Finclusion Group – Financial Update

Q1-2021 (31 MARCH 2021)

FINCLUSION
PRIVATE LIMITED

Profit & Loss

For period ended 31 March 2021

High Level Financials

USD (Millions)	31-Dec-20	31-Jan-21	28-Feb-21	31-Mar-21
Net Interest Income:				
(+) Interest Income:	5.28	0.41	0.82	1.17
(-) Interest Expense:	- 0.96	- 0.07	- 0.16	- 0.30
Net Interest Income:	**4.32**	**0.33**	**0.66**	**0.87**
Non-interest income:	5.24	0.36	0.75	1.13
Impairments losses on loans to customers:	- 1.68	- 0.09	- 0.05	- 0.02
(-/+) Foreign exchange gains/losses	- 1.10	0.04	- 0.06	0.26
(-/+) Share of Profit/Loss from Associate	0.01	0.00	0.00	0.00
Operating Income:	**6.78**	**0.63**	**1.31**	**2.25**
(-) Employee Costs:	- 3.20	- 0.24	- 0.47	- 0.70
(-) Professional Fees:	- 0.61	- 0.05	- 0.10	- 0.15
(-) Other Operating Expenses:	- 1.74	- 0.10	- 0.19	- 0.26
(-) Sales/Marketing Expenses:	- 0.42	- 0.03	- 0.06	- 0.08
(-) Fee and Commission Expense:	- 0.29	- 0.06	- 0.11	- 0.19
(-) Management Fees / Royalties	-	-	0.00	0.00
(-) Depreciation & Amortization:	- 0.35	- 0.03	- 0.06	- 0.09
Total Operating Expenses:	**- 6.60**	**- 0.50**	**- 0.99**	**- 1.47**
Profit before tax:	**0.18**	**0.13**	**0.32**	**0.77**
(-) Income Tax Expense / (+) Tax Benefit:	- 0.57	- 0.06	- 0.08	- 0.19
Profit after tax	**- 0.39**	**0.07**	**0.24**	**0.58**

Commentary

- Finclusion posted moderate profits for Q1-2021 (QTD PAT: USD0.58m) underpinned by healthy performance in Kenya and Eswatini (QTD PAT of USD0.72m and USD0.18m respectively).
- South Africa remains loss-making (QTD LAT: USD0.46m) with recovery plans based on achieving optimal economies of scale through growth in the loan portfolio.
- QTD cost-to-income improved to 65.1% (2020 YTD: 78%) on the back of initiatives to rationalize OPEX in 2020. Optimal OPEX run-rate is c.USD0.6m/month, this coupled with upscaling the loan portfolio would see sustained profitability.
- Q1-2021 saw the EUR weaken against the dollar, while both KES and ZAR gained ground on the USD (which is the functional and reporting currency of the group).
- Finclusion thus posted a QTD FX gain of USD0.26m as a result. This represents c.33% of PBT.

Balance Sheet

As at 31 March 2021

High Level Financials

USD (Millions)	31-Dec-20	31-Jan-21	28-Feb-21	31-Mar-21
Assets:				
Cash and cash equivalents	1.95	2.60	3.03	2.87
Gross Loans	17.50	16.87	17.03	17.49
(-) Provisions	- 2.75	- 2.62	- 2.61	- 2.47
Net Loans and advances to customers	**14.75**	**14.25**	**14.42**	**15.02**
Other assets	4.48	5.00	4.56	4.50
Intangible assets	**0.46**	**0.43**	**0.43**	**0.43**
Goodwill	0.79	0.76	0.77	0.78
Total assets	**22.44**	**23.05**	**23.20**	**23.61**
Equity:				
Parent equity	10.53	10.26	10.25	10.57
Non-controlling interest	1.71	1.80	1.93	2.07
Total equity	**12.24**	**12.06**	**12.18**	**12.64**
Liabilities:				
Bank overdraft	0.03	0.07	0.05	0.07
External borrowings	5.86	6.51	6.75	6.79
Related party loan	1.25	1.42	1.47	1.59
Shareholder loans	-	-	-	-
Other liabilities	3.06	2.99	2.75	2.51
Total liabilities	**10.20**	**10.99**	**11.02**	**10.96**
Total equity and liabilities	**22.44**	**23.05**	**23.20**	**23.61**

Commentary

- The South African economy shrank by 7% in 2020 (Stats SA) with Q1-2021 seeing continued pressure on consumers disposal income.
- Gross loans thus remained static over the quarter. This reflective of seasonality and a slower market recovery from the pandemic.
- This was below growth projections but not disappointing as credit quality remained high, new payrolls were added and new product offerings rolled out.
- Finclusion held 12% of its total assets in liquid assets (cash and cash equivalents) at 31 March 2021 with plans to gradually fund a portion of its loan portfolio from this liquidity buffer.
- The drop in LLP (loan loss provision) was due to an impairment release booked in March-2021. This due to a correction of previous overprovision carried during the height of the pandemic and a change in the probability of default (PD) due to improvement in TTC (through the cycle curve) resulting in lower ECL (expected credit loss).
- Finclusion continues to focus on delivering relevant and complete digital solutions to our clients.

KPI's – 31 March 2021

High Level Financials

Key Performance Indicators	31-Dec-20	31-Jan-21	28-Feb-21	31-Mar-21
Operating income growth (Excl. impairments)	-1.6%		104.4%	41.3%
Total operating expense growth	-0.3%		165.2%	49.0%
Cost to Income Ratio	78.0%	69.4%	73.0%	65.1%
Loan loss provision (LLP) ratio	9.6%	6.6%	3.4%	1.0%
Net interest income / Operating Income	45.2%	48.1%	46.8%	43.6%
Non interest income / Operating Income	54.8%	51.9%	53.2%	56.4%
Loan loss coverage ratio (EBIT/Impairments)	0.68x	2.19x	10.46x	68.89x
Interest Coverage Ratio (EBIT/Interest Payments)	1.18x	2.76x	3.02x	3.60x
EBIT (in millions)	1.14	0.20	0.48	1.07
Loan book growth	1.3%	-2.4%	-1.4%	2.7%
Net Loans / Total Assets:	65.8%	61.8%	62.1%	63.6%
Interest earning Assets/ Interest Bearing Liabilities	223.5%	193.9%	190.7%	195.1%
Credit Loss Ratio	15.7%	15.5%	15.3%	14.1%
DER (Debt to Equity Ratio)	0.58x	0.66x	0.68x	0.67x

Commentary

- Despite increasing its interest-bearing liabilities by USD1.31m between 31 Dec 2020 and 31 March 2021, the Group continues to be largely equity funded with a DER of 0.67x (ICR:3.60x) with plans to grow the book via debt raise.
- Operating income growth of 41% MOM was attributable to healthy yields on earning assets coupled with a once off ECL release and FX gains.

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