Real People Investment Holdings Limited

South Africa Financial Institution Analysis **July 2016**

Rating class	Rating scale	Rating	Rating outlook	Review date
Long-term	National	BB+$_{(ZA)}$	Stable	July 2017
Short-term	National	B$_{(ZA)}$		

Financial data:

(USDm comparative)

	31/03/15	31/03/16
R/USD (avg.)	11.06	13.77
R/USD (close)	12.06	14.83
Total assets	311.4	269.3
Total capital	44.4	36.2
Total funding	255.3	216.3
Net advances	236.7	187.7
Liquid assets	35.9	41.0
Operating income	88.4	70.6
Profit after tax	(29.2)	0.7
Market cap.	not listed	

Rating history:

Initial rating (November 2011)
Long-term: BBB$_{(ZA)}$
Short-term: A2$_{(ZA)}$
Rating outlook: Stable

Last rating (December 2015)
Long-term rating: BB+$_{(ZA)}$
Short-term rating: B$_{(ZA)}$
Rating outlook: Negative

Related methodologies/research:

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

Real People rating reports (2011-15)

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Summary rating rationale

- The ratings/outlooks of Real People Investment Holdings Limited ("Real People", "the group") reflect stabilisation in profitability and asset quality, albeit still fragile, in addition to weak economic conditions and an uncertain regulatory environment which continues to pose credit, earnings and funding risks to the group.
- In recent years, the sale and/or discontinuation of underperforming businesses (general purpose lending, cellular, Empower Financial Services ("EFS") and Aspire Group), and disappointing collections on continuing self-originated and bought-in servicing portfolios, have eroded the group's capital base and income generating capacity. In large part, these issues were linked to suboptimal pre-F14 underwriting, compounded by collections challenges including rising levels of consumer indebtedness and stress, myriad regulatory changes, and supplier price adjustments, which together increased the effort and cost of collection. The effect of these challenges has been amplified by Real People's significant exposure (as principal and servicer) to unsecured loans, as well as its relatively undiversified business model.
- Substantial losses, driven by margin compression and higher impairments, necessitated a R385m capital raise in F15. In F16, the positive financial impact of a number of long term strategic initiatives has helped to stabilise the group's financial position.
- The group returned to profitability in F16, posting an after-tax profit of R7.7m (following losses in F14 and F15), assisted by non-recurring items including debt buyback programme revenues and the release of foreign currency translation reserves ("FCTR") to income. However, the group's ROaE (1.9%) and ROaA (0.3%) were low, providing a weak buffer to absorb credit losses.
- The group's capital adequacy ratio ("CAR") of 34.5% at FYE16 (FYE15: 34.4%) remained above the covenant level of 30%, but marginally below management's target level of 36%.
- Based on recent non-performing loan ("NPL") vintages, asset quality seems to be recovering. The group's gross NPL ratio improved to 34.2% at FYE16 (FYE15: 53.5%), mainly due to significant write-offs, and is partly amplified by declining loan balances. As a consequence of the weak economic conditions (characterised by high levels of consumer indebtedness, poor employment prospects, higher living costs and rising interest rates), the group's asset quality remains vulnerable.
- In F16 the group raised c.R803m in debt funding, through a listed bond issuance in Kenya (in line with its strategy to migrate funding from group to divisional level) and secured funding in South Africa, which contributed to improving the liquidity position of the group and its efforts to promote asset origination, including the acquisition of distressed debt portfolios.

Factors that could trigger a rating action may include

Positive change: Given the challenging operating environment, and Real People's constrained financial flexibility, there is currently limited upside rating potential.

Negative change: Real People's ratings will be sensitive to deterioration in asset quality and long-term earnings (leading to a weakened buffer to counter inherent risks in its business model). Furthermore, negative rating action may follow unfavourable economic/regulatory developments that materially impact the group's profitability and long term sustainability.

Organisational profile

Business summary[1]

The group, through its underlying businesses, offers a range of credit-linked financial products (typically purpose-specific, unsecured credit) to individuals and small and medium enterprises ("SMEs") in South Africa, Kenya and Uganda. In addition to origination and administration of its own loans, the group (through Debt Management Consultants (Proprietary) Limited ("DMC"), a subsidiary), performs collection services on third-party originated non-performing consumer debt, and since F16, selected self-originated but discontinued books. DMC-provided servicing is undertaken on both a principal (acquired/ discontinued portfolios) and agency (outsourced portfolios of large South African credit providers) basis. Real People's continuing business lines are detailed below.

Main business lines	Description
Responsible Finance	
Home Finance (South Africa)	Provision of purpose-specific lending for home improvement, through a network of in-store agents at hardware/building supply merchants throughout South Africa. This product is aimed at individuals in lower income bands, and is serviced via operations in South Africa.
Business Finance (East Africa – Kenya and Uganda)	Provision of purpose-specific lending (facility and productive asset products) to meet the needs of SMEs in selected East African markets, serviced by in-country operations.
DMC	
Debt acquisition	Acquisition of non-performing consumer debt portfolios from third party credit providers.
Outsourced collections	Provision of collections services on a contingency basis to third party credit providers, including major banks and retailers. Discontinued business books (GPL, cellular) are included in this business line. The focus is on arrear/non-performing collections.
Home Finance and assurance servicing	Services provided on an arm's length basis to South African Responsible Finance operations include: back office, collections, customer services, IT infrastructure and Funding SPV servicing.

As in F15, during F16 the group continued its process of rationalising and re-focussing the business. In F15, the group effected a partial run-down of the legacy general purpose lending ("GPL") book, closure of the cellular and EFS businesses, and transfer of Education Finance (Aspire Group) to discontinued operations (with the Aspire loans being collected by DMC). F16 has seen continued progress in GPL/cellular book collections. From 1 October 2015, the results of cellular book collections were reported within DMC, and from 1 April 2016 GPL collections have been reported within this unit. Effective 1 January 2016, a sale of Aspire Group was concluded.

The group's strategy (ie, focus on development of purpose-specific lending and distressed debt servicing businesses) has been broadly unchanged since F14. After significant difficulties were experienced by the business in F14/F15, management expected F16 to initiate a 'recovery period', in which balance sheet stability was expected to be accompanied by a measured change in asset mix, as legacy assets were replaced by purpose-specific unsecured loans. Furthermore, the group's funding model has been revised to a bespoke business level funding model best suited to each business' individual funding requirements. Challenging operating conditions have resulted in tactically defensive strategy implementation, with a risk management and financial conservatism focus.

