

CREDIT RATING ANNOUNCEMENT**GCR affirms Real People Investment Holdings Limited's rating of BB+(ZA); Outlook Negative.**

Johannesburg, 01 Jul 2015 -- Global Credit Ratings has affirmed the national scale ratings assigned to Real People Investment Holdings Limited of BB+(ZA) and B(ZA) in the long term and short term respectively; with the outlook accorded as Negative. Furthermore, Global Credit Ratings has affirmed the international scale rating assigned to Real People Investment Holdings Limited of BB; with the outlook accorded as Negative.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit rating(s) to Real People Investment Holdings Limited ("Real People" and/or "the group") based on the following key criteria:

The ratings of Real People reflect its diminished financial profile (providing a weak buffer to absorb credit losses) and challenging origination/collection experience in unsecured consumer lending, partially offset by a successful capital raise (which strengthened its solvency position).

The 'Negative' rating outlooks are a reflection of the challenging operating environment that continues to pose asset quality risks (despite signs of a recovery) as well as funding risks to the group, given the lack of investor appetite in the wake of African Bank Limited's ("ABL") curatorship.

Real People exhibited significant financial and business volatility in F14 and F15, primarily as a result of underperformance in its legacy (general purpose) and Home Finance portfolios, reflected by a significant rise in the group's gross non-performing loan ("NPL") ratio (from 38.0% at FYE14 to 53.5% at FYE15), and variable collections in acquired servicing portfolios. Poor performance has been driven by a combination of challenging unsecured credit market and collection environments. The effect of these challenges has been amplified by Real People's significant exposure to unsecured loans, as well as its relatively undiversified business model.

The group concluded a capital raise of R385m (inclusive of the put option restructure) in December 2014, which eased the capital and funding pressures prevalent throughout much of F15, and provided a capital buffer against net negative asset carrying value adjustments of R306m required by changes to receipting/collection expectations (as a result of negative historical experience in actual vs. expected collections performance), and market expectations with respect to coverage ratios (following the curatorship of ABL).

Muted loan origination since mid-2014 (resulting in a reducing balance sheet size) combined with the group's substantial loss after tax of R323m in F15, driven by margin compression and high impairments, has suppressed capitalisation (which remains close to covenanted capital adequacy levels and below the target level), reducing the business' ability to recover quickly. Conservative cash flow management (shown by a liquidity surplus of R344m at FYE15) in an environment of constrained access to debt has also limited business development.

The 'Negative' rating outlooks combined with Real People's challenging operating environment implies limited upside potential for the group's ratings. The outlooks may be changed to 'Stable' if the group's asset quality and profitability show continued signs of recovery, and/or credit protection factors are strengthened. Real People's ratings will be sensitive to further deterioration in asset quality, long-term earnings (leading to a weakened buffer to counter the inherent risk in its business model) and/or if the group is unable to gain access to sufficient market funding.

NATIONAL SCALE RATINGS HISTORY

Initial rating (Nov/2011)
Long-term: BBB(ZA); Short-term: A2(ZA)
Outlook: Stable

Last rating (Oct/2014)
Long-term: BB+(ZA); Short term: B(ZA)
Outlook: Negative

INTERNATIONAL SCALE RATINGS HISTORY

Initial rating (Dec/2013)
Long-term: BB
Outlook: Stable

Last rating (Oct/2014)
Long-term: BB
Outlook: Negative

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2015
Real People rating reports (2011-14)

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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 rating/s has 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 rating included:

- Audited financial results of the group as at 31 March 2015 (plus four years of comparative numbers);
- Budgeted financial statements for 2016;
- Board and ALCO minutes for the last financial year; and
- Other performance data and commentary.

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.
Asset Quality	Asset quality refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (i.e. being paid back in accordance with their terms) and the likelihood that they will continue to perform.
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.
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	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.
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.
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
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.
Exchange	A standardised marketplace in which different assets are traded.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Financial Year	The year used for accounting purposes by a company. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
Fraud	The unlawful and intentional making of a misrepresentation which causes actual and or potential prejudice to another.
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.
Income Statement	A summary of all the expenditure and income of a company over a set period.
Inherent Risk	Inherent risk is the product of the impact of the risk on the objective(s) and the likelihood of the risk occurring should no management actions/controls be in place to mitigate the risk.
Insolvent	When an entity's liabilities exceed its assets.
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.
International Scale Rating	ISRs relate to either foreign currency or local currency commitments, assessing the capacity of an issuer to meet these commitments using a globally applicable (and therefore internationally comparable) scale.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
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.
National Scale Rating	The national scale 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.
Non-Performing Loan	When a borrower is overdue, typically 90+ days in arrears or as defined by the lender, or in the transaction documents.
Off Balance Sheet	Off balance sheet items are assets or liabilities that are not shown on a company's balance sheet. They are usually referred to in the notes to a company's accounts.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
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.
Put Option	An option giving the holder the right, but not the obligation to sell the underlying instrument at an agreed price or strike price within a specified time. The seller or writer has the obligation to buy if the holder exercises the option to sell.
Rating Outlook	A 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.

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