

## CREDIT RATING ANNOUNCEMENT

### GCR downgrades Real People Investment Holdings Limited's rating to CCC<sub>(ZA)</sub>; Outlook Negative.

Johannesburg, 09 March 2017 -- Global Credit Ratings ("GCR") has downgraded the national scale ratings assigned to Real People Investment Holdings Limited ("Real People"; "the group") to CCC<sub>(ZA)</sub> and C<sub>(ZA)</sub> in the long term and short term respectively; with the outlook accorded as Negative.

This negative rating action reflects significant deterioration in the trading results of Real People up to 31 December 2016, and the resultant strong possibility that the group will breach its capital adequacy ratio ("CAR") debt covenant ("the covenant") in the near term.

### SUMMARY RATING RATIONALE

GCR has downgraded Real People's ratings based on the following key criteria:

- **The group's materially weaker profitability.** For the nine months to 31 December 2016, the group recorded a R89.7m loss before tax (31 December 2015: R9.8m profit), primarily driven by R88.2m in losses (31 December 2015: R9.2m loss) in its East African Business Finance division ("Business Finance division"), and a net R49.8m negative asset carrying value adjustment. The net negative asset carrying value adjustment of R49.8m reflects a R163.6m negative adjustment in the group's discontinued branch lending portfolio and a R18.0m negative adjustment in its Business Finance division, offset by positive adjustments totalling R131.8m in the group's other portfolios. The group adjusted the carrying values for various asset classes to align its accounting estimates with market best practice methodologies proposed by its new auditor, Deloitte & Touche, during its recent review of the group's assets and current collection performance.
- **A declining CAR, which may breach the covenant minimum at 31 March 2017.** As a result of substantial losses, Real People's CAR deteriorated to 31.6% at 31 December 2016 (31 March 2016: 34.5%), which remains below the group's internal target of 36% and close to the covenant level of 30%. A breach of the covenant may trigger the acceleration of bond and loan repayments unless a waiver is obtained from funders.
- **Heightened liquidity and funding risks.** In the absence of additional funding, Real People's liquidity coverage ratio (excl. Kenyan operations) indicates that, at some point over the next 12 months, the group will be unable to meet its committed expenses and liability repayments. Given deteriorating investor sentiment regarding the outlook for the South African economy and consumer, as well as the poor operating performance from its Business Finance division, the group's access to additional funding is expected to be limited.
- **Uncertainty over the group's continued sustainability.** The group's continued sustainability is dependent upon a successful recapitalisation, and negotiated debt restructure in the event of a CAR covenant breach. Furthermore, there remains the potential for continued losses in the group's Business Finance division, and further negative asset valuation adjustments and/or higher impairments given challenging operating conditions and forthcoming IFRS 9 requirements.
- **Capital raise uncertainty.** Real People is seeking capital from new and/or existing shareholders, although the timing and amount of a successful execution is uncertain. While the group's continuing operations in South Africa appear to be recovering, persistent losses in its Business Finance division, and a South African legacy book (mainly related to its discontinued branch lending portfolio) held at a carrying value of R271.5m at 31 December 2016, as well as significant forecast risks, suggest any such capital raise is uncertain.

The negative rating outlook reflects the high likelihood of a CAR covenant breach, which will result in an event of default under the terms of certain funding agreements, in turn, triggering cross-default clauses across Real People's debt structure.

Given the negative rating outlook, there is currently limited upside rating potential. The ratings could be upgraded should the group raise significant capital and/or negotiate a suitable debt restructure, which will help ease funding and liquidity concerns. Real People's ratings could be further downgraded if the group breaches the covenant and fails to raise additional capital and/or obtain written waivers from its funders, which could ultimately result in the inability of Real People to meet its scheduled principal and/or interest payments as and when they fall due.



**Global Credit Rating Co.**

Local Expertise • Global Presence

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## **NATIONAL SCALE RATINGS HISTORY**

Initial rating (Nov/2011)

Long-term: BBB(ZA); Short-term: A2(ZA)

Outlook: Stable

Last rating (Jul/2016)

Long-term: BB+(ZA); Short term: B(ZA)

Outlook: Stable

## **ANALYTICAL CONTACTS**

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## **APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2016

Real People rating reports (2011-16)

## **RATING LIMITATIONS AND DISCLAIMERS**

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## **SALIENT FEATURES OF ACCORDED RATINGS**

GCR affirms that a.) no part of the ratings were influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument, and d.) the validity of the ratings are 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.

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Global Credit Rating Co. (Pty) Ltd ("GCR"), Reg. No: 95/05001/07

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Directors: R Wilson (Non-executive Chairman), M Joffe (Chief Executive Officer),

M Ngoasheng (Non-executive), M Fischer (Non-executive), S Bhikha (Non-executive)

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 2016 (plus four years of comparative numbers);
- Financial results of the group for the 9 months ended 31 December 2016;
- 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.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Capital	The sum of money that is invested to generate proceeds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Rating Agency	An entity that provides credit rating services.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due.
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.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
Downgrade	The assignment of a lower credit rating to a company or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
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.
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.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
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).
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
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.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
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.
Waiver	In banking terms, a waiver is the relinquishing of rights. Sometimes also considered to be the exemption or settlement of a part of debt.

For a detailed glossary of terms utilised in this announcement please click [here](#)

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