



Transforming lives through responsible credit
and financial wellness solutions

A  **FINCLUSION** GROUP COMPANY



About smartadvance

smartadvance, a registered credit and financial services provider, is powered by Finclusion group, which through its portfolio of companies aims to enhance financial inclusion in sub-Saharan Africa with a strategic focus on simplicity and ease of use.

- Diversified portfolio of lending and financial wellness products in South Africa.
- Fully digital lending model well suited post covid-19, particularly paired with proven alternative credit scoring models and partnership distribution models already in place.
- Significant future growth possibilities within emerging middle class and technology adoption not currently factored in.
- Unique risk/return through profitable baseline economics whilst being positioned ideally to benefit from macroeconomic trends.
- Strategy executed by a management team with 60 years of experience in credit, as part of the wider Finclusion Group founded by Timothy Nuy in 2018.
- Strong board in place and world class risk management and reporting



65 employees

a team passionate about our customer



9.4%

Credit Loss Ratio



>170 000

Customers



>1.2m

Loans granted



>2bn

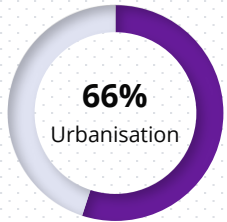
Disbursed

SA opportunity

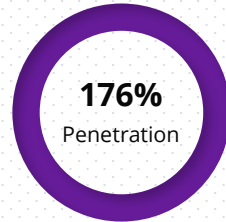
Unique opportunity to drive financial inclusion to a broad consumer market



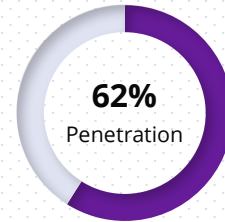
Total population
58.93 million



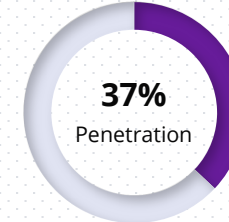
Mobile connections
103.5 Million



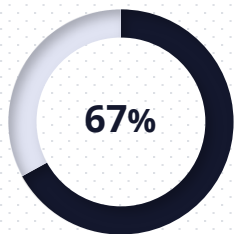
Internet users
36.54 million



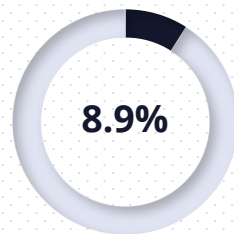
Social media users
22 million



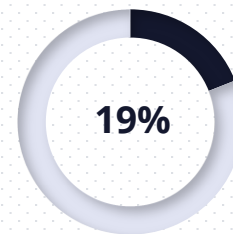
Has an account with a
financial institution



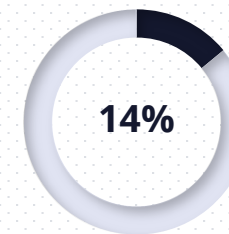
Has a credit card



Has a mobile money
account

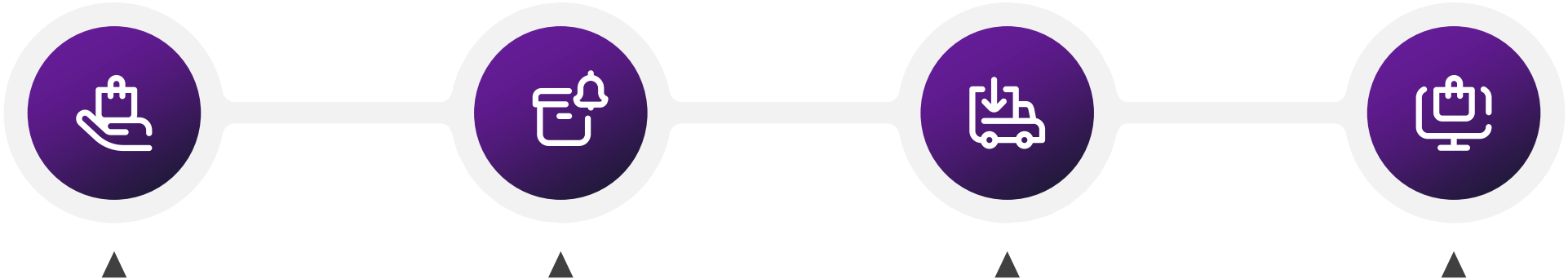


Makes online purchases or
payments



How we prepared for a covid-19 world

The business took corrective action to mitigate credit risk, improve the loan process, and maintain a high level of customer service.



Voice contracting

- ✓ Reduce time on application
- ✓ Improve turnaround time
- ✓ Quicker payout of funds

Remote contact center

- ✓ AI driven call center
- ✓ Accessible from any device
- ✓ Flawless customer service

Adapted lending criteria

- ✓ Mitigate reckless lending
- ✓ Reduce over indebtedness
- ✓ Improve credit quality

Collection innovation

- ✓ Provided payment plans
- ✓ Alternative payment options
- ✓ Rewards good behaviour

How we are positively impacting our clients and driving loyalty



Financial education

Provide the tools to educate clients on financial basics, enabling them to make better financial solutions for the future.



Education loans

Offering education loans at a lower interest rate to those that wish to further their education.



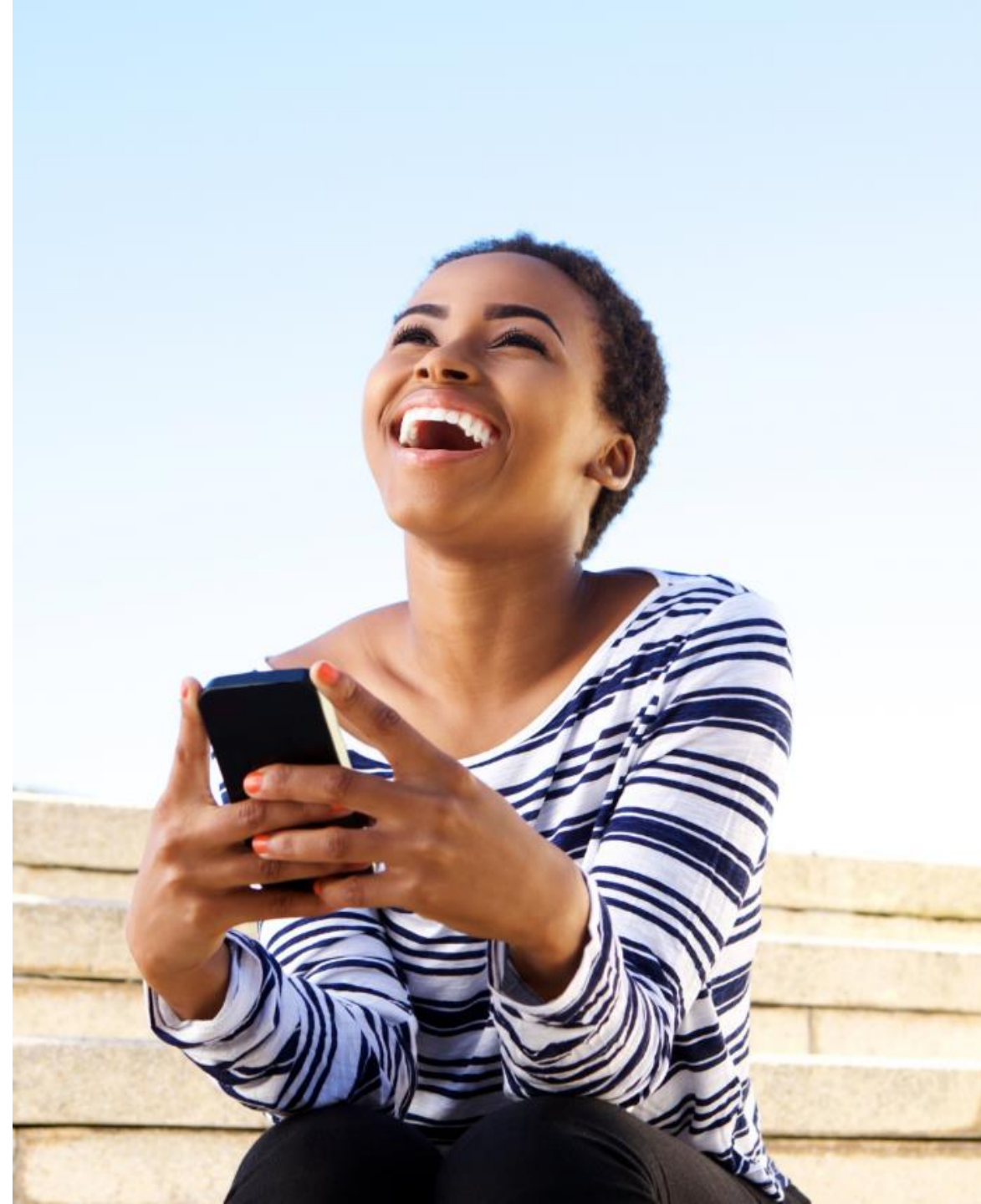
Credit rehabilitation

Provide a product to assist with over-indebtedness, backlisting and judgements through tailored financial products.



