond issue in August.

#### *Impairments*

Impairment charges rose by 25% year on year in accordance with:

- The proportionate growth in net advances year-on-year;
- A clean-up of the discontinued legacy MEF portfolio remaining on balance sheet. Although we continue to collect on this portfolio, management has taken the decision to fully provide for the portfolio and carry it forward at zero value. The slight increase in the credit loss ratio is evidence of this provisioning increase.

In Kshs million	Dec-2015	Dec-2014
Total Impairment charge (Annualised)	279	224
Average gross Loans & Advances	2,716	2,636
Credit loss ratio	10.3%	8.5%

	FY Mar 2015 Kes 'm Audited	YTD Sep 2015 Kes 'm Act	Q3 Dec 2015 Kes 'm Act	YTD Dec 2015 Kes 'm Act	YTD Dec 2014 Kes 'm Act	2015 V 2014 Var
Gross yield from assets	961.4	493.8	336.0	829.8	797.1	4%
Impairment provision	(213.6)	(89.1)	(120.3)	(209.4)	(168.1)	25%
<b>Net yield</b>	<b>747.8</b>	<b>404.8</b>	<b>215.7</b>	<b>620.5</b>	<b>628.9</b>	<b>-1%</b>
Finance costs	(218.1)	(117.9)	(93.4)	(211.3)	(157.1)	34%
<b>Net margin</b>	<b>529.7</b>	<b>286.8</b>	<b>122.3</b>	<b>409.2</b>	<b>471.8</b>	<b>-13%</b>
Operating expenditure	(399.0)	(237.8)	(130.5)	(368.3)	(295.9)	24%
<b>Profit Before Except Items</b>	<b>130.7</b>	<b>49.0</b>	<b>(8.2)</b>	<b>40.8</b>	<b>175.9</b>	<b>-77%</b>
Other income (FX)	81.1	16.3	86.7	103.0	41.6	>100%
<b>Profit Before Tax</b>	<b>211.8</b>	<b>65.3</b>	<b>78.5</b>	<b>143.9</b>	<b>217.5</b>	<b>-34%</b>

#### *Finance costs*

Finance costs increased by 34% year-on-year in line with the increase in year-on-year borrowings following the August bond issue. The company's weighted average cost of funding has increased to 15.3% from 14.6% in December 2015.

#### *Operating costs*

The 24% growth in operating costs is primarily attributable to:

- Increased staff costs arising largely from the introduction of a pension scheme for staff in FY2016 and to a lesser extent an increase in the staff

count and inflation adjusted annual increases. Staff training costs also increased, adding to the general increase in employee related costs.

- Amortisation of costs related to upgraded origination and credit assessment technology (Project Victoria),
- Premises costs due to relocation of branch offices in Nairobi and Nakuru, and
- Targeted marketing activations.

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

### Key Performance Indicators

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Return on interest bearing assets	37.0%	36.6%	30.9%	31.1%	32.9%
Cost of funds	14.8%	16.3%	14.0%	14.6%	15.3%
Credit loss ratio	8.5%	9.5%	9.0%	7.0%	10.3%
Fees over interest bearing assets	4.4%	4.6%	8.4%	7.0%	6.7%
NPL ratio	20.2%	19.1%	29.7%	25.5%	24.8%
Provision coverage - Portfolio	6.4%	7.7%	4.3%	5.2%	4.6%
Provision coverage - Specific	70.1%	141.9%	65.4%	70.0%	70.0%
Provision coverage W/O assets	81.6%	90.7%	98.8%	99.9%	99.1%

### 7.1.2. Balance Sheet

#### Statement of financial position

#### Asset Origination

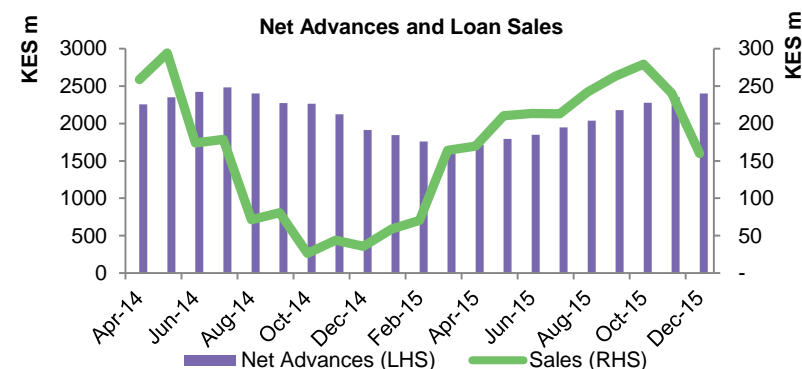
The effects of the significant slowdown in asset origination experienced in the latter parts of 2014 have partially reversed. Q3 origination was adversely affected by the interest rates spikes experienced over the period under review leading to monthly average sales peaking at KES 280m before declining to KES 160m