The group achieved relative balance sheet stability in F16, with positive internal capital generation for the first time since F13, supported by:

- Modest loans origination in F15/16 resulting from capital/funding constraints, strict underwriting and asset impairments;
- Above-expectation receipting on new Responsible Finance portfolios;
- Declining continuing business NPLs and credit losses, together with improved overall receipting;
- Closure of loss-making businesses and transfer of discontinued books to DMC;
- Aspire Group sale effective 1 January 2016;
- Debt buybacks at discounts to nominal value; and
- Continuous prioritisation of cost containment.

Following the conclusion of a capital raise of R385m in F15, which eased capital and funding pressures prevalent at the time, the group reported net negative asset carrying value adjustments of R306m (required by changes to receipting expectations). Additional net negative carrying value adjustments of R82m were made in F16 (R57m positive adjustment on continuing operations, R139m additional impairment in discontinued operations) in order to better reflect current expectations of collection levels and appropriate discount rates. These adjustments, together with modest origination levels and strict underwriting in Responsible Finance products, have supported stabilisation of the group, which returned to profitability in F16 (supported by selected one-off items).

However, this financial recovery remains at a nascent stage. Furthermore, persistent challenges in the consumer and regulatory environments (particularly in South Africa) have added to the complexity of consumer finance servicing operations, while rising funding costs place additional pressure on the profitability of loan origination. Consequently, the group strategy remains conservative and focussed, with servicing quality and growth in existing businesses (Responsible Finance in South- and East Africa, and acquisition and collection of non-

[1] For a detailed breakdown of the group, refer to past rating reports.

performing debt in South Africa) being seen as the key drivers of future business performance.

Organisational structure

Ownership structure

Table 1 sets out the group's effective shareholding at 31 March 2016 (unchanged since 31 March 2015).

Table 1: Effective shareholding*	%
Old Mutual	30.1
Management Private Equity consortium	29.1
Norfund	15.7
BBBEE consortium	3.9
Other private shareholders	21.2

* Including ordinary and cumulative convertible preference shares.
Source: Real People.

Governance structure[2]

The group's management, oversight and governance structures are robust and are led by the board of directors ("board"), which sets strategy, risk parameters and governance direction, approves financial results and budgets, and monitors management's performance relative to its delegated responsibilities. At FYE16, the group's board included three executive directors and seven non-executive directors ("NEDs"), two of whom were independent. During F16, four NEDs resigned and an additional four (plus an alternate) were appointed. These changes were mainly as a result of changes to the group's shareholding structure in December 2014. The board is supported by a number of committees, including the Group Executive Committee (including its Assets and Liabilities ("ALCO") subcommittee), Audit and Risk Committee ("ARC")[3], as well as Strategy Execution, Capital, Social and Ethics, and Remuneration committees.

The group complies, to the extent practicable, with the King III Code of Corporate Governance. Non-compliance with limited provisions of King III is linked to the limited number of independent NEDs on the board (which is a function of the group's closely-held equity structure, and key shareholders' desire to have board participation).

Real People is managed by the CEO-led executive team, with board oversight. Common governance and control structures are set in the group's operating entities, supported by a holistic strategic outlook (given the integrated nature of the group's origination and servicing model), a strong executive team, and appropriate compliance/operational policies.

Control and risk management structure

Real People's operations are subject to internal and external oversight. Business-specific and consolidated annual budgeting and monthly performance reporting are supplemented by internal and external audits. The risk management structures have been enhanced during F16 with the introduction of formalised terms of reference for ALCO. The group also plans to outsource internal audit services, which is expected to improve the efficiency and independence of this function.

Human resources and staffing

Senior management has been stable over the past 18 months, and executive/senior management continue to combine experience with the ability to embrace a changing environment. As such, the leadership is well positioned to effect strategy and lead the group in its recovery and subsequent development trajectory.

Following a net headcount reduction of 158 in F15 to support cost containment, the group increased its total staff complement in F16 by 96, reflecting 83 fewer support/administration staff, and an increase of 179 heads in operations/IT functions (Table 2). Increased servicing capacity supports current operations and caters for potential business growth, while lower administrative resourcing supports cost efficiency as well as discontinuation of selected businesses.

Table 2: Staffing breakdown		
By management level:		**Average internal tenure**
Executive team		7.6 years
Senior management		8.7 years
Middle management		8.8 years
Servicing employees		4.3 years
By business function:		**No. of employees**
	F15	**F16**
Business management	76	52
Financial control	30	24
Legal and compliance	9	4
IT and operations	823	1 002
Human resources and administration	219	171
Total	**1 157**	**1 253**

Source: Real People.

Reporting structure and access to information

Appropriate high-level control/oversight of the group is provided by the ARC, into which the compliance, internal audit and risk management functions report. The ARC also coordinates the external audit. The ARC report included in the F16 financial statements confirms that no material breakdown in controls were identified during the year, that Real People's systems of internal control/reporting are operating effectively.

Real People's financial accounts are prepared in accordance with International Financial Reporting Standards ("IFRS"). The annual and interim financial reports are detailed, transparent and timely. Grant Thornton, the group's external auditors, issued an

[2] Given the intricacies associated with good corporate governance, GCR recommends an independent assessment to test compliance.
[3] ARC (majority membership of independent NEDs) meets quarterly.

unqualified audit opinion on the F16 financial statements of the group. Performance data, changes in risk appetite and other relevant information are regularly updated and disseminated on the Stock Exchange News Service ("SENS").

Operating environment[4]

Real People is directly exposed to lower-income customers through credit linked financial products provided, as well as the collection of non-performing customer debt. Consequently consumer confidence, employment rates, indebtedness levels, consumer lending trends and related considerations, impact potential business growth and profitability.

Economic overview

South Africa's 2015 real GDP growth moderated to 1.3% (2014: 1.5%). Continued labour unrest and energy constraints contributed to lower productivity and rising inflationary pressures. The Rand traded weaker against major currencies in 2015, closing at R15.53/USD at end-2015 (end-2014: R11.61/USD), exacerbating inflationary pressures. The South African Reserve Bank ("SARB") raised the repo rate by 50bps in January and 25bps in March 2016 (2015: cumulative 50 bps), in response to inflation estimates which exceeded the 3-6% target range. While lower oil prices offered some respite in 2015, the Rand has remained weak, and weakened further following a December 2015 shuffle in the Finance Ministry.