Funeral cover

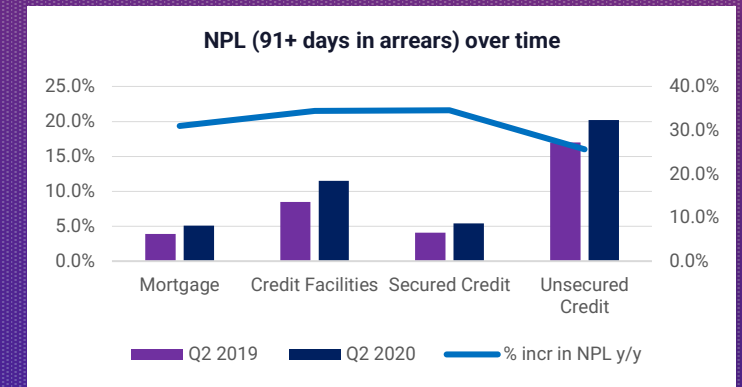
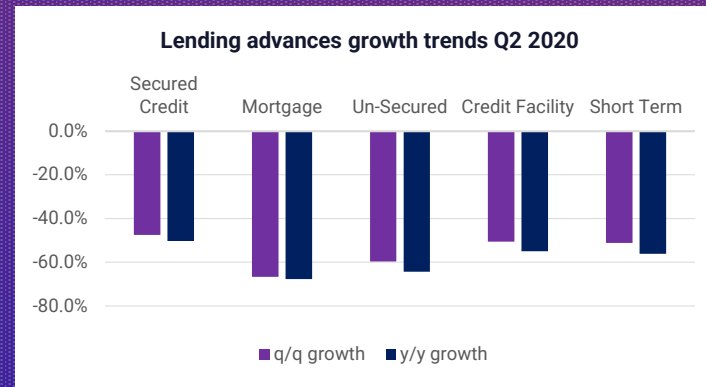
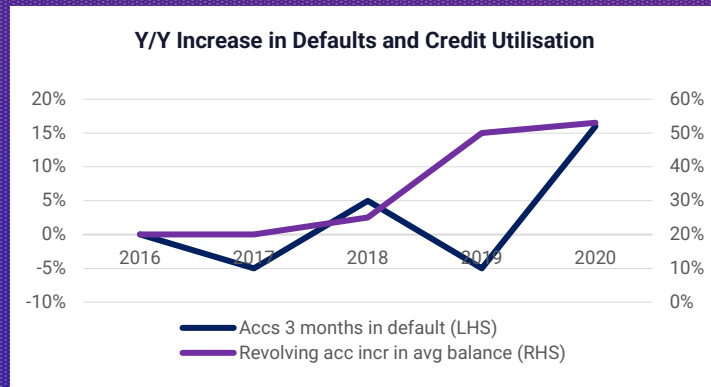
Customers have access to funeral cover tailored to suit family and financial needs that will ease financial stress in future.



Consumer lending in South Africa

State of the market

The South African market in Q3 has seen the Level 1 lockdown conditions remain in place despite grandstanding from lower-level politicians and a slight increase in infection rates.



YoY increase in defaults

- Increase in credit points to an increased level of lending distress.
- increasing defaults as a result of the end of payment holidays provided by banks and lenders.
- This has been offset by the reduction in interest rates.

Lending advances growth

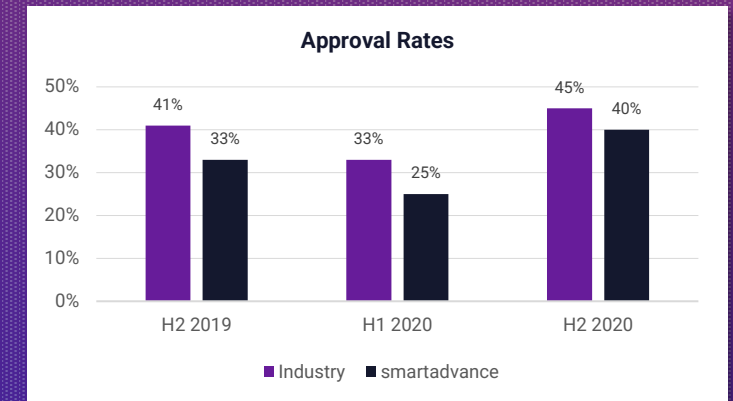
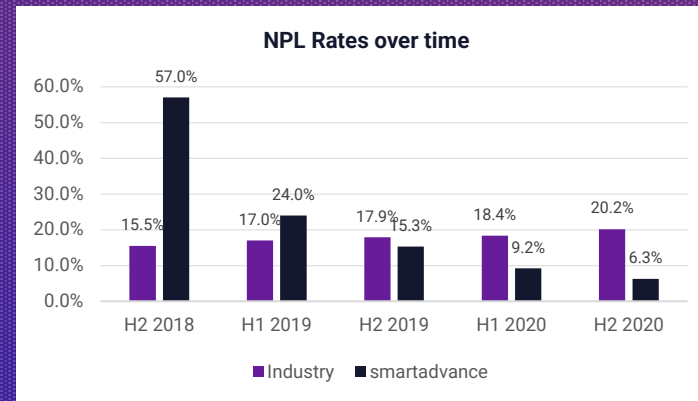
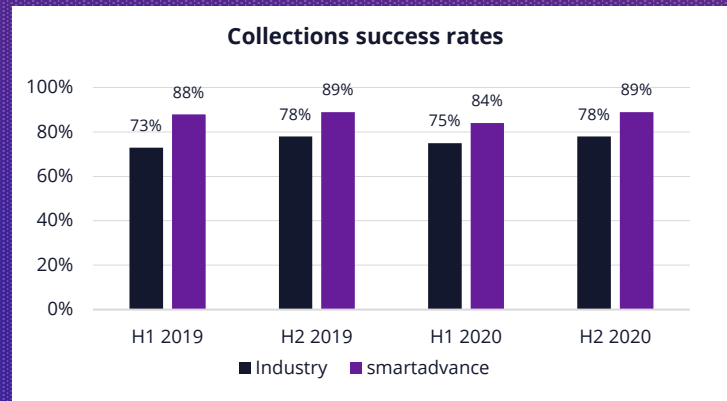
- Substantial contraction across all categories.
- Lenders forced to shutter a significant part of their branch infrastructure
- Resulted in sales reductions of between 60% and 80%

NPL's over time

- Visible increase in the level of non-Performing Loans during the first four months of the lockdown.
- Increases in the facilities, secured credit and unsecured lending segments was expected, e seen to be an
- Acceleration of "bubble" seen in the unsecured and vehicle finance markets and predicted in our H2 2019 report.

How SmartAdvance responded

The business had already taken a significant amount of corrective action on the loan portfolio as we reshaped the credit risk approach, the loan process, and our position in the market that the loan portfolio entered the lockdown in a significantly more insulated state than those of other providers.



Collection success rate

- Collection rates have consistently outperformed the industry during lockdown.
- Implemented strategies to manage the seasonally higher risk collection months of December and January.

NPL rates over time

- Maintained an improving NPL rate whilst growing approval rates.
- First Payment Missed metric, a strong lead indicator of portfolio quality - less than 1% for the past six months, compared to 5%+ in 2018 and against an industry benchmark of 3%.

