

CREDIT RATING ANNOUNCEMENT**GCR upgrades Real People Investment Holdings Limited's rating to B-(ZA), Outlook Evolving**

Johannesburg, 5 March 2018 – Global Credit Ratings has upgraded the national scale ratings of Real People Investment Holdings Limited to B-(ZA) and B(ZA) in the long term and short term respectively; with the outlook accorded as Evolving.

RATING RATIONALE

Global Credit Ratings (“GCR”) has accorded the above credit ratings to Real People Investment Holdings Limited (“Real People”, “the group”) based on the following key criteria:

The ratings take into consideration Real People’s successful capital restructure (concluded on 5 December 2017) following a seven-month debt standstill agreement to facilitate ongoing creditor negotiations to restructure the group’s capital. Accordingly, the ratings reflect the improvement in the group’s capital structure and liquidity profile subsequent to the re-profiling of debt through debt to equity conversion, rescheduled senior debt maturity and debt moratorium, and rescheduled debt covenants. In addition to the debt restructuring, the group has commenced a restructuring exercise to streamline its business including the disposal of its loss making East African operations (8% of group assets at FY17). Notwithstanding this, the successful turnaround of the group will also depend on the group’s ability to access fresh funding required for forecast levels of asset origination/growth amid a challenging economic/regulatory environment which continues to pose credit, earnings and funding risks to the group and financial sector in general. The ‘Evolving’ outlook reflects the potential for upward or downward ratings movement contingent on the performance of the group post debt restructure.

Real People, through its underlying businesses, provides developmental and unsecured credit (exclusively home finance through a network of reputable building retailers), debt management and acquisition, and insurance products and services to individuals. Home finance contributed 42% of group assets at 3Q FY18, with debt management and acquisition contributing 46%.

In May 2017, the group entered into a debt standstill agreement with its senior and subordinated debt funders, which concluded in a debt to equity conversion of R930m (as at FY17). The debt standstill agreement emanated from the inevitability that the group would breach its capital adequacy ratio (“CAR”) debt covenant of 30% in the near term due to on-going operational losses and risk of further capital erosion. The creditors included all Note holders under the issuer’s South African Domestic Medium-Term Note Program. As part of the agreement, no interest or capital repayments were made during the standstill period. Real people is not obliged to service interest/capital on the remaining senior debt (R732m at 3Q FY18) until 30 June 2018, with contractual repayment obligations until September 2025.

The group had a negative capital base of R108.8m at FY17, reducing the covenanted CAR to below 30%. Post the capital restructure the group’s capital base amounted to R364m at 3Q FY18 (based on unaudited management accounts at 31 December 2017). The capital restructure introduced three new covenants (effective June 2018) as follows: permanent capital/total assets (< 20%) (3Q FY18: 22.6%) replacing the previous CAR covenant; cost/income (≤ 68%) (3Q FY18: 55.6%); and debt service cover (1.05 times). The new covenants are effective only after the first capital payment in June 2018.

After recording a R614.2m loss in FY17, the continuing operations of the group has shown a return to profitability following the implementation of the restructure recording a profit after tax of R72.2m for the nine months ending 31 December 2017 (3Q FY18), which was ahead of expectations and on target to record an after tax profit for FY18. Discontinued operations (East Africa) have no recourse to the Group.

The group’s gross non-performing loan (“NPL”) ratio declined to 38.9% in 3Q FY18 (FY17 restated: 43.4%) when the prior year balances are restated for IFRS 9 implemented in the current financial year.

The group is funded primarily by wholesale structured debt funding (secured and unsecured) and equity financing (debt converted to equity instruments in terms of the restructure). The group’s poor trading results placed significant pressure on earnings, liquidity and capital and negatively affected Real people’s ability to raise funding on balance sheet at group level. The group has changed its funding model post debt restructure from raising debt at group level to raising funding at business level via off balance sheet special specific vehicles (“SPVs”). Therefore, liquidity is managed per each specific funding entity.

A demonstrated track record of improved earnings performance, improved asset quality trends driven by low credit losses and sound underwriting, and comfortable liquidity and capital buffers, would help strengthen Real People’s financial profile and put upward pressure on ratings. A downward review of the ratings may result from inability to service rescheduled debt obligations (missed scheduled payment of either interest or principal), breach of debt covenants, funding and liquidity pressures that materially impact the group’s profitability and long-term sustainability, high capital encumbrance by unreserved NPLs, and/or challenges stemming from slow economic growth and weak internal capital generation.

NATIONAL SCALE RATINGS HISTORY

Initial rating (November 2011)

Long-term: BBB_(ZA), Short-term: A2_(ZA)

Rating outlook: Stable

Last rating (March 2017)

Long-term: CCC_(ZA), Short-term: C_(ZA)

Rating outlook: Negative

ANALYTICAL CONTACTS

Primary Analyst

Jennifer Mwerenga

Senior Analyst

(011) 784-1771

jennifer@globalratings.net

Committee Chairperson

Marc Chadwick

Sector Head: Insurance Ratings

(011) 784-1771

chadwick@globalratings.net

APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017

Real People rating reports (2011-16)

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SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument, and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The ratings above were solicited by, or on behalf of, Real People Investment Holdings Limited, and therefore, GCR has been compensated for the provision of the ratings.

Real People Investment Holdings Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Real People Investment Holdings Limited with no contestation of the rating.

The information received from Real People Investment Holdings Limited and other reliable third parties to accord the credit ratings included:

- Audited financial results of the group as at 31 March 2017 (plus four years of comparative numbers);
- Management Accounts as at 31 December 2017
- Budgeted financial statements for 2018;
- Other performance data and commentary; and
- Industry data.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Audit Report	A written opinion of an auditor (attesting to the financial statements' fairness and compliance with generally accepted accounting principles).
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital	The sum of money that is invested to generate proceeds.
Collateral	Asset provided to a creditor as security for a loan.
Corporate Governance	Refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Rating Agency	An entity that provides credit rating services.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Downgrade	The assignment of a lower credit rating to a company or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long-Term	Not current; ordinarily more than one year.
Long-Term Rating	Reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
National Scale Rating	Provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	Indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Recourse	The right to demand payment/collect from the maker or endorser of a negotiable instrument.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Short-Term	Current; ordinarily less than one year.
Short-Term Rating	An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Stock Exchange	A market with a trading-floor or a screen-based system where members buy and sell securities.
Swap	An exchange of payment streams between two parties for their mutual benefit. Swaps can involve an exchange of debt obligations, interest payments or currencies, with a commitment to re-exchange them at a specified time.

For a detailed glossary of terms please click [here](#)

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