GCR GLOBAL CREDIT RATING CO.
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Real People Investment Holdings Limited

South Africa Financial Institution Analysis **July 2015**

Rating class	Rating scale	Rating	Rating outlook	Review date
Long-term	National	BB+$_{(ZA)}$	Negative	July 2016
Short-term	National	B$_{(ZA)}$		
Long-term	International	BB	Negative	July 2016

Financial data:

(USD'm comparative)

	31/03/14	31/03/15
R/USD (avg.)	10.10	11.06
R/USD (close)	10.57	12.06
Total assets	431.3	311.4
Total capital	67.9	44.4
Total funding	343.3	255.3
Net advances	328.3	236.8
Liquid assets	29.9	35.9
Operating income	138.5	88.4
Profit after tax	(24.9)	(29.2)
Market cap.	not listed	

Rating history:

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

Initial rating (December 2013)
Long-term (International): BB
Rating outlook: Stable

Last rating (October 2014)
Long-term rating: BB+$_{(ZA)}$
Short-term rating: B$_{(ZA)}$
Rating outlook: Negative
Long-term (International): BB
Rating outlook: Negative

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2015

Real People rating reports (2011-14)

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Summary rating rationale

- The ratings of Real People Investment Holdings Limited ("Real People" and/or "the group") 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.

Factors that could trigger a rating action may include

Positive change: 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.

Negative change: 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.

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Organisational profile

Business summary[1]

The group, through its underlying businesses, is active as a provider of purposeful, unsecured credit in South Africa and selected East African countries. In addition to origination/administration of its own loan products, the group (through DMC – formerly called Debt Rehabilitation Solutions) provides debt collection and rehabilitation solutions to credit providers and retail customers. These services are provided as principal (collecting on acquired distressed debt portfolios) and agent (managing distressed portfolios of some of South Africa's largest credit providers on a contingency fee basis).

During F15, the group continued its process of rationalising and focussing its business offering, with the run-down of the legacy (general purpose) loan book, closure of its cellular and Empower Financial Services ("EFS") businesses, and transfer of Education Finance (Aspire Group) to discontinued operations (with the Education Finance loans being collected by DMC).

While the group's strategy remained unchanged (maintaining the focus on developing the purpose-specific lending and distressed debt servicing businesses), tactical implementation of strategic initiatives was tailored to market and operational conditions. In particular:

- F15 required a 'defensive approach', given capital /funding constraints, combined with asset impairments. This necessitated the utilisation of its broad "funding toolkit", a significant slow-down in loan origination, and cost containment. Non-core/unprofitable businesses (EFS and the cellular business) were closed, with the Aspire Group awaiting divesture.
- F16 is seen as the beginning of a 'recovery period' in which balance sheet stability should be accompanied by a gradual change in asset mix as legacy assets are replaced by purposeful (but still unsecured) loans. A revision of the funding model is also planned for this period, and a stable balance sheet is expected to maintain net funding requirements at modest levels.

In light of the group's recent challenges and nascent recovery (which management expects to position the group for growth within the next 18 months), the strategy, and implementation thereof, is expected to remain conservative and focussed, with servicing quality being a key driver of future business performance.

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

Organisational structure

Ownership structure

Table 1 sets out the group's effective (post capital raising) shareholding at 31 March 2015.

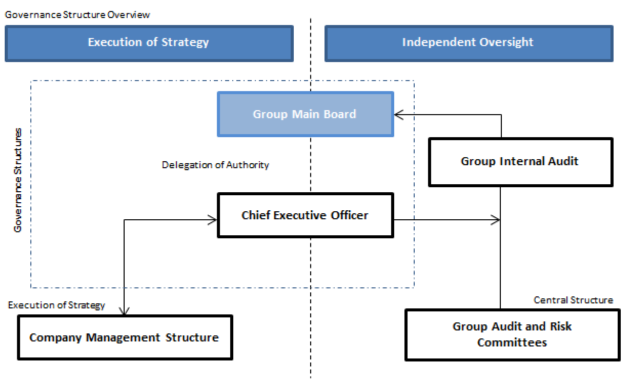
Table 1: Effective shareholding*	%
Old Mutual	30.1
Management Private Equity consortium	29.1
Norfund	15.7
BBBEE consortium	3.9
Other private shareholders	21.2

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

Governance structure[2]

The ultimate management, oversight and governance structures of the group are robust and led by the board of directors ("board") which sets strategy and tactical plans, risk parameters and ethics/governance direction, approves financial results and budgets, and monitors management's performance relative to its delegated responsibilities. During F15, corporate governance has been bolstered by the introduction of a board charter which clarified the board's responsibilities. 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 non-executive directors on the board who are independent (which is a function of the group's closely-held equity structure, and key shareholders' desire to have board participation).