Approval rates

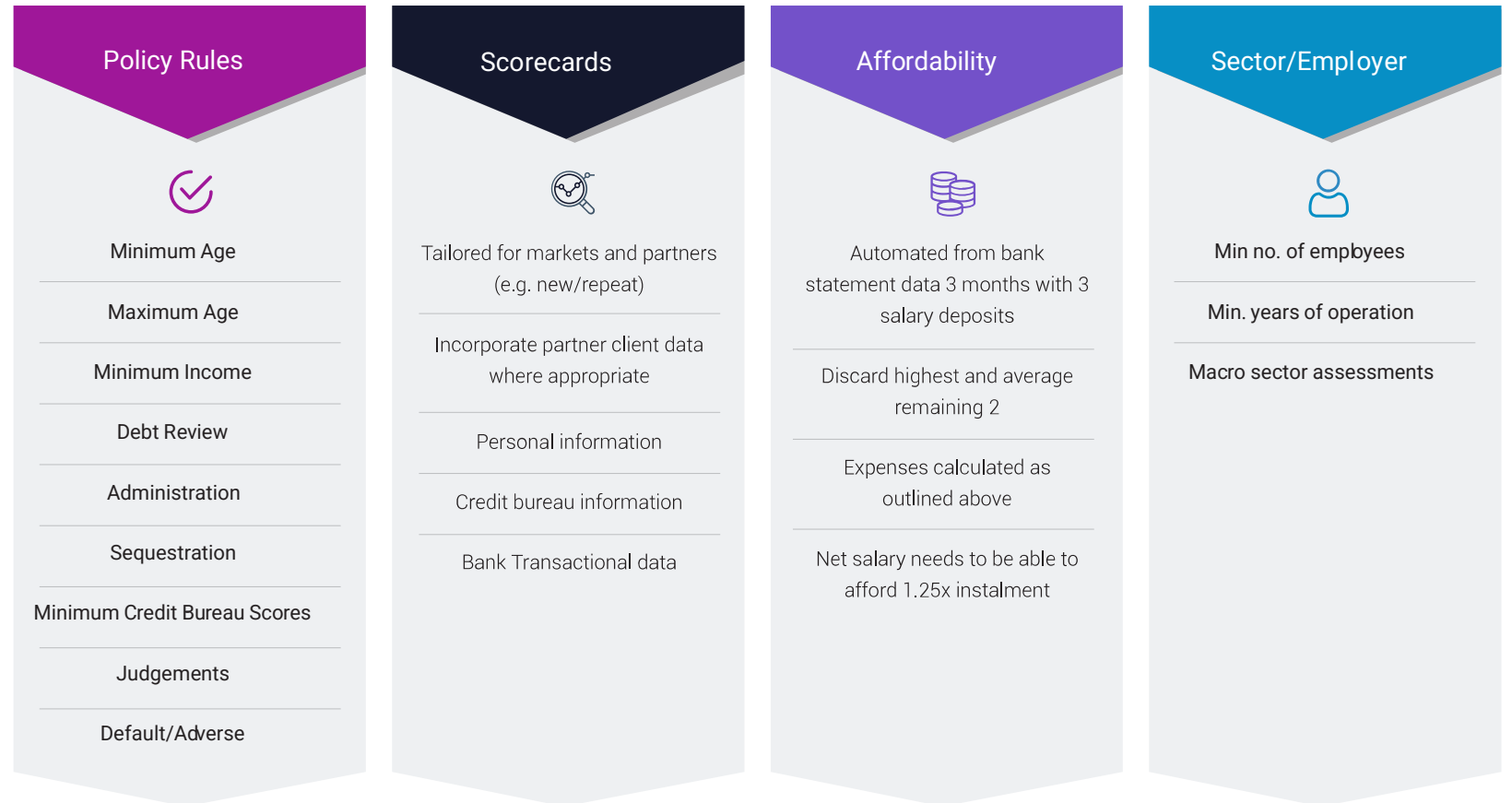
We were extremely conservative through H1 as we strove to understand the shifts in consumer data. This allowed us to recover exponentially in the second half of the year while still maintaining a high level of quality advances.

Credit scoring model

Through a bespoke online portal, clients can create a profile and apply for a loan.

Clients upload documents to get an instant quote according to their personal affordability, based on internal processes as well as credit bureau data.

On approval of the loan application, funds will be paid into the customer's bank account and monthly instalments will be collected via debit order from their bank account





Credit scoring model (continued)

Assessment and Credit Scoring Model

SmartAdvance utilises a risk scoring engine that analyses aggregated 'big data'. The credit scoring engine is configured with the credit policy parameters and is embedded in the system, preventing human intervention which can result in breaches of policy.

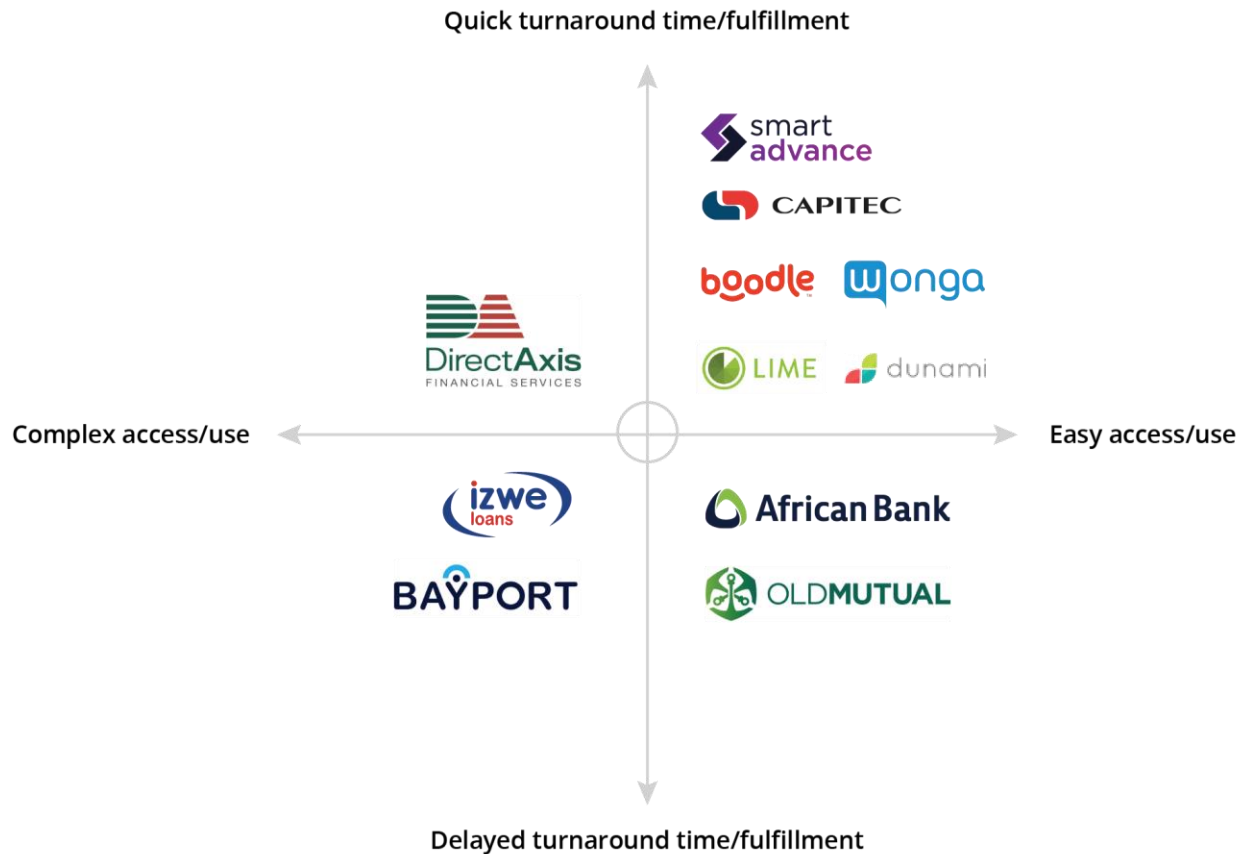
SmartAdvance also make use of credit risk cover for its customers which covers the outstanding capital in the event of a customer's loss of income relating to death, temporary and permanent disability, or retrenchment.