Several factors continue to weigh on South Africa's economic growth prospects, including a weak global economic climate, low commodity prices, a rising interest rate cycle, volatile labour relations, a severe drought, low investment and business confidence, and increasing polarisation of socio-political sentiment. Disposable incomes are likely to continue experiencing downward pressure, and the SARB's real GDP growth projections for 2016 have been revised down to 0.6% (from 1.5% in the September Monetary Policy Committee statement). Actual performance in 2015 reflected an extension of 2014's challenges, and South Africa faces the risk of a sovereign rating downgrade to non-investment grade.

In 2015, corporate sector performance amplified concerns regarding the health/prospects of selected sectors. Consumer spending and household income growth slowed in 2015, remaining at historically low levels. Persistent high unemployment levels, lacklustre consumer confidence, and modest lending growth support the *status quo*. While debt to disposable income levels (a debt affordability proxy) trended downward in 2014, it was erratic during 2015, culminating in a downward trend in the last quarter. Growth in households' financial liabilities combined with a slower appreciation in the value of housing stock and equity holdings has contributed to a moderation in household net wealth growth.

Industry overview

The 2007 promulgation of the National Credit Act ("NCA") began a process of structural change in the consumer lending industry's composition, while also providing statistics from non-bank credit providers, which have increased their share of consumer loan issuance from 16% (2007) to 22% (2015), per the National Credit Regulator ("NCR") statistics. Concomitantly, secured lending has declined from 75% of loan issuance in 2008 to 57% at the height of the unsecured lending boom in 2012. Over the same period, unsecured credit rose from 12% to 24% of consumer credit issuance, with 'other loans' (comprising credit facilities and, to a lesser extent, short-term loans) retaining a fairly constant share. Developmental finance (the category within which Real People's Home Finance lending business falls) has been included in NCR statistics since 2012, and comprised 3-4% of consumer loan issuance in 2015.

Regulatory developments

In recent years, regulation has been aimed at curbing consumer over-indebtedness, while balancing financial inclusion objectives. Such regulation affects registered credit providers which lend to consumers or small/micro businesses, with much legislation implemented or promulgated since the beginning of 2015. A discussion of those developments directly or indirectly pertinent to Real People follow.

In September 2015, The Department of Trade and Industry ("DTI") implemented affordability assessment regulations in an attempt to combat reckless lending and borrowing. These amendments tighten criteria for affordability assessments and require credit providers to ensure that the consumer has sufficient income available to finance the proposed credit instalments, taking cognisance of all existing debt and maintenance obligations.

The DTI also published regulations for interest rate limits and fees for credit agreements (effective from 6 May 2016). Interest rate and fee caps affect most consumer credit to some extent. Profitability for lenders and pricing for borrowers will be most impacted in the unsecured (in particular, short term) credit segment, where much of the lending is priced close to the regulatory upper limits. These regulations broadly include changes to the formula for calculating maximum prescribed interest rates, as well as initiation and servicing fees which may be charged on various types of consumer credit agreements. Contrary to stricter maximum interest rate limits on most credit categories, rate limits for developmental credit were raised.

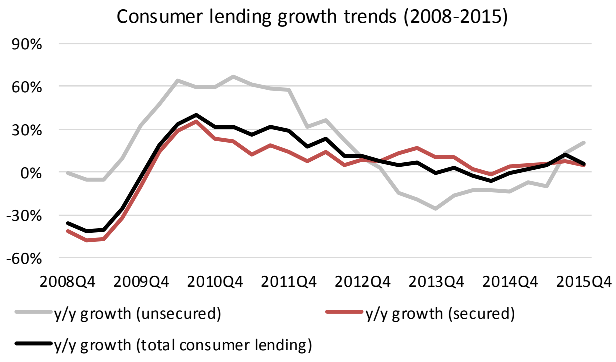
[4] Given that 86.8% of the group's assets and all of the group's profits are attributable to South African operations, the operating overview focuses on local factors only.

Furthermore, on 13 November 2015, the DTI released draft regulations regarding the capping of costs on credit life and retrenchment insurance. The credit life rates proposed for developmental credit agreements of R2.00 per R1,000 of the deferred amount (excluding the cost of credit) will, if implemented, have a significant impact on the group's Home Finance division's risk appetite and accordingly on its origination volumes and long term sustainable profitability, according to management. Real People has engaged the DTI as part of the public comment process, wherein a submission was made arguing, *inter alia*, that the rates for developmental credit agreements should be the same as for unsecured credit agreements. The current rate proposed for unsecured credit agreements is R4.50 per R1 000 of the deferred amount (excluding the cost of credit).

Although these regulations are intended to enhance financial stability, support consumer protection and make credit more affordable, as well as lowering NPL levels in consumer lending, they are also likely to have a negative influence on the supply of household credit in the economy.

A case[5] is currently awaiting judgement from the Constitutional Court on the use of emolument attachment orders ("EAOs"). An EAO is a court order that compels an employer to deduct money from an employee's salary every month for debt owed to a creditor that has obtained judgment against the employer. According to management, the potential impact on the group, should the order be upheld with prospective effect, is not expected to be material. However, in the event of the order being implemented retrospectively, the impact would be materially negative for the group and most financial service providers, especially banks.

Consumer lending trends
Challenging macroeconomic conditions and an evolving regulatory landscape have largely shaped trends in consumer credit supply/demand over the past few years. Lending to individuals is still subdued relative to 2011-13 levels. Higher delinquency on loans issued during this period has constrained credit supply, while a deterioration in consumer confidence, persistent labour market instability, and stagnant disposable income levels have had negative credit supply and demand implications.



Since 2012, secured credit issuance (mainly instalment sales/mortgages) has shown moderate positive growth, while unsecured loan issuance growth has been broadly negative (with substitution from unsecured to secured credit categories evident), turning positive again in 2015.

Intensifying economic pressure is starting to dampen demand for vehicles and house purchases, feeding through into the credit markets, while tighter regulations are constricting supply. Credit application rejection rates have moderated slightly in the past few quarters, but are expected to increase again in the wake of recent regulatory changes, despite some recent signals that both credit quality and consumer indebtedness measures are improving. GCR views the outlook for consumer lending growth as neutral to negative, given the prevailing economic and regulatory environment. While this should ultimately have a positive impact on asset quality and consumer indebtedness levels, the social cost of a potential reduction in financial inclusion is harder to measure.

While these broad trends highlight the direct and/or indirect challenges market participants face, their specific areas of focus and lending practices continue to be the key determinants of each credit provider's actual experience. Consequently, while the industry overview provides historical and aggregate context, performances reflect companies' strategic choices and risk appetites rather than the products they offer or sector-wide trends. This is particularly relevant for monoline businesses which operate exclusively or primarily in selected segments, such as the unsecured, short-term and development finance credit markets (given their lack of diversification and operational complexity as a result of the volume-driven nature of these businesses, and relatively higher exposure to the impact of changing regulation).