Management of Real People is delegated to its CEO-led executive team, with oversight from the group's board. Common governance and control structures prevail throughout the group's operating entities, supported by a holistic strategic/tactical outlook (which is appropriate to the highly integrated nature of Real People's origination/servicing model), a strong executive team, and appropriate compliance/ operational policies.



[2] Given the intricacies associated with good corporate governance, GCR recommends an independent assessment to test compliance.

Control structure

Real People's operations are subject to internal and external oversight, augmenting control through the reporting process. Business-specific and consolidated annual budgeting and monthly performance reporting are supplemented by internal and external audits.

Human resources and staffing

Following several changes to the executive team in 1H 2014, management has been stable, benefitting from long institutional memory, supplemented by fresh eyes (an internal transfer) in the collections area. The executive/senior management continues to combine a wealth of experience and remains well positioned to effect strategy and lead the group in its recovery and subsequent development trajectory.

Staff numbers have been significantly reduced during the review period following the group's need for cost containment. There was a net staff reduction of 158 heads in F15. However, it is noted that while there were 280 redundancies (38% of which related to closed/discontinued operations), hiring took place, particularly in the strategically important IT and operations areas. Home Finance and DMC also suffered staff losses (mainly in administration), but the remaining staff complement is considered adequate to support/maintain the group's operations, particularly in light of diminished lending volumes in 2H F15 and the attendant reduction in operational capacity requirements (Table 2).

Table 2: Staffing breakdown

By management layer:	Average internal tenure	
Executive team	6.6 years	
Senior management	9.4 years	
Middle management	8.4 years	
Servicing employees	4.6 years	
By business function:	**No. of employees**	
	F14	**F15**
Business management	98	76
Financial control	40	30
Legal and compliance	17	9
IT and operations	806	823
Human resources and administration	354	219
Total	**1 315**	**1 157**

Source: Real People.

Reporting structure and access to information

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 unqualified audit opinion on the F15 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").

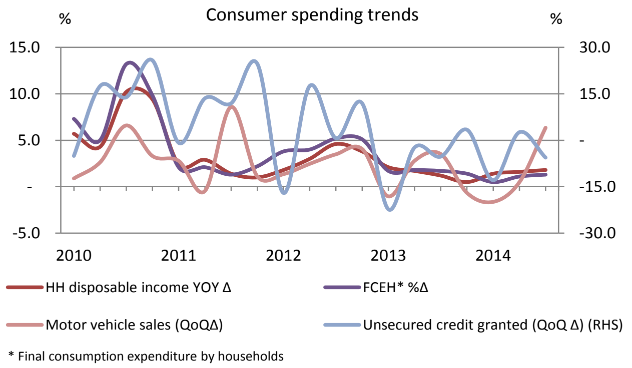
Operating environment[3]

Economic overview

South Africa's 2014 real GDP growth fell below expectations, moderating to 1.5% (2013: 2.2%), in part due to widespread/prolonged industrial/strike action in 1H 2014, which constrained GDP growth through its negative affect on mining/manufacturing productivity, spending patterns in the lower living standards measure ("LSM") population groups, and the general outlook on labour relations. According to the South African Reserve Bank ("SARB"), 2014 real GDP growth would have remained unchanged at 2013's 2.2%, excluding the impact of the strikes. The economy staved off recession due largely to strong growth achieved in 4Q 2014, as manufacturing and mining output recovered some of the ground lost earlier in the year.

The weak Rand, combined with administered cost price hikes, increased inflationary pressures through most of 2014, before the cooling effect of lower grain and (later) oil prices came into effect. With its foremost focus on inflation targeting, the SARB raised the repo rate by a total of 75 basis points ("bps") in 2014, citing rising inflation. In 2014, the official inflation rate averaged 6.1%, just exceeding the SARB's 3-6% target range. Inflation contracted to 4.4% in January 2015, and 3.9% in February 2015.