External credit bureau enquiries are used to establish outright application disqualifying factors such as fraud indicators, insolvency, debt review status as well as external exposure information relating to account handling, balances, and client commitments.

All core customer data supplied in the application process is vetted automatically against external and independent data sources specifically pertaining to personal details, employment details, customer bank details and customer earning and exposure details. In the absence of automated controls, such validation is performed manually

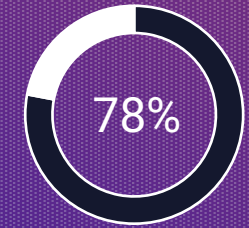
Market proposition

Market proposition/ Competitive advantage



Collection rates:

- Smartadvance
- Industry standard



Smartadvance remains confident in the quality of its loan portfolio

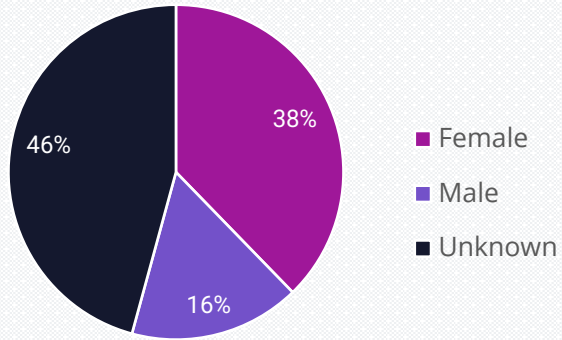
The business is ahead of its competitors in reshaping its loan portfolios ahead of the anticipated unsecured lending market correction in the next 12 to 18 months. It has already sold off the older NPL portion of its portfolio and taken a more conservative view of its credit scoring models, including incorporating more transactional behaviour information (sourced from the customers bank statement and psychometric scoring models).

Ownership of the underlying technology platforms for both lending and insurance provides us with a greater sense of control over our technology journey and supports the delivery of the strategy

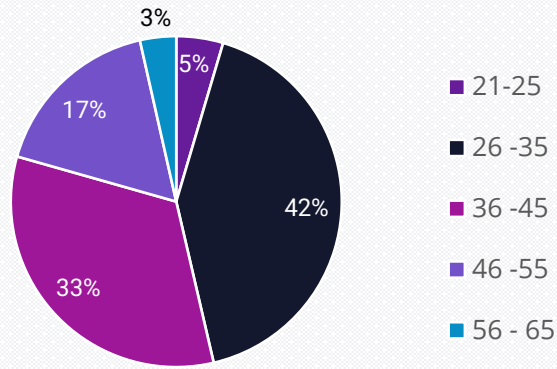
The results of the above has been a marked improvement in the quality of the loan portfolio with IFRS9 compliant Expected Credit Loss sitting at 11% and collection standing at 89% for 2020YTD (industry 78%: 2020 YTD)

Target Market

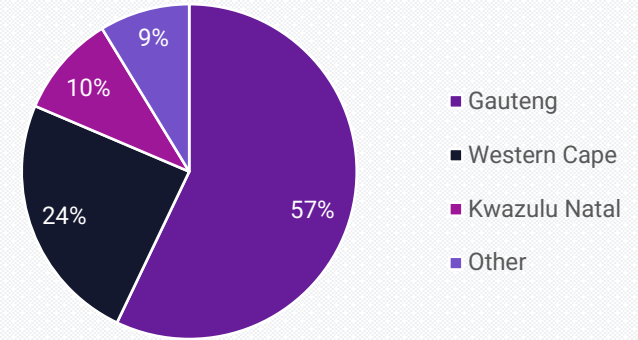
Gender



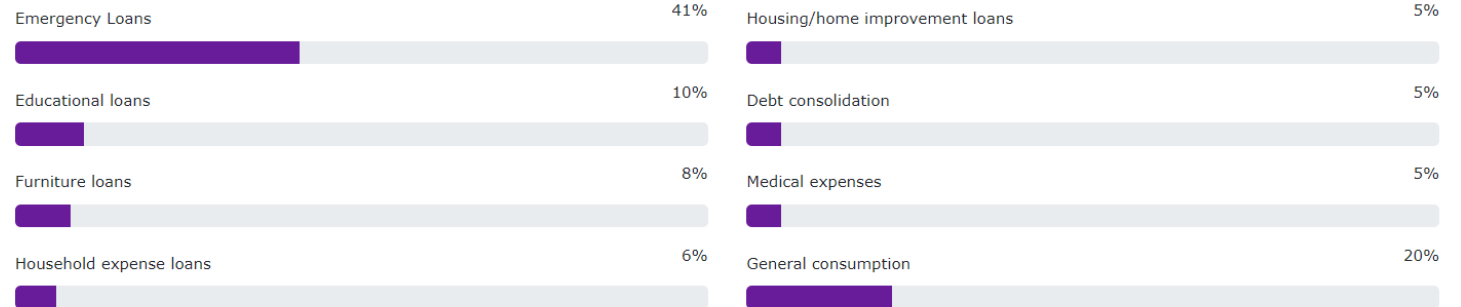
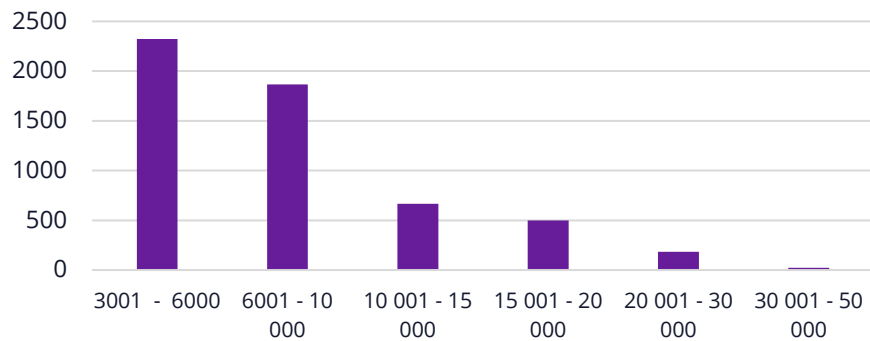
Age



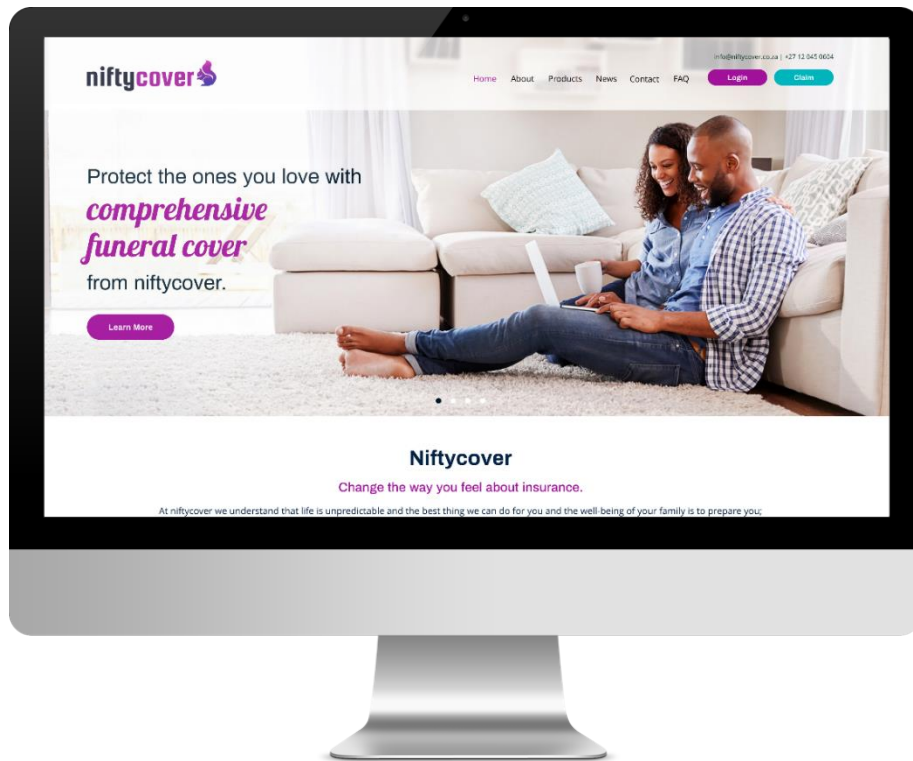
Geography



Income



We are evolving with the changing world by enhancing and enabling financial wellness through technology.