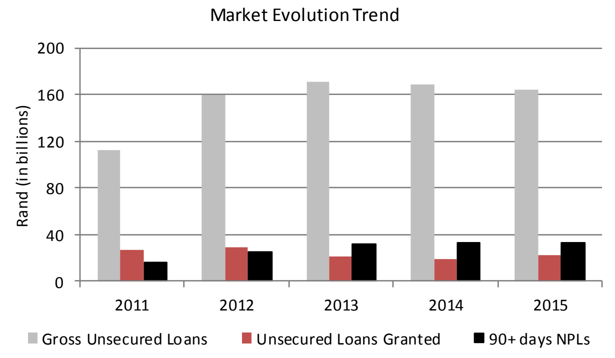
Specialist industry segments
Trends in unsecured credit
The unsecured lending boom was largely driven by improved access to credit for middle-income earners, a larger middle class, substitution of secured for

[5] A class action law suit was brought to the Western Cape High Court by the University of Stellenbosch's Legal Aid Centre ("LAC") and 15 consumers. The LAC alleges among other things that in many instances EAOs had been obtained in Magistrate's Courts outside the area of jurisdiction relating to where the loans had been obtained. The LAC is also concerned that clerks of the court, instead of magistrates, have been issuing EAOs. The LAC also seeks to determine whether it is constitutionally permissible for an EAO to be issued without any form of judicial oversight. Further, when the EAO is issued, a magistrate should ensure a debtor has sufficient means to maintain himself and any dependents. The list of respondents in the matter include the Minister of Justice and Correctional Services, the Minister of Trade and Industry and the NCR as the action is intended to get the law on EAOs redrafted.

unsecured credit in upper-middle income clients, and longer/larger unsecured loans being made available. Furthermore, reckless lending practices, including loans being granted to higher risk customers, were corroborated by findings from the report into the reasons for capital losses which lead to the curatorship of African Bank Limited[6] ("ABL").

Credit risk and asset quality

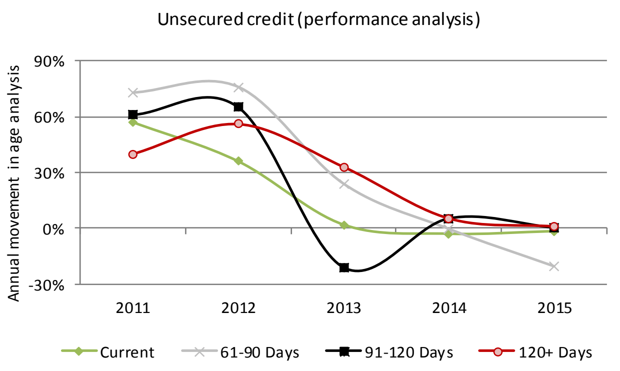
After three years of constrained issuance, conservative underwriting and rising arrears, in 2015 the unsecured credit markets appear to be stabilising.



Source: NCR.

The abovementioned factors resulted in a de-risking of credit books, which are now starting to display some stability, characterised by:

- Slight prolongation of tenor – as evidenced by higher issuance in the 7-24 month band relative to the 0-6 month category. The volumes of loans exceeding 36 months also rose in 2015.
- Increasing average loan sizes – to R19,500 in 2015 from R17,000 in 2014; and
- Consistency in credit quality and ageing metrics over four successive quarters. Current unsecured loans remained broadly unchanged at 70-71% of total unsecured loans in 2014 and 2015, while the delinquent loan proportion remained at around 20% in 2015. Based on NCR data, a relatively neutral ageing profile has persisted in 2015, given lower lending, stricter underwriting and extensive NPL write-offs during the 2013-15 period.



Source: NCR.

[6] Detail on ABL's curatorship, its subsequent re-launch and the implications of this event on financial market stability are discussed in GCR's South Africa Bank Bulletin, May 2016.

While market participants' de-risking of their books and increases in provisions and write-off rates should have largely mitigated the challenges of the past, the sector's outlook remains constrained by regulatory and macroeconomic challenges, compounded by the broadly negative consumer environment, which are likely to constrain credit growth.

Trends in developmental credit

Real People is a Registered Developmental Credit ("DC") Provider as defined by the NCA. There are three types of DC (ie, loans for educational purposes, loans to build, expand or improve low-cost housing, and loans to set up small and medium-sized businesses). DC as a category has been separately reported in the NCR statistics since 4Q 2012, at which time it comprised 1.6% of consumer loan issuance. In 4Q 2015 it comprised 3.6% of issuance, but only 2% of outstanding consumer loan balances at that date, given the relatively shorter terms of DC relative to secured loan categories.

DC issuance levels have been highly volatile over time, with no clear trend. In part this highlights the fact that such credit is aimed at higher risk/more marginalised customers, and may become unavailable in times of perceived consumer stress. It also reflects institutions' requirements to specifically register as DC providers in order for loans to be reported in this category. While the period over which trends can be assessed is short, DC asset quality appears to be improving, with balances 90+ days in arrears averaging 5.3% in 2015 relative to a 7.2% average in the preceding two years.

While this asset class remains highly restricted and specialised, the outlook for DC issuance is positive, and GCR expects growth to start exhibiting a more predictable positive trend in the next 12-18 months, premised on a number of factors:

- Maximum DC interest rates were raised in the recent interest rate cap legislation (implying government encouragement of DC loan issuance);
- The positive developmental/financial inclusion impacts of such lending is attracting funding from development finance institutions ("DFIs"), for on-lending; and
- Lending to SMEs is gaining ground across Africa as a driver of economic growth/margin expansion for financial institutions.

Provided that systems/processes adequately price for and manage the attendant risks, lenders focussing on DC have strong prospects for growth, and a potential funding advantage, given the political/developmental popularity of DC. That said, the sector's positive outlook is tempered by macroeconomic/regulatory changes, compounded by the negative consumer environment, which may constrain credit growth.

Collections environment

The collections operating environment has continued to experience a number of challenges aligned to those impacting consumer lending. Macroeconomic factors, together with myriad regulatory changes[7], has increased the effort and cost of collection, but may encourage clients to increase servicer outsourcing, potentially boosting outsourced collection business volumes.

The group has responded to these challenges by altering its prescribed debt activation processes within its interpretation of applicable law, updating its credit and collections policies related to specific classes of debt to cater for new regulatory requirements, and increased the risk premium applied in determining acquired book pricing. These issues notwithstanding, distressed debt portfolio acquisition increased in F16, as pricing in this market has begun to reflect the risks.