Consumer spending and household income growth showed a slight upward trend in the latter quarters of 2014, but remained at low levels, and declined significantly relative to the levels seen in previous years. In the main, higher consumer spending and household income growth (prior to 2013) were buoyed by indigent grant funding and the certainty of real sector incomes, together with households relying on unsecured loans and credit lines to finance consumption.



Source: SARB, NCR.

Constrained household income and consumption growth during 2014 were due to income constraints during the strikes, persistent high unemployment levels, and lustreless consumer confidence, which in turn have constrained lending growth. In light of the

[3] Source: SARB, NCR, Statistics SA.

worsening consumer environment, credit demand has reduced while negative trends in NPL data has crimped supply. Consequently, debt to disposable income levels (a debt affordability proxy) continue to trend downward (78.2% in 2014), after ticking up in 2012 and 1H 2013, implying slight improvement in consumer debt capacity. That said, higher interest rates have put upward pressure on debt service cost in 2014, adding to consumer strain.

Several factors continue to weigh on South Africa's economic growth prospects, including electricity supply constraints, the potential for rising interest rates, volatile labour relations (with expectations of protracted public sector and mine workers' strikes in 2015) and increasing polarisation of socio-political sentiment. The impact of higher indirect taxes (such as the higher fuel levy), coupled with a weak Rand, and other aspects of the relatively austere national budget (including upward recalibration of income tax and plans to reduce government spending) are expected to place further pressure on disposable incomes going forward.

Industry overview

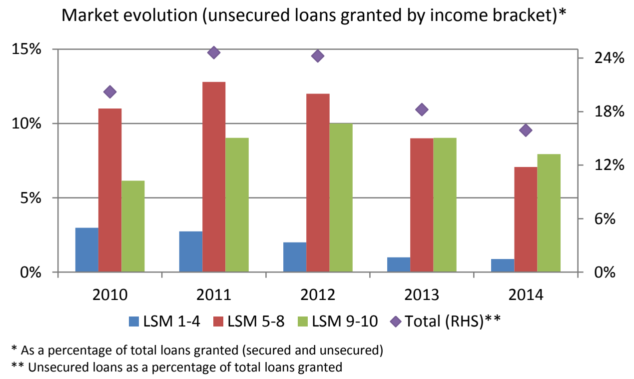
Economic and political underperformance and their impacts on household income and consumption expectations have placed the consumer and unsecured credit markets in challenging territory in recent years. As such, understanding the context of the unsecured credit market evolution, as well as its consequences for credit risk and asset quality, is essential to an evaluation of unsecured credit providers.

Credit market evolution

The value of unsecured loans outstanding increased fourfold between 2007 and 2014. The highest growth period (early 2010 to mid-2012) saw unsecured credit granting grow at an average annual rate of 54%. The significant growth in unsecured lending prior to 3Q 2012 can be explained by several factors, including:

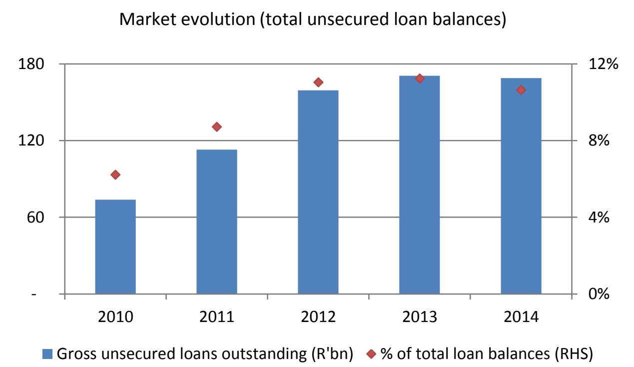
- The promulgation of the NCA, which enabled all credit providers to extend term and alter the risk profile of unsecured lending;
- Improved access to credit for middle-income earners, and increased size of the middle class;
- Substitution of secured for unsecured credit in upper-middle income clients;
- Increased competition in unsecured lending, resulting in longer tenors and larger loans being made available on an unsecured basis; and
- Increased lending to higher risk customers (primarily in 2011 and 2012) in a search for yield.

2H 2012 evidenced moderating, positive growth in unsecured credit granting, which turned negative in mid-2013 (given rising NPLs), since which time unsecured balances have remained fairly stable, with credit granting broadly matching write-offs.