▶ SmartAdvance  smart
Assist over-indebted clients with affordable repayments.

▶ NiftyCredit 
Digitally driven online credit provider available through web and mobile app.

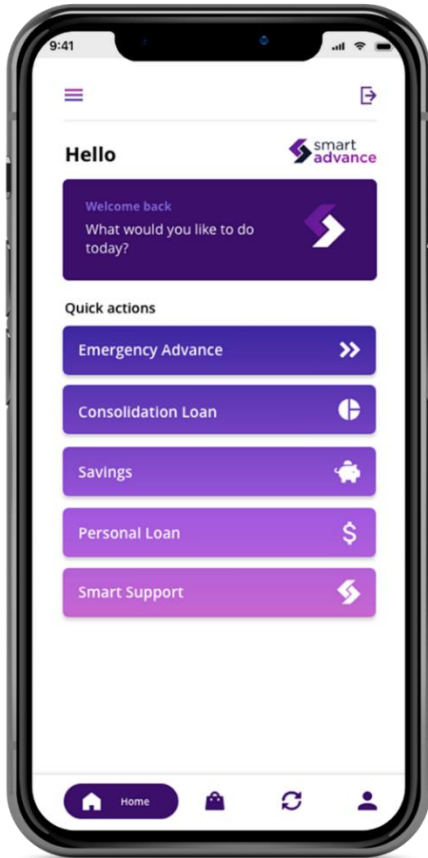
▶ Credit rehabilitation 
Assist over-indebted clients with affordable repayments.

▶ CreditView 
Provide customers with access to their credit profiles.

▶ NiftyCover 
Customers have access to affordable and flexible funeral cover plans as well as Credit Life cover for protection against outstanding debt.

Product overview

Experience simple and secure financial services from anywhere.



01. Wage streaming

Provide customers with funds to deal with everyday emergencies



02. Consolidation and rehabilitation

Provide the means to clear a bad credit record and save money monthly



03. Education Loans

Enable customers to further their education and grow their careers at an affordable rate.



04. Personal Loans

Customers can access safe and affordable finance for home improvements, education or other important expenses.



05. Insurance

Provide customers access to an array of insurance products such as funeral and commuter cover that will relieve the financial burden in future.



06. SmartSupport

Provide financial education as well as dedicated support to assist clients with applications and queries.

Product detail

Experience simple and secure financial services from anywhere.



01. Wage streaming

Customers can access a percentage of their net salary and pay a flat fee of R40 per month.



02. Consolidation and rehabilitation

Consumers can consolidate existing debt up to R30 000 over 24 months and only pay one lower instalment as well as save up to R800 per month.



03. Education Loans

A credit line up to R20 000 over 24 months is available for customers that wish to further their studies and grow their careers.



Product detail

Experience simple and secure financial services from anywhere.



04. Personal Loans

Customers can access safe and affordable finance up to R20 000 payable over 24 months for home improvements, education or other important expenses.



05. Insurance

Provide customers access to an array of insurance products such as funeral and commuter cover that will relieve the financial burden in future. Cover starts from as little as R15 per month.



06. Smartsupport

Provide financial education as well as dedicated support to assist clients with applications and queries.

Product detail

- 3 – 12-month Short-Term Loans
- Through a bespoke online portal, accessible from the website, clients can apply for a personal loan up to R12,000 over a maximum payment term of 12 months.
- Revenue generated by the various entities on Short-Term Loans are described in the table below

Charges	Smartadvance
Interest per month	5% on the first loan in a 12-month period (rebased 1 Jan) 3% on the second loan
Initiation fee	R165 per credit agreement Plus 10% x (Loan value – R1 000) Maximum initiation fee should not exceed R1 050; or 15% of loan value
Monthly Administration fee	R60 plus VAT
Credit Life	R4.45 per R1 000

Consumer touchpoints

Multiple channels for easy accessibility



Web

Staff can apply, obtain their credit reports, access financial education, and manage their profiles all online.



Mobile app

Employees can access their personal profile and apply for credit from any smartphone with internet.



Call centre agents

Dedicated team available to assist with queries, applications and ongoing support.



Regional representatives

Our sales teams educate customers and assist with loan applications as well as provide ongoing customer service.



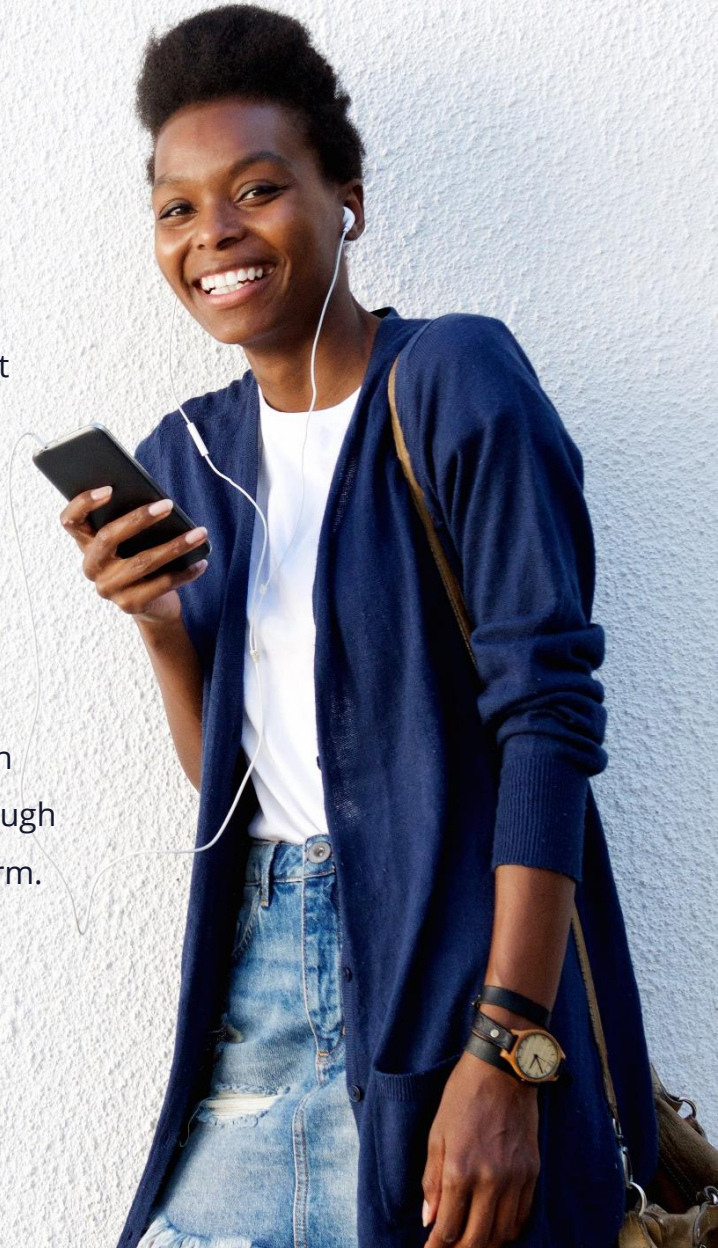
Online chat

Staff can chat live with smartadvance staff to assist with loan applications, application status or queries from the web.



USSD

Clients can request their loan balance or a settlement through the easy-to-use USSD platform.