	Mar 2015 Kes 'm	Sep 2015 Kes 'm	Dec 2015 Kes 'm	Dec 2014 Kes 'm	2015 V 2014 %
	Audited	Act	Act	Act	%
<b>Assets</b>					
Cash and cash equivalents	129	980	502	167	>100%
Loans & Advances (Net)	1,697	2,180	2,401	1,966	22%
Property & Equipment	230	135	129	121	7%
Other assets	89	170	180	52	>100%
<b>Total Assets</b>	<b>2,145</b>	<b>3,465</b>	<b>3,211</b>	<b>2,307</b>	<b>39%</b>

#### Assets

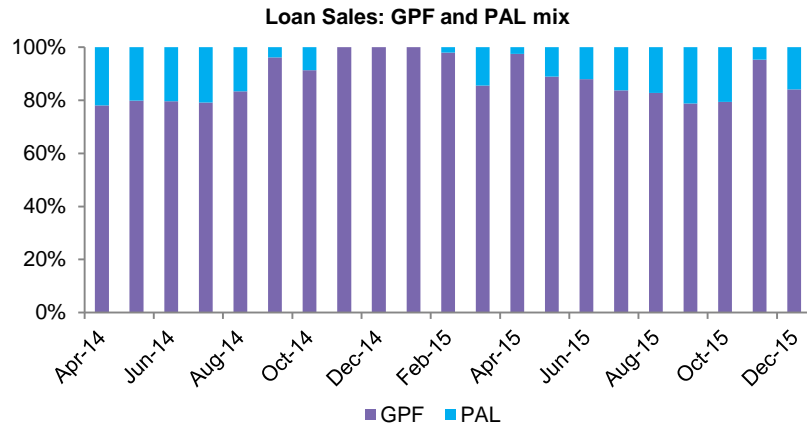
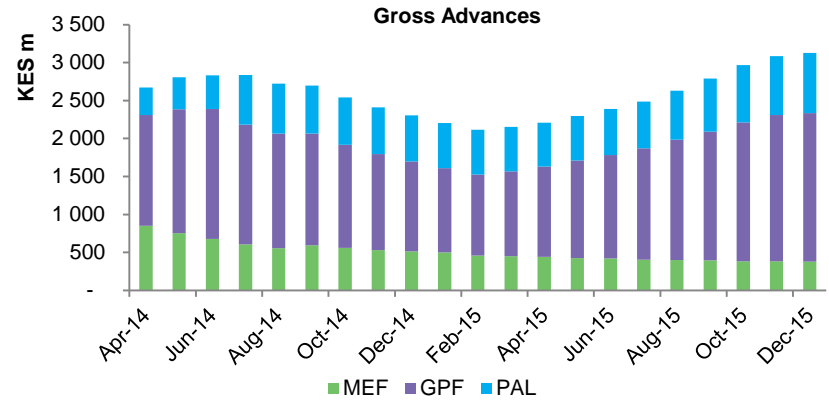
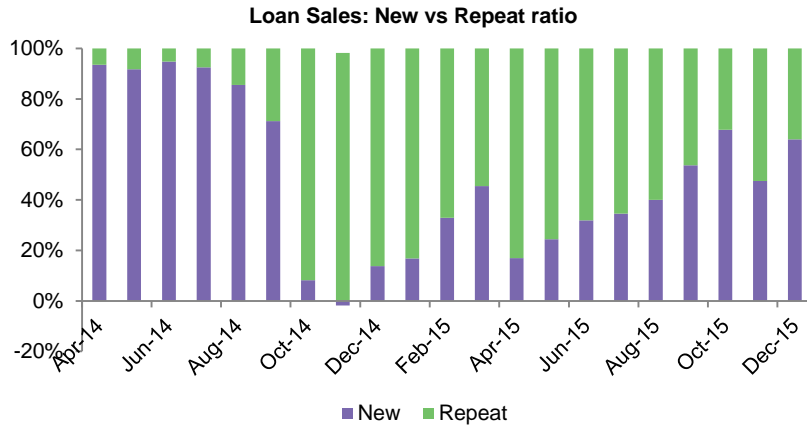
<b>Liabilities &amp; Capital</b>					
Borrowed Funds	1,069	2,435	2,122	1,051	>100%
Other liabilities	85	9	13	360	-96%
Equity	991	1,021	1,076	896	20%
<b>Total Equity &amp; Liabilities</b>	<b>2,145</b>	<b>3,465</b>	<b>3,211</b>	<b>2,307</b>	<b>39%</b>

#### Liabilities & Capital



Credit quality remains the top priority for the business and therefore monthly loan origination levels remain behind their peak of KES380 million prior to the slowdown in origination levels last year. We remain confident of achieving these levels again by the end of H1 FYE 2016.