Source: NCR.

Unsecured loans' share of consumer credit increased from 8% (2007) to 25% (2011), but has fallen back to 16% (2014) after unsecured credit growth contracted more than total consumer lending growth. During the unsecured lending boom, both the SARB and NCR periodically raised concerns over the pace of this growth, and the ability of lower-middle income consumers to cope with their indebtedness levels.



Source: NCR.

Credit risk and asset quality

In this regard, early 2013 provided initial evidence of an impending rise in NPLs/bad debt, as consumer finance providers/banks began to see the effects of profligate lending and/or stressed consumers in their books. This lead to tighter underwriting standards from early 2013, and crystallised with the collapse of African Bank Investment Limited[4] ("ABIL").

The negative credit experience indicates that from at least 4Q 2012, selected market participants were granting unsecured credit to increasingly high risk customers, at a time when the macroeconomic environment was becoming more challenging for

[4] Following a trading update from ABIL in early August 2014, highlighting the challenges facing its subsidiary, ABL, a dominant lender of unsecured credit to low- and middle-income consumers, the SARB implemented a number of measures to enable ABL to continue operating, and to maintain and enhance the stability of the South African Banking system. A key measure was to place ABL under curatorship on 10 August 2014. The SARB restructuring plan imposed losses of 10% on both senior debt and wholesale deposits, as well as the possible suspension of interest payments on such obligations (although interest would still accrue).

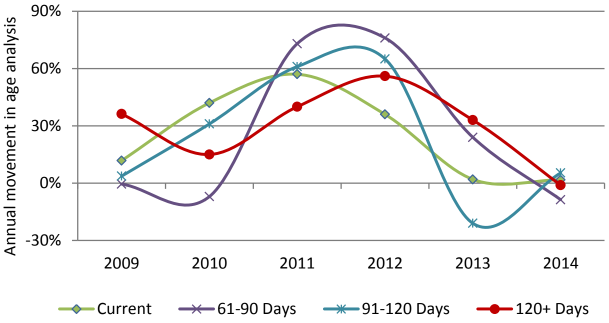
consumers, particularly in lower LSM bands which comprise the traditional unsecured lending market.

The effect of rising asset quality concerns combined with uncertainty regarding the future of one of South Africa's largest unsecured loan providers has resulted in stagnation of unsecured loan balances, as well as a reversal of several previously established trends. NCR data indicates that the pullback in unsecured credit has been driven by demand-side and supply-side factors, and is resulting in slow de-risking of the unsecured credit, evidenced by:

- Lower credit demand – illustrated by lower credit application rates which appear to be stabilising;
- Contraction in credit supply – evidenced by declining average credit approval rates from 56% (2011) to 44% (2014). Unsecured loans as a proportion of consumer loans granted (by number) has fallen from 21% to 18% over the past two years, confirming that unsecured credit supply has fallen more than for consumer credit overall;
- Decreasing average loan sizes – from R18,500 in 2012 to R17,000 in 2014; and
- Contracting loan tenor – 61+ month loans granted in 2014 are 1/3 of 2012 levels, partly due to ABL's dominance in this product.

Credit quality and ageing trends have been in sharp decline since mid-2012. Current unsecured loans (as a proportion of total unsecured loans) fell from 79% (2011) to 70% (2014), and delinquent loans (90+ days overdue) rose from 14% to 20% over the same period. That said, 4Q 2014 data indicates a convergence of growth in all aging buckets around zero, which may be initial evidence that NPL formation is slowing, or at least that NPLs are being written-off and loan books cleaned up.

Market evolution (performance analysis)



Source: NCR.

Where previously growth in NPLs and non-current loan balances have substantially exceeded unsecured loan book growth, in 2014, unsecured loan books grew -1% YoY, while non-current and delinquent loans rose 4% YoY, supporting anecdotal evidence that unsecured loan book performance is stabilising, noting that rising NPLs are amplified by the negative book growth. Following from this, NPL ratios also seem to be showing slight improvements, which is partly a depiction of more conservative provisioning/ write-off policies, which has enabled banks and other lenders to reflect a more realistic picture of collectible loans.