Competitive position

Real People's small, niche franchise is underpinned by its experience in credit management and distressed debt collections. Its negligible market share in the local unsecured credit/DC market has declined over the past few years given the closure of its general purpose lending operations, restrained purpose-specific loan growth and significant asset impairments, resulting in a smaller balance sheet.

The capital and funding constraints faced by the group in F15 resulted in restrictions being placed on loan origination volumes, which impacted on sales of many hardware merchants. In some stores these restrictions allowed competitors to provide an alternative in-store offering, whilst other stores recognised a diminished benefit in maintaining an origination infrastructure. Given the group's renewed access to additional funding, the focus recently has been on re-establishing its historical relationships with building supply merchants through which its Home Finance product offering is originated.

Financial flexibility

Likelihood of support

To date, the group has been well supported by its shareholders through term loan facilities, as well as a successful capital raise in F15, which was largely supported by existing shareholders (together with four new investors). Shareholder support, having been tested in the past, is seen as a viable emergency avenue. However, a sustained operational turnaround is seen as a prerequisite for significant additional support.

[7] The complexity, compliance requirements and attention to detail required in servicing operations continues to increase, potentially leading to a contraction in retail credit granting. A further significant (but currently unquantifiable) risk to the collections environment is the expected change from a non-authenticated debit order ("NAEDO") system currently in place, to customer authenticated collections ("AC"). While the switch from NAEDO to AC is expected to take place in September 2016, the details around how this process will be implemented, as well as its consequences for collection levels, remain unclear to most industry players.

Risk management

The group's risk management environment/policies have remained relatively unchanged in F16, with a strong focus on controls and efficiency. The group's credit quality, liquidity, and capitalisation challenges have abated somewhat since F15, but the group's approach to risk management remains conservative, in line with the group's defensive tactical strategy implementation, which remains in force.

The ARC is responsible for reviewing the adequacy/ overall effectiveness of the group's risk management function, and its implementation by management. ARC's oversight is supplemented by work of the credit committee, and ALCO. ALCO's terms of reference include identification, measurement and management of interest rate, liquidity and currency risk. ALCO is also responsible for ensuring that appropriate capital management and funding strategies are applied across the group.

The group is subject to financial, SPV-related and regulatory covenants in its various entities. These are monitored on a relevant entity basis by ALCO. There were no covenant breaches at FYE16.

Funding structure

The group's funding structure is made up mostly of borrowings, raised through: (i) bilateral agreements; (ii) domestic capital markets (listed Domestic Medium-Term Note ("DMTN") on the Johannesburg Stock Exchange ("JSE"), and securitisations (both listed and unlisted); (iii) Nordic and Kenyan capital markets; and (iv) for its Home Finance business, funding provided from a third party fund managed by one of Real People's largest shareholders.

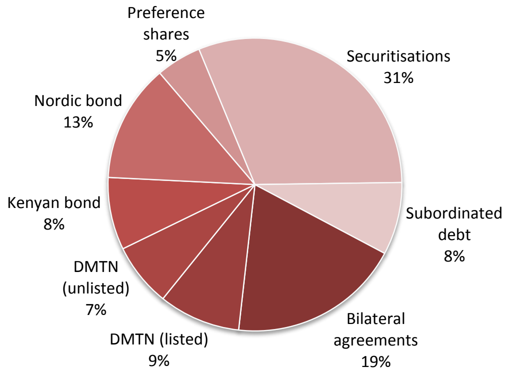
Table 3: Funding base	F15		F16	
	Rm	%	Rm	%
Medium/long-term facilities	2 086	67.7	2 242	69.9
Bi-lateral loans	*451*	*14.6*	*775*	*24.2*
Capital market loans	*1 635*	*53.1*	*1 467*	*45.7*
Other borrowings/loans†	993	32.3	966	30.1
Total	**3 079**	**100.0**	**3 208**	**100.0**

† Includes loans from shareholders/related parties.
Source: Real People.

The group raised c.R803m in debt funding during F16, through issuance under its recently listed bond programme in Kenya and secured funding in South Africa, easing funding/liquidity pressures somewhat.

Funding base – types of borrowings	F16 (Rm)	YoY change (%)	Composition (%)
Secured	1 084	70.1	33.8
Subordinated	272	(10.6)	8.5
Unsecured	1 853	(13.3)	57.7

In line with Real People's strategy to migrate funding from group to divisional level, in F16 the group raised a local currency domestic bond to fund Kenyan operations, resulting in partial repayment of an intergroup loan and release of the related FCTR to the income statement. The group also raised additional South African secured debt in F16, which increased securitisations as a proportion of total funding (FYE16: 33.8%; FYE15: 20.7%; FYE14: 20.5%).



Funding concentration risk is deemed significant, as the top six funders accounted for c.72% of total funding at FYE16, given the group's high reliance on wholesale funding.

Liquidity

The group's short-term liquidity policy ensures that sufficient cash is available to settle payments during the upcoming year, while the long term liquidity assessment enables management to identify issues which may arise in the future, and take appropriate remedial actions. At FYE16, cumulative liquidity shortfalls were evident in the 25-36 month bucket (based on the conservative assumption of a 25% haircut on receipting during that period). Bond buybacks (at a discount, and pertaining mainly to bonds in the abovementioned maturity bucket) mitigated this issue to some extent. Further remedial actions (for liquidity risk management) to be undertaken by the group include maintenance of unutilised facility levels, and development of the DMC and Home Finance funding pipeline (for refinancing and growth).

Interest rate risk

Interest rate risk is assessed as relatively low, as most lending and funding is at floating rates (lending rates reset as market rates change, while funding resets on pre-specified interest reset dates). The group has determined that the pre-tax profit impact of a 100bp increase in rates based on the FYE16 balance sheet structure is positive (based on certain assumptions).

Capital structure

Reduction in loan origination and its diminishing effect on the risk-weighted assets balance has boosted CAR to well in excess of the covenanted minimum of 30%, just short of management's 36% targeted level. CAR is expected to remain around targeted levels during F17, as a result of budgeted stability in capital and risk-weighted asset levels.