Our technology

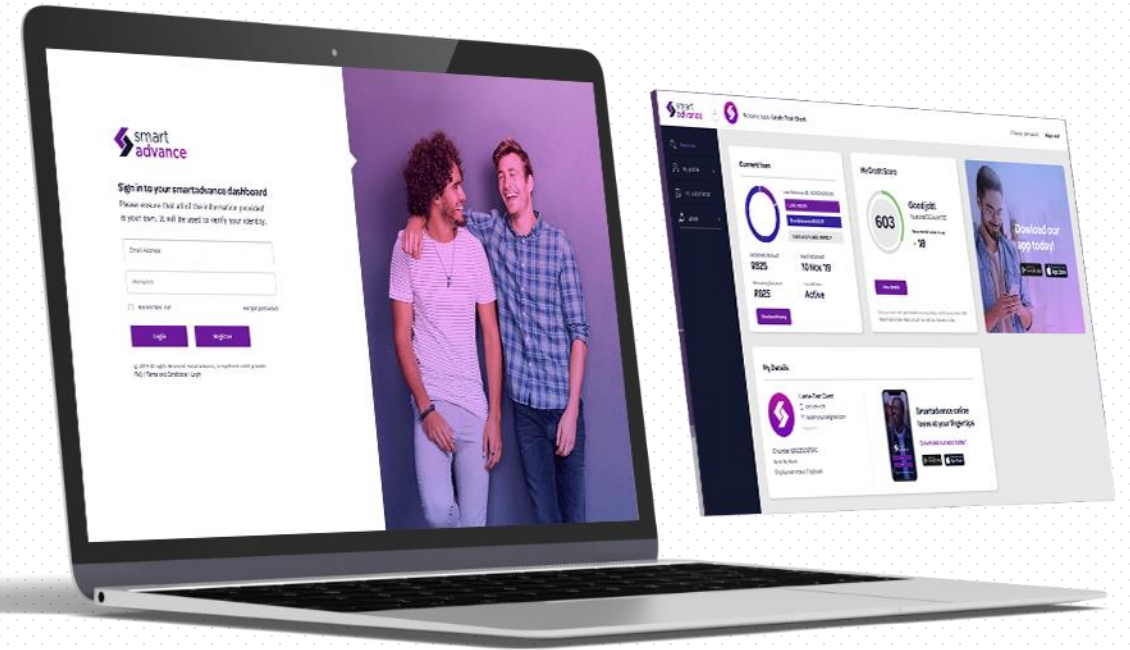
Technology driven customer experience

Using a stack of cloud-based and web technologies, loan applications are simplified and take substantially less time to complete.

Benefits include:

- Reduced risk for client as well as lender
- Improved level of compliance
- Elimination of human error probability
- Quicker turnaround time and ultimately Resulting in improved customer experience
- Platform agnostic. Can be deployed with the data science modules or on a standalone basis

Loan application process adjusted by market with focus on optimising user experience and automation to drive sales volumes.



Design, flow and functionality can be tailored to market and customer experience.

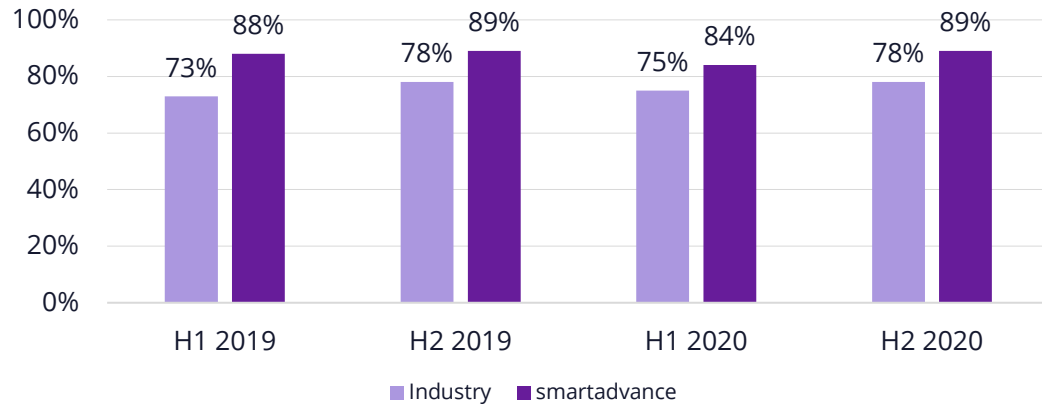


The platform has been developed in a way it can be easily adapted to different business requirements.