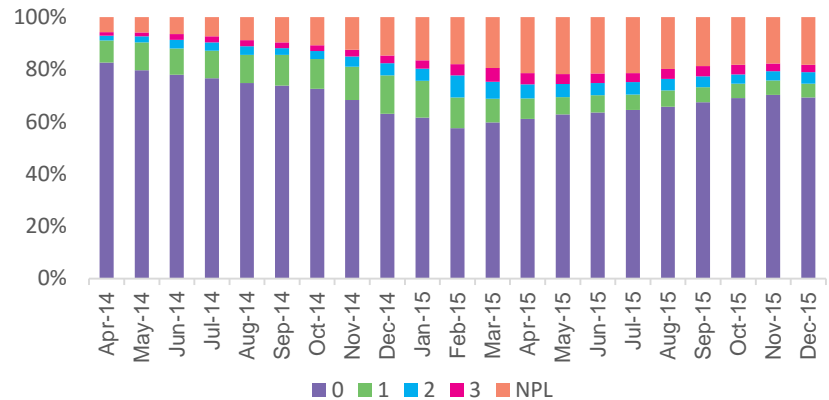
The lending activities resumption has resulted in an improved 'new and repeat' mix ratio approaching management's preferred levels of roughly 50%. GFP remains the most popular offering to our customer base.



## 8. Credit Quality

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

### Arrears Mix (Gross)



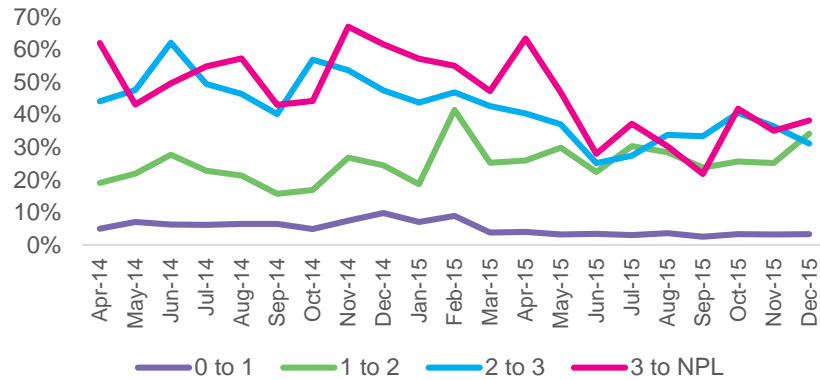
### Gross Advances – Total Portfolio

Total advances at the end of December had passed the KES3 billion mark, exceeding the high of KES2.8bn achieved in June 2014, clear evidence of the business's return to more normalised lending levels. The facility product (GPF) continues to dominate the portfolio at 63%.

The arrears mix has steadily continued to improve as a results of higher origination levels. The arrears mix is expected to continue to improve during the remainder of

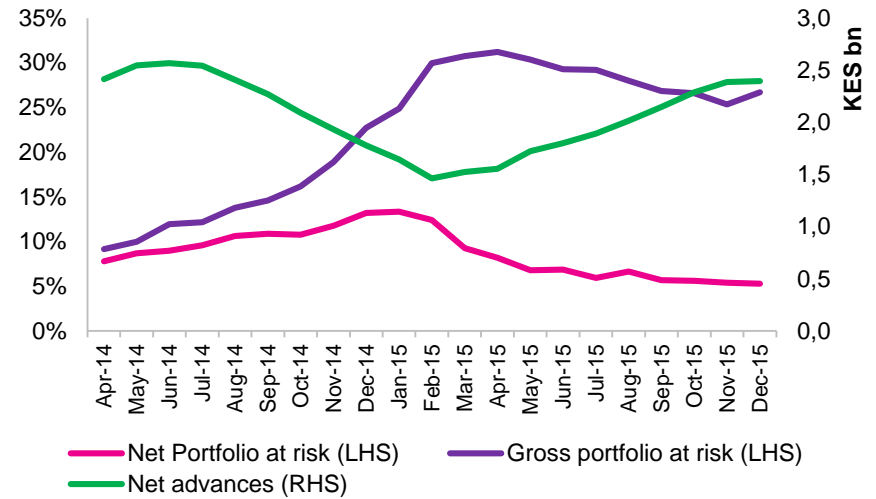
the financial year given the focus on credit quality and collections in conjunction with the increase in originations.

### 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 12 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%, it should be noted that the portfolio is well provided for as reflected in the much lower net P@R ratios.