Industry outlook

While market participants' de-risking of their books and increases in provisions and write-off rates should to some extent mitigate the challenges of the past two years, the sector's outlook remains constrained by the fact that even if an asset quality floor has been reached, it is inappropriate to call a turn in the fortunes of unsecured credit providers, given the increasingly negative consumer environment, together with regulatory tightening, which are likely to constrain growth and profitability over the forthcoming 18-24 months.

Looking ahead, regulatory oversight should increase as a result of amendments to the NCA that came into effect in March 2015. These measures serve to tighten criteria for affordability assessments and require credit providers to calculate discretionary income more strictly, taking cognisance of all existing debt and maintenance obligations. This is expected to improve the efficacy of the cap on interest rates that consumers can be charged, as well as other charges such as initiation collection, service fees and default administration charges. A case[5] currently before the courts on the use of emolument attachment orders ("EAOs") could also impact debt collection processes. 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. The sale of prescribed debt has been prohibited and servicers are therefore required to exercise caution when collecting potentially prescribed debt. Provided debtors are made aware of prescription, the impact of such on a servicer's business is expected to be minimal.

While this discussion has highlighted broad trends in the market, the uncertain strategy/role of ABL and vastly different areas of focus and lending practices of market players over the preceding years, has resulted in the market average being a poor reflection of any one credit provider's actual experience post 2012.

[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.

As such, while the industry overview provides historical and aggregate context, and the negative consumer environment affect all market players, unsecured lenders' performances are more likely to reflect the product of their own strategic choices and risk appetites, than the trends in the sector as a whole.

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 market declined in F15 due to the group's lending freeze and asset impairments, resulting in a contracting balance sheet and ultimately weaker franchise.

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 access to additional funding, the focus is on engaging/re-engaging with building supply merchants to promote its Home Finance product offering.

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 3Q 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, an operational turnaround is seen as a prerequisite for significant additional support.

Funding structure

The group's funding structure is made up mostly of borrowings, raised through: (i) bi-lateral 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 capital markets; and (iv) shareholders loans, albeit on commercial terms.

Funding base – types of borrowings	F15 (R'm)	YoY decrease (%)	Composition (%)
Secured	637	(11.8%)	20.7%
Subordinated	304	(9.2%)	9.9%
Unsecured	2 138	(13.5%)	69.4%

Access to new funding remained limited during the first three quarters of F15, as a consequence of negative investor sentiment following the curatorship of ABL, and the ongoing capital raising effort. As a consequence, total funding (excluding equity) decreased by 15.2% to R3.1bn at FYE15.

Table 3: Funding base	F14		F15	
	R'm	%	R'm	%
Medium-term facilities	2 507	69.1	2 086	67.7
Bi-lateral loans	*377*	*10.4*	*451*	*14.6*
Capital market loans	*2 130*	*58.7*	*1 635*	*53.1*
Other borrowings/loans†	1 122	30.9	993	32.3
Total	**3 629**	**100.0**	**3 079**	**100.0**

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

Following the raising of R385m in capital, the group is better positioned to access funding lines that have been made available by various developmental finance institutions.

The average rate of funding increased to 11.8% in F15 (F14: 10.4%) and is partially attributable to a change in the interest rate cycle, capital structure and increased costs associated with replacing funding that is maturing.

Liquidity

The group does not require new funding to meet any of its current debt obligations. The group's short term liquidity policy is designed to ensure that it is able to meet all of its operating expenses and debt obligations over the short term (ie, 12 months). Real People continues to seek new funding for ongoing asset origination, however, the ability of the group to raise new funding amidst continuing negative investor sentiment towards the unsecured lending industry remains challenging. Consequently, the group reduced new asset origination materially, and actively declined the opportunity to conclude new funding arrangements prior to the capital raise, in order to preserve liquidity. The completion of the capital raise improved its short term liquidity position and enabled it to raise a R126m funding line from an international Socially Responsible Investment fund in 4Q F15, further bolstering the short term liquidity position of the group.

Table 4: Short term liquidity position	Mar-14 R'm	Sep-14 R'm	Mar-15 R'm
Receipting (10% haircut)	1 651	1 503	1 309
Committed expenses	(783)	(645)	(684)
Liability repayment	(865)	(915)	(563)
Total net cash inflow/(outflow)	**3**	**(57)**	**62**
Available cash	264	86	252
Available facilities	51	52	30
Surplus	**318**	**81**	**344**

Source: Real People.

The introduction of subordinated debt and preference shares over the last two years, and the current receipting performance, has placed considerable pressure on the group's liquidity commitments over the longer term, resulting in shortfalls across maturity buckets greater than three years, although the group maintains a positive cumulative liquidity mismatch throughout the long term.

Capital structure

The successful capital raise of R385m in 3Q F15 restored confidence and unlocked funding lines to promote growth in the group's continuing businesses, however, capital was depleted by additional non-recurring items relating to asset carrying value adjustments of R306.4m. Capital was further eroded following a R323m loss (including the above-mentioned carrying value adjustments) posted in F15.

Table 5: Capitalisation	F14 R'm	F15 R'm
Total reported equity	733	511
Paid up common shares	*432*	*441*
Compulsory convertible preference shares	*-*	*100*
Eligible reserves	*301*	*(30)*
Less: Deductions	(86)	(66)
Add: Other capital instruments*	269	376
Eligible capital	**916**	**821**
Total risk weighted assets ("RWA")	**2 887**	**2 383**
Eligible capital: RWA (%)	**31.7**	**34.4**

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

Subsequent to the capital raise, the group's total capital adequacy ratio increased to 34.4%, up from 32.7% at 30 September 2014, which was above the minimum level required by its various funding covenants of 30%, but remained below the group's internal target of 36%.

Operational profile

Credit risk (strategic overview)

The group's balance sheet reduced from R4.6bn at FYE14 to R3.8bn at FYE15 mainly due to restrictions placed on loan origination as a result of capital and funding constraints, and carrying value adjustments.

Table 6: Asset mix	F14		F15	
	R'm	%	R'm	%
Cash and cash equivalents	315	6.9	433	11.5
Loans and advances	3 470	76.1	2 855	76.1
Fixed assets	75	1.7	72	1.9
Investments	168	3.7	54	1.4
Other assets	531	11.6	341	9.1
Total B/S assets	**4 559**	**100.0**	**3 755**	**100.0**

Source: Real People.

Resuming balance sheet growth remains a key short term priority for Real People, albeit, the balance sheet decline is expected to take some time to reverse, with management hopeful of a recovery in Q3/Q4 2015.

The presentation of segmental information in Table 7 corresponds to the current operational and management-related structure of the group.

Table 7: Assets by business cluster	F14		F15	
	R'm	%	R'm	%
Responsible Finance†	2 042	44.8	1 544	41.1
DMC†	877	19.2	931	24.8
Discontinued receivables‡	1 104	24.2	756	20.1
Group central services*	306	6.7	507	13.5
Disposal group‡	230	5.1	17	0.5
Total B/S assets	**4 559**	**100.0**	**3 755**	**100.0**

† Education assets have been reclassified from Responsible Finance to DMC.
‡ Cellular receivables have been reclassified from the disposal group to discontinued receivables.
* Group central services house the centralised functions which operate across the group.
Source: Real People.

To provide context to the above, the activity and performance of these units 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 Responsible Finance businesses required an asset carrying value adjustment of R225.6m in 3Q F15. The Home Finance unit was the largest contributor, with a carrying value adjustment of R208.1m. The adjustment was deemed necessary after actual cashflows were below expectations.

Origination volumes were subdued in F15 as a result of capital and funding constraints, but are expected to increase slowly in F16 as additional capital and funding lines were secured. Origination cuts were achieved through tightening of the group's credit underwriting criteria (namely, restricting loan sizes and introducing a new scorecard), which resulted in a reduction in medium and high risk business.

DMC

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

Following deteriorating receipting trends in the acquired pool, DMC assets were impaired by R52.4m in 3Q F14. After a management restructure and significant corrective action, receipting outperformed expectations, resulting in a positive adjustment of R72.9m in 3Q F15.

Acquisition margins have widened significantly in recognition of the difficult environment and uncertainty about the interpretation of regulations regarding the collection of potentially prescribed debt.

Acquisitions	F13	F14	F15
Face value (R'000)	3 032	3 428	2 698
Rand value (R'000)	224	224	101
c/R	7c	7c	4c

Receipting has generally outperformed priced expectations relating to assets acquired in F15, primarily due to conservative valuations resulting from market uncertainties.

Discontinued receivables