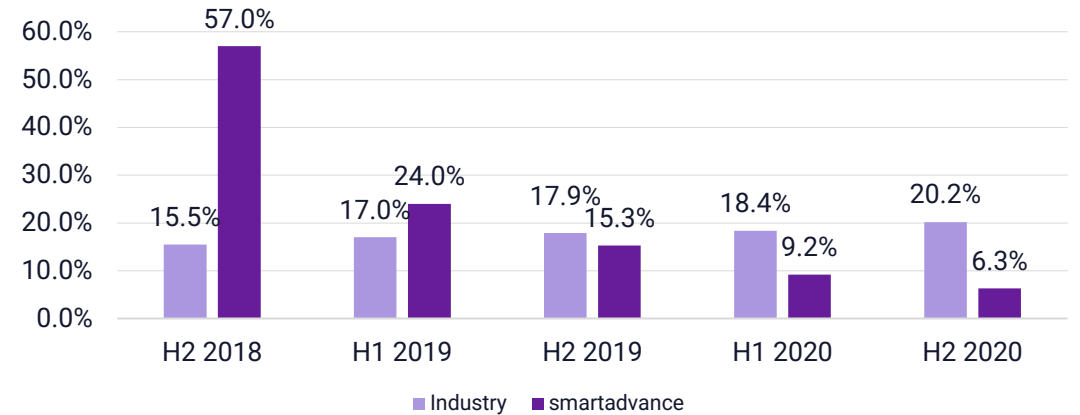
Risk management

Risk metrics

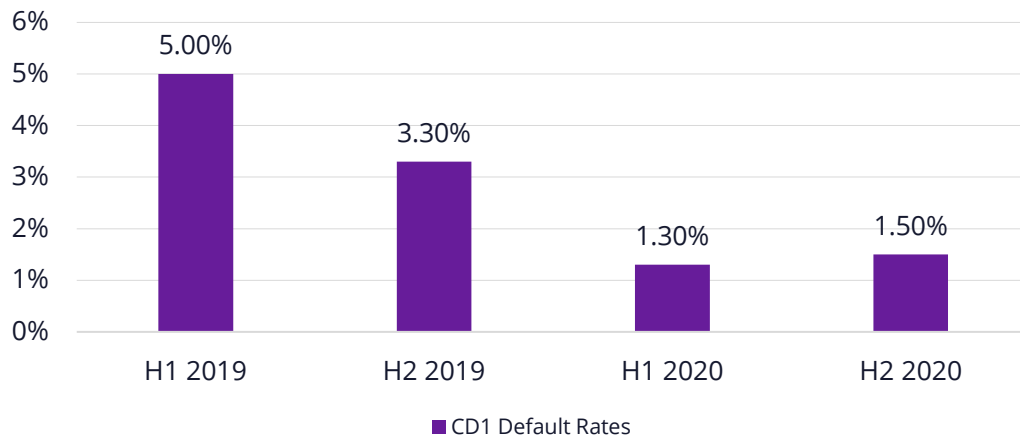
Collections success rates



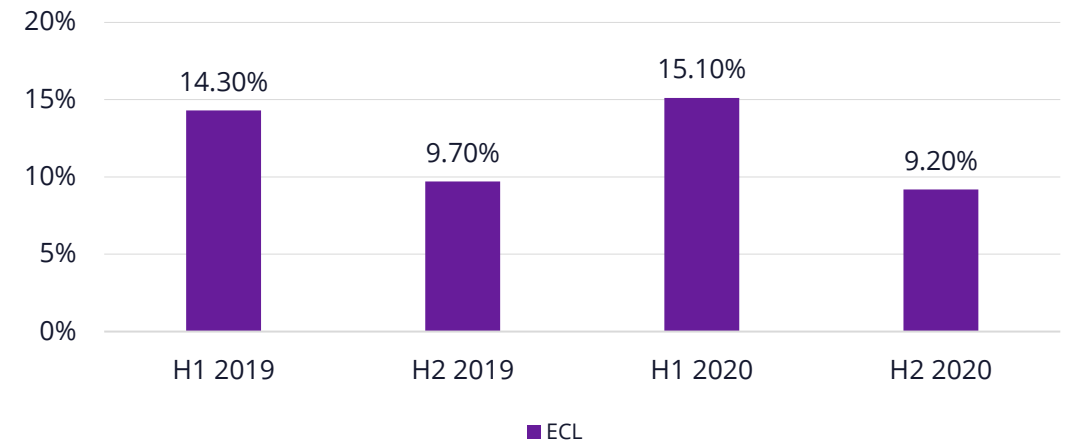
NPL Rates over time



CD1 Default Rates



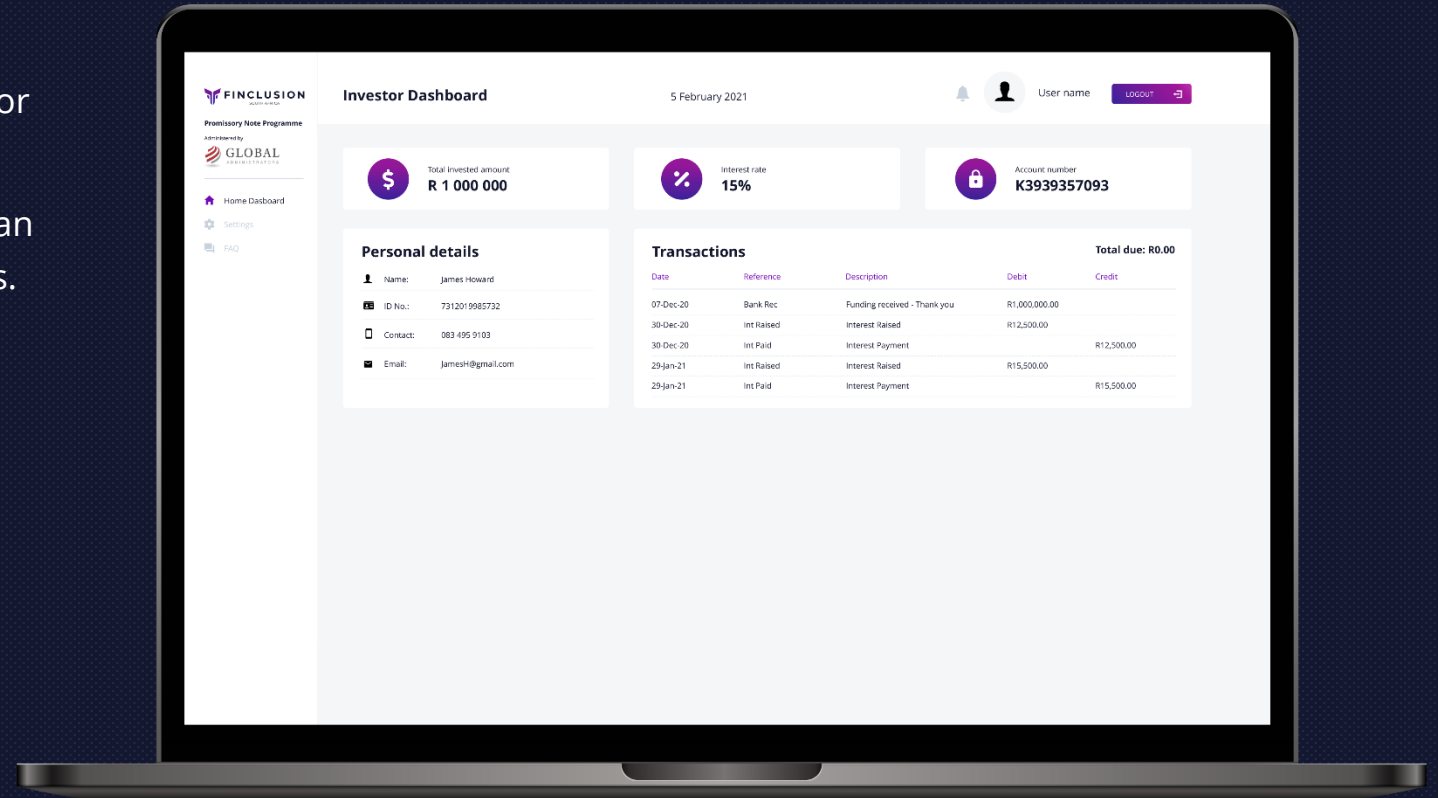
Expected Credit Loss



Risk analytics

- Partnered with Global Fund Administrators (GFA) to provide market leading administration capabilities for our note and related investment programmes.
- GFA has over 15 years experience in the South African and global asset and liability administration markets.
- And administers >R58bn across more than 650 instruments with >35k investors.
- Is registered with the FSCA as well as the FSC in Mauritius.

GFA manages our note programme onboarding, distributions and consumer communication.



Governance



Board of Directors



Gerrie Fourie



Jaco Coetzee



Tamuka Mpofu



Matsi Modise



Manuel Koser



Nicky Swartz

Board Sub Committees

Audit and Risk

Social and Ethics

Remuneration

Head of Internal Audit reports directly through to Audit & Risk Chair

Management Committees

Exco

Credit

Financials

KPI - Resilience through Covid-19

High Level Financials



Key Performance Indicators	2020	2021	2022	2023	2024
Loan book growth	-	175.5%	29.8%	26.8%	12.4%
Operating income growth (Excl impairments)	-	154.4%	21.0%	32.8%	19.3%
Total operating expense growth	-	(11.2%)	20.6%	15.4%	15.1%
Cost to Income Ratio	188.8%	65.9%	65.7%	57.1%	55.1%
Loan loss provision (LLP) ratio	13.7%	10.1%	6.7%	8.1%	8.4%
Net interest income / Operating Income	70.8%	69.1%	73.3%	73.7%	77.5%
Non interest income / Operating Income	29.2%	30.9%	26.7%	26.3%	22.5%
Interest Coverage Ratio (EBIT/Interest Payments)	(1.9)x	1.0x	1.2x	1.3x	1.4x
Interest earning Assets/ Interest Bearing Liabilities	0.6x	1.1x	1.1x	1.1x	1.2x
DER (Debt to Equity Ratio)	4.6x	6.8x	7.1x	5.8x	4.1x
EBIT (in millions)	-23.9	23.5	55.5	68.1	79.4
Net Loans / Total Assets:	43.2%	81.9%	80.5%	83.4%	85.0%
Net Interest Margin (NIM):	23.1%	21.7%	24.3%	25.5%	27.1%
Credit Loss Ratio	11.3%	10.1%	11.0%	11.7%	13.1%

Commentary



- The budget has assumed a significant new funding lines to come on board late Q2 in 2021 and Q1 of 2022, with cash being deployed in a 3 month window.
- Benefits of rationalizing levels of OPEX during 2020 are filtering through to forth coming periods, with scale of variable costs the main contributors to the increases between 2022 and 2024.
- The loan loss provisions and Credit loss ratio are anticipated only to have a slight deuteriations during future periods. This is attributed to the robust AI-data driven credit scoring and affordability assessments..

P&L forecasts -

Conservative funding assumptions

Three Year P&L Forecasts



ZAR (Millions)	2021	2022	2023	2024
Net Interest Income:				
(+) Interest Income:	71.7	109.0	134.0	159.6
(-) Interest Expense:	(23.2)	(46.7)	(51.0)	(55.5)
Non-interest income	21.7	22.6	29.6	30.3
Impairments losses on loans to customers:	(23.7)	(20.3)	(31.3)	(36.4)
Operating Income:	46.5	64.5	81.4	98.0
(-) Employee Costs:	(22.3)	(25.4)	(28.2)	(31.7)
(-) Professional Fees:	(5.9)	(6.0)	(6.6)	(7.4)
(-) Other Operating Expenses:	(13.9)	(16.8)	(20.6)	(24.0)
(-) Sales/Marketing Expenses:	(3.5)	(3.7)	(4.3)	(4.8)
(-) Fee and Commission Expense:	(5.1)	(7.5)	(9.8)	(10.8)
(-) Management Fees / Royalties	7.1	8.2	10.1	9.8
(-) Depreciation & Amortization:	(2.7)	(4.5)	(4.8)	(5.1)
Total Operating Expenses:	(46.2)	(55.7)	(64.3)	(74.0)
Profit before tax:	0.3	8.8	17.1	24.0
(-) Income Tax Expense / (+) Tax Benefit:	-	-	-	-
Profit after tax	0.3	8.8	17.1	24.0

Commentary



- Projected growth in the loan book (175%:2021, 39%:2022, 26%:2023, 15%: 2024) is expected to drive profitability - the increased volume of loan sales will see the company starting to become profitable in 2022 and post a profit in all the forecasted years there after due to higher interest income and fee and commissions on loans.
- New product offerings such as Wage streaming service (that allows employees to access a portion of their salary owed to them for the month but that has not yet been paid) will assist in the sales drives and as a result the Loan Book growth.
- A drop in cost to income to 52% by 2024 is anticipated. This attributed to improved economies of scale and the continued emphasis on a lean OPEX structure.
- The main driver of OPEX will remain employee costs at an average of 47% of Total OPEX. This is still lower than industry averages as the group leverages its digital and online lending infrastructure..
- A healthy yield on earning assets is expected sufficient to cover funding costs and OPEX. Net interest margin is expected to average 23.8%. This is a estimate based on higher cost of funding (average projected cost of funding being 18%).
- Growth in impairments is commensurate with growth in the loan book as credit quality will be maintained at optimal levels with resultantly low loan loss provisions.

Balance sheet forecasts

Maintaining strong capitalization

Three Year Balance Sheet Forecasts



ZAR (Millions)	2021	2022	2023	2024
Assets:				
Cash and cash equivalents	6.5	12.1	12.5	16.0
Placements with other banks	-	10.0	-	-
Gross Loans	234.9	304.9	386.7	434.6
(-) Provisions	(23.7)	(33.6)	(45.2)	(57.1)
Net Loans and advances to customers	211.2	271.3	341.5	377.5
Related party loan	6.5	7.1	7.7	8.3
Other assets	5.2	5.2	10.2	10.2
Deferred tax assets	14.4	14.4	14.4	14.4
Right of use Asset	1.6	0.3	4.0	2.5
Property, plant and equipment	0.0	5.7	9.4	7.2
Intangible assets	4.2	3.0	1.7	0.3
Goodwill	8.0	8.0	8.0	8.0
Total assets	257.7	337.0	409.3	444.3
Equity:				
Share capital	343.2	343.2	343.2	343.2
Retained earnings	(314.6)	(305.8)	(288.7)	(264.7)
Total equity	28.6	37.4	54.5	78.5
Liabilities:				
External borrowings	195.7	264.1	314.6	322.1
Shareholder loans	8.6	9.5	10.3	11.3
Other liabilities	23.1	25.1	27.4	29.9
Lease Liabilities	1.7	0.9	2.4	2.4
Total liabilities	229.2	299.6	354.8	365.8
Total equity and liabilities	257.7	337.0	409.3	444.3

Commentary



- The Group projects a 192% growth in its Total Assets to R487m by 2024 (2021:R252.8m). It plans to achieve this while further sweating its balance sheet with interest earning assets accounting for on average 89% of total assets during the forecast periods.
- Projected growth in the loan book (175%:2021, 39%:2022, 26%:2023, 15%: 2024) will be financed by external borrowings.
- External borrowing are expected to close at R183.6m (2021) based on funding discussions underway, with a further funding pipeline anticipated in Q1 of 2022.
- Maintaining credit quality remains a tenet of the Group, thus it will continue to invest in its AI-data driven credit scoring solutions and robust affordability assessment. Further, disposal of non-performing portfolio's will continue as is current practice.
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- Credit loss ratio is therefore expected to average 11.4% (IFRS9 ECL provisions).
- Overall the balance sheet remains sound with emphasis on increasing the asset base through improved leverage and maintaining asset quality.

Meet the team

Meet the team

Executive directors



Gerrie Fourie | Country Head

Mark is the CEO of the smartadvance South Africa Group and a founding director of Fractal Labs and Click2Pay, with over 25 years experience in the African financial services landscape. He led the separation of the SA businesses from MyBucks into the Finclusion group . Prior to joining MyBucks he was the founder and CEO of Ideation, a specialist lending and insurance consulting company with clients in South Africa, Nigeria, Kenya and Malawi with a focus on credit risk, capital raising, and value chain transformation. Mark was previously the Deputy CEO and CRO for Bayport SA and the CRO of Old Mutual Finance. He has served as the chair of these organisations credit committees as well as serving as a non-executive director of Mazwe Financial Services, Old Mutual Investment Administrators and a trustee and chair of the Board of Trustees of the Fairbairn Capital and BoE retirement funds.



Jaco Coetzee | COO

Jaco is the COO of smartadvance South Africa and Director of GetSure (Pty) Ltd with more than 10 years' experience in Senior Management. Before taking the COO roll at smartadvance, Jaco had the role of Human Resource executive at MyBucks, as well as Senior Management positions in Virgin Active. Jaco holds a BCom HR degree and is in the process of completing his Masters in Labour Law.



Tamuka Mpofu | Executive Director

Tamuka is a strong believer in innovation through technology having spearheaded implementation of several e-platforms to improve efficiency. He has deep experience in the finance sector. He completed his articles with KPMG Chartered Accountants, Zimbabwe with a specialty in Banking & Financial Services. Tamuka was an Audit Manager with MooreStephens International before joining GetBucks Microfinance Bank Limited (the Zimbabwe-based Get Bucks subsidiary) as its Head of Internal Audit. He joined MBC Holdings Limited, a bank holding company, as Group Finance Manager where he focuses on financial reporting and management. Tamuka Mpofu holds a BCompt from the University of South Africa (UNISA) and a post-graduate CTA (Certified Theory in Accounting) Level 1 from UNISA with emphasis on Financial Accounting, Management Accounting, Audit and Taxation. He is a Certified Expert in Microfinance with the Frankfurt School of Finance & Management.

Meet the team

Executive directors



Matsi Modise | Chair

Matsi is a global thought leader on entrepreneurship. She has contributed to entrepreneurship in South Africa by leading advocacy teams, that have impacted the policy landscape by driving traction for tax incentives for venture capital companies. Matsi represents a number of companies and/or funds as a board, trustee and board advisor. From 2012 to 2015, she was the managing director of the South African Black Entrepreneurs Forum (SABEF), an industry association that created entrepreneurship ecosystems in South African townships, rural and peri-urban areas. Matsi joined SiMODiSA, an industry association focussed on SMMEs in South Africa in 2015 as the Vice Chairman. She is the founder and CEO of Furaha Afrika Holdings. Matsi holds a Bachelor of Commerce degree (Marketing & Advanced Management from the University of the Witwatersrand).



Manuel Koser | Independent Non-Executive Director

Manuel is a serial entrepreneur with deep e-commerce experience. He co-founded and managed a number of e-commerce businesses such as Jumia, Nigeria's largest e-commerce company and Zando, South Africa's largest e-commerce fashion retailer which has 200+ employees, 20K+ products from over 500+ brands, its own warehouse, and multiple payment methods. In 2015. Prior to joining Get Bucks, Manuel founded Silvertree Holdings, "Africa's Disruptive Brand Builder" invested in a portfolio of 12 brands, with an operational platform providing seed capital and support to the entrepreneurs to supercharge scale. Manuel holds a Bachelor of Science in International Business from the University of Maastricht, Netherlands.



Nicky Swartz | Independent Non-Executive Director

Nicky spent over 20 years in advertising and marketing in SA and the UK, with a special focus on financial services. During this time, She spent 7 years as Managing Director of ad agency TBWA Cape Town which provided sound understanding and experience in general management and 5 years as Head of Marketing between Sanlam and 10X Investments. Nicky has a particular appreciation for the role of finance as a lever for social transformation which lead to the foundation of Spoon Money, which advocates the view that serious economic development starts with two essential ingredients; savings rather than consumption, and capacity-building credit. Nicky holds a degree with English and Psychology majors (UNISA) and a post-grad BSc Hons degree in Digital Technology (Dublin Institute of Technology).

Meet the team

Management team



Geoffrey Ferrier
Insurance Executive



Janine Hancock
Human Capital Executive



Mologado Lehong
Head of Customer Experience



Astrid Meyer
Marketing Executive



Yudre Casling
Head of Collections



Marika Calitz
Head of Internal Audit



Inge van Graan
Head of Legal & Corp Secretarial



Quintin Dry
Head of IT

Thank you

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