Table 4: Capitalisation	**F15 Rm**	**F16 Rm**
Total reported equity	511	501
Paid up common shares	*441*	*441*
Compulsory convertible preference shares	*100*	*100*
Eligible reserves	*(30)*	*(40)*
Less: Deductions	(66)	(115)
Add: Other capital instruments*	376	330
Eligible capital	**821**	**716**
Total risk weighted assets ("RWA")	**2 383**	**2 076**
Eligible capital: RWA (%)	**34.4**	**34.5**
Minimum covenant level: 30%		

* Includes Tier 2 capital of R11m (F15: R48m) which is non-qualifying due to regulatory caps on subordinated debt.
Source: Real People.

Operational profile

Credit risk

In F16, the group continued the prior year's responses to below-expectation performance, including modest loan origination, tight credit underwriting, sale/discontinuation of unproductive businesses, and focus on collections excellence in its own and third party portfolios, supplemented with value-enhancing book acquisitions.

The presentation of segmental information in Table 5 corresponds to the current operational and management-related structure of the group.

Table 5: Assets by business cluster	**F15 Rm**	**%**	**F16 Rm**	**%**
Responsible Finance	1 544	41.1	1 644	41.2
DMC†	931	24.8	1 376	34.4
Discontinued receivables^	756	20.1	460	11.5
Group central services*	507	13.5	514	12.9
Disposal group‡	17	0.5	-	-
Total B/S assets	**3 755**	**100.0**	**3 994**	**100.0**

† With effect from 1 October 2015, discontinued cellular receivables were incorporated into the DMC business unit.
^ Discontinued general purpose lending book.
* Group central services house the centralised functions which operate across the group.
‡ The Aspire Group was disposed with effect from 1 January 2016.
Source: Real People.

To provide context to the above, the activity and performance of these units, where applicable, are discussed separately below.

Responsible Finance

Responsible Finance provides credit and related financial services to customers of building supply merchants in South Africa (Home Finance), and small and micro-enterprises in East Africa (Business Finance), predominately in Kenya.

The Home Finance business required an asset carrying value increase of R15m in F16 (F15: R208m reduction), following improvements in asset quality and collection performance on the back of a new scorecard introduced in 2014 and a revised product range that targets low to medium risk customers, curtailing loan origination to high risk consumer segments. Net advances (within Home Finance) declined by 11% YoY due to origination volume restrictions in accordance with the tightening of its credit risk appetite amidst the prevailing weak economic environment.

Business Finance (East Africa) required an asset valuation reduction of R44m in F16 after more conservative asset valuation methodologies were implemented. Loan growth was robust up to 2Q F16, given the availability of local funding. However, management curbed origination volumes from 3Q F16 as it focussed on improving portfolio quality and establishing credit underwriting and collections processes to cope with the more volatile operating environment in Kenya.

DMC

DMC provides debt collection services to credit providers and retail customers in South Africa.

The group invested R334m in new portfolio acquisitions in F16. After declining between F12 and F15, the annual and anticipated recovery figures stabilised in F16, as a result of improved receipting on older acquired debt, above-expectation collections of debt purchased between 2H F14 and F16, and changes in portfolio mix.

Receipting improvements, combined with attractive pricing on collections books (a buyer's market, given unfavourable operating and legislative conditions in the industry), yielded a net positive carrying value adjustment on acquired assets of R86m in F16 (F15: R73m reduction). Given the improvement in receipting and potential for additional recoveries from acquired debt books, this business remains a key focus area.

Discontinued receivables

Discontinued receivables includes the general purpose lending book which is in run off. The cellular division was previously disclosed as part of the discontinued run off business, but was reclassified as part of DMC in October 2015.

Asset quality

Real People's asset quality appears to have stabilised, with improvements seen in recent NPL metrics as a result of product development and underwriting risk enhancements. Despite a contraction in the loan book, the group's gross NPL ratio decreased from 53.5% at FYE15 to 34.2% at FYE16 aided by the write-off of legacy NPLs. Despite evidence of improved performance on newer vintages, the challenging operating environment will continue to weigh on consumers' ability to service and repay debt, and therefore poses the risk of higher than anticipated credit losses for the group. As such, loan loss recoveries below expectations present downside risks for the group given its high (albeit reduced) balance sheet exposure to impaired loans in general, and written-off exposures in particular. The group's written-off loan book was R623m (or 87% of eligible capital) at FYE16.

While the provisioning coverage of NPLs improved (from 78.1% at FYE15 to 88.8% at FYE16) and net NPLs (NPLs less provisions) significantly decreased to 7.9% of eligible capital (FYE15: 37.4%) at FYE16, the group's profitability, capital buffers and overall credit profile still remain exposed to a material deterioration in asset quality/loan recoveries.

Table 6: Asset quality	**F15 Rm**	**F16 Rm**
Gross advances	2 628	1 518
Performing	*1 223*	*999*
Non-performing	*1 405*	*519*
Less : Provisions	(1 098)	(461)
Net advances	**1 530**	**1 057**
Written-off advances†	436	623
Gross NPL ratio (%)	53.5	34.2
NPL coverage (%)	78.1	88.8
Net NPLs/Eligible capital (%)	37.4	8.1

† At present value of expected cashflows.
Source: Real People.

Financial performance

A five year financial profile is appended on page 11, supplemented by the commentary below.

In F16, Responsible Finance generated a post-tax profit of R14m (F15: R105m loss), while the discontinued receivables segment recorded a R114m loss , highlighting the ongoing negative impact of the rundown of discontinued (legacy) receivables on profitability, counteracted to some extent by a recovery in collections on higher credit quality new business. Highlighting its stability, DMC generated a F16 post-tax operating profit of R87m (F15: R85m). Group central services performed significantly better in F16 than in F15, posting profit of R22m (F15: R178m loss), although most of this represents one-off items including the FCTR release[8] of R47m and debt

[8] Intragroup loans were previously considered part of the net investment in foreign subsidiaries, and foreign exchange gains or losses were recognised in other comprehensive income and accumulated in the FCTR. In F16, these loans were no longer considered part of the net investment, following the local subsidiaries being able to raise funding locally and repay their intragroup loan accounts, as well as internal re-organisation efforts to promote bespoke funding agendas within individual business units. The net effect of these changes was the release of R47m from FCTR through profit and loss.

buyback programme[9] of R122m. Overall, the group reported a post-tax profit from continuing operations of R9.4m in F16 (F15: R323.2m loss)[10], pointing to a (still vulnerable) potential recovery.

Table 7: Post-tax profit/(loss) by business cluster	F15 Rm	F16 Rm
Responsible Finance	(105)	14
DMC	85	87
Discontinued receivables	(125)	(114)
Group central services	(178)	22
Post-tax profit/(loss) from continuing operations	**(323)**	**9**

Source: Real People.

The superior performance of DMC (relative to originated assets) provides evidence that the group's financial challenges are more a function of poor historical debt origination decisions, specifically with respect to its since closed branch lending business, than the quality of servicing and collections operations. Management has confirmed that underperformance of the group's own originated asset collection expectations over a sustained period relate in large to the originations made through its discontinued branch network during a time when the South African consumer was becoming increasingly over indebted.

The group's cost to income ratio increased to 66.5% in F16 (F15: 65.3%), but is expected to stabilise going forward as the benefits of the group's rationalisation process in F15 take effect.

In F16, the group's ROaE (of 1.9%) and ROaA (of 0.3%) were positive but low, providing a weak buffer to absorb credit losses.

Prospects and conclusion

The proposal by the DTI to cap credit life insurance charges on developmental loans heightens forecast risk. Real People currently charges R4.5 on a sliding scale basis (compared to R2.00 being proposed) and, if implemented, would negatively impact the group's profitability and threaten the feasibility of its Home Finance offering. Additional regulatory events that could adversely affect the group's financial standing include a constitutional court ruling in favour of retrospective action on EAOs and/or implementation risks associated with the replacement of NAEDO with AC.

Other developments that could impact negatively on the group's forecasts are described below:

- Management has raised concerns regarding the recoverability of c.R25m deposited with Rafiki Microfinance Bank Limited, a subsidiary of Chase Bank Kenya Limited which has been placed under receivership by the Central Bank of Kenya.
- The Aspire group was sold effective 1 January 2016, however the purchaser has an option to serve closure notice for the post-schools business. If a closure notice is served within three months from 30 May 2016, the group carries the full cost of closure which is estimated at R28.6m. If a closure notice is served within the subsequent three month period, the costs are to be shared between the group and the purchaser in equal proportions. After six months from signature date, 30 May 2016, the purchaser bears the full cost. Management has considered the group's position and has evaluated that this is not likely to be adversely impacted as it remains likely that the purchaser will continue with the post-schools business.
- Management has yet to assess the implications of the introduction of IFRS 9, which is effective from 1 January 2018. However, GCR believes that the adoption of IFRS 9 may necessitate higher provisions for the group, negatively impacting profitability.

Sustained recovery (and growth) will remain a challenge for the group given the tough economic conditions and tightening regulations, as well as various group-related uncertainties. Rising credit risks, as the economy worsens, could have a negative impact on Real People's asset quality and profitability, while pressures on the cost of funding (amid low investor confidence and potential sovereign downgrades) may also negatively impact bottom lines.

[9] The group's medium term funding strategy is to move away from group based funding and enable independent funding and asset and liability management at subsidiary level. Therefore, the board in F16 approved a debt buyback proposal which envisaged retiring debt at holding company level and replacing this with bespoke funding within the divisions. As funds became available, the company bought back notes (with a nominal capital value of R481m) that were trading at a discount which generated a profit of R121.5m for the year.

[10] Including losses from disposal group of R1.7m (F15: R9.7m), the net profit after tax for F16 was R7.7m (F15: R332.9m loss).

Real People Investment Holdings Limited

(South African Rands in millions except as noted)

Year end: 31 March					
Income Statement	**2012**	**2013**	**2014**	**2015**	**2016**
Interest income	524	810	786	635	442
Interest expense	(208)	(285)	(376)	(392)	(390)
Net interest income	**316**	**525**	**410**	**243**	**52**
Other income	867	1 063	989	735	920
Total operating income	**1 183**	**1 588**	**1 399**	**978**	**972**
Bad debt charge	(510)	(802)	(1 078)	(642)	(264)
Operating expenditure	(515)	(578)	(640)	(639)	(646)
Profit (loss) before tax	**158**	**208**	**(319)**	**(303)**	**62**
Tax	(63)	(78)	68	(20)	(53)
Profit (loss) from continuing operations	**95**	**130**	**(251)**	**(323)**	**9**
Other after-tax income / (expenses)	29	(19)	(53)	<1	2
Attributable income / (loss)	**124**	**111**	**(304)**	**(323)**	**11**
Balance Sheet					
Common shareholders equity	1 031	1 010	733	546	550
Minority interest	(6)	(9)	(15)	(10)	(13)
Total capital and reserves	**1 025**	**1 001**	**718**	**536**	**537**
Interest bearing borrowings	2 586	3 090	3 629	3 079	3 208
Other liabilities	667	215	212	140	249
Total capital and liabilities	**4 278**	**4 306**	**4 559**	**3 755**	**3 994**
Cash and liquid assets	657	342	315	433	608
Net loans and advances	2 727	3 403	3 470	2 855	2 784
Total interest earning assets	**3 384**	**3 745**	**3 785**	**3 288**	**3 392**
Fixed and intangible assets	50	52	75	72	61
Investments	1	101	168	54	160
Other assets	843	408	531	341	381
Total assets	**4 278**	**4 306**	**4 559**	**3 755**	**3 994**
Ratio Analysis (%)					
Financial management					
Interest expenses / Average gross advances	18.4	17.7	20.6	22.4	28.4
Interest expenses / Average funding liabilities	9.3	10.1	11.2	11.7	12.4
Interest bearing debt / Total capital	2.5	3.1	5.0	5.6	5.8
Total capital / Total assets	24.0	23.2	15.7	14.3	13.4
Internal capital generation	6.9	5.2	(14.1)	(15.0)	0.5
Cash and liquid assets / Total assets	15.4	7.9	6.9	11.5	15.2
Asset quality					
Bad debt charge / Average gross advances	22.4	24.8	29.6	18.3	9.6
Bad debt charge / Total operating income	43.1	50.5	77.0	65.7	27.1
Net charge-off ratio	(5.3)	(12.9)	(21.7)	(26.5)	(32.8)
Efficiency					
Operating expenses / Average gross advances	45.4	35.7	35.2	36.4	47.1
Operating expenses / Operating income	43.6	36.4	45.8	65.3	66.5
Profitability					
Net interest income / Average gross advances	27.8	32.4	22.5	13.8	3.8
Non interest income / Total operating income	73.3	67.0	70.7	75.2	94.7
Net profit margin	13.4	13.1	(22.8)	(31.0)	6.4
Portfolio yield	51.8	49.6	41.4	32.4	37.7
ROaE	12.3	10.9	(34.9)	(50.5)	1.9
ROaA	3.2	2.6	(6.9)	(7.8)	0.3
Nominal growth indicators					
Total Assets	18.5	0.7	5.9	(17.6)	6.4
Total Advances	67.4	27.6	0.7	(7.9)	(37.0)
Shareholders equity	4.9	(2.1)	(27.4)	(25.5)	0.7
Net income	1.5	(10.4)	(372.7)	n.a.	n.a.

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

Annual Report	A status report on the current financial condition of a company. It usually includes the chairman's report, the auditor's report and detailed financial statements. It is issued once a year for shareholders to examine before the annual general meeting (AGM). In many markets, comprehensive Integrated Reports covering a wide spectrum of information have replaced traditional annual reports.
Arm's Length	A transaction in which the parties act independently and have no transaction favourable relationship with each other, or are not subject to undue influence or duress from one another.
Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
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 (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Bad Debt	An amount owed by a debtor that is unlikely to be paid due, for example, to a company going into liquidation. There are various technical definitions of what constitutes a bad debt, depending on accounting conventions, regulatory treatment and the individual entity's own provisioning and write-off policies.
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.
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.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Equivalent	An asset that is easily and quickly convertible to cash such that holding it is equivalent to holding cash.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Collateral	Asset provided to a creditor as security for a loan.
Consortium	A group of companies that combine some or all of their resources to undertake a joint project.
Consumer Price Index	CPI is an index of inflation. It is calculated by collecting and comparing the prices of a set basket of goods and services bought by a typical consumer at regular intervals over time.
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.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
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.
Discount Rate	A term with two meanings. Either the interest rate a central bank charges banks and other institutions for short term borrowings. Or the interest rate used to calculate the present value of payments and receipts made and received in the future.
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.

Economic Indicators	Statistical data about a country's economy, such as unemployment figures, the Consumer Price Index (CPI), Gross Domestic Product (GDP), money supply and housing statistics. This data gives information about the future direction of output and demand in an economy.
Equity	Equity (or shareholders' funds) is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exchange Rate	The value of one country's currency expressed in terms of another.
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.
Facility	The grant of availability of money at some future date in return for a fee.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
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.
Fixed Assets	Assets of a company that will be used or held for longer than a year. They include tangible assets, such as land and equipment, stake in subsidiaries and other investments, as well as intangible assets such as goodwill, information technology or a company's logo and brand.
Forecast	A calculation or estimate of future financial events.
Goodwill	Arises upon the sale/acquisition of a business and is defined as an established entity's reputation, which may be regarded as a quantifiable asset and calculated as the price paid for a company over and above the net value of its assets. Negative goodwill refers to a situation when the price paid for a company is lower than the value of its assets.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Haircut	The percentage by which the market value of a security used as collateral for a loan is reduced. The size of the haircut reflects the expected ease of selling the security and the likely reduction necessary to realised value relative to the fair value.
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.
Intangible Assets	The non-physical assets of a company such as trademarks, patents, copyright, information systems and goodwill.
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.
Interest Rate Risk	Interest rate risk in the banking book is the risk that earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are repricing/mismatch, basis and yield curve risk.
International Financial Reporting Standards	IFRS is designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
Investment Grade	Credit ratings equal to or higher than 'BBB-'.
Lease	Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidation	Liquidation is the process by which a company is wound up and its assets distributed. It can be either compulsory or voluntary. It can also refer to the selling of securities or the closing out of a long or short market position.
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.
Margin	The rate taken by the lender over the cost of funds, which effectively represents the entity's profit and remuneration for taking the risk of the loan; also known as spread.
Market Capitalisation	The total value of a company's shares as quoted on a stock exchange. It is calculated by multiplying the total number of shares in issue by the market price.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Monetary Policy	Measures taken by the central bank to influence the quantity of money or the rate of interest with a view to achieving stable prices, full employment and economic growth.
National Credit Act	The National Credit Act 34 of 2005 (South Africa).
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account (including taxes).
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.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
Overdraft	When the amount of money withdrawn from a bank account is greater than the amount actually available in the account, the excess is known as an overdraft, and the account is said to be overdrawn.
Past Due	Any note or other time instrument of indebtedness that has not been paid on the due date.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Pledge	An asset or right delivered as security for the payment of a debt or fulfilment of a promise, and subject to forfeiture on failure to pay or fulfil the promise.
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.
Preference Share	Preference or preferred shares entitle a holder to a first claim on any dividend paid by the company before payment is made on ordinary shares. Such dividends are normally linked to an interest rate and not determined by company profits. Preference shares are normally repayable at par value in the event of liquidation. They do not usually carry voting or pre-emptive rights. Preference shares can be redeemable or perpetual.
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).
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Refinancing	The issue of new debt/loan to replace maturing debt/loan. New debt may be provided by existing or new lenders, with a new set of terms in place.
Regulatory Capital	The total of primary, secondary and tertiary capital.
Repurchase Agreement	In a REPO, one party sells assets or securities to another and agrees to repurchase them later at a set price on a specified date.
Reputational Risk	The risk of impairment of an entity's image in the community or the long-term trust placed in it by its shareholders as a result of a variety of factors, such as performance, strategy execution, the ability to create shareholder value, or an activity, action or stance taken by the entity.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Risk Management Process	The systematic application of management policies, procedures and practices to the tasks of risk identification, assessment and measurement, response and action, monitoring and review, and risk reporting.
Risk Premium	The extra reward required from an investment in order to compensate for higher risks.
Secured Loan	A loan which is backed by a pledging of real or personal property (collateral) by the borrower to the lender. Unlike unsecured loans, which are backed by a promise by the borrower that he will repay the loan, in case of a secured loan, the lender can initiate legal action against the borrower to reclaim and sell the collateral (pledged property).
Securities	Various instruments used in the capital market to raise funds.
Securitisation	A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
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.
Solvent	The state of a company where its assets exceed its liabilities and it is able to service its debt and meet its other obligations, especially in the long-term.
Stock Exchange	A market with a trading-floor or a screen-based system where members buy and sell securities.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Tenor	The time from the value date until the expiry date of a financial instrument.
Tertiary Capital	Capital held by banks to cover certain classes of risk, including foreign currency exchange risk and commodities risk. To qualify as Tier 3 capital, assets must be limited to 250% of a bank's Tier 1 capital, be unsecured, subordinated, and have a minimum maturity of two years.
Tier 2 Capital	Secondary capital is mainly made up of subordinated debt, portfolio impairment and 50% of any revaluation reserves and other specified regulatory deductions.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

For a detailed glossary of terms utilised in this document please click here

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 2016 (plus four years of comparative numbers);
- Budgeted financial statements for 2017;
- Board and ALCO minutes for the last financial year;
- Other performance data and commentary; and
- Industry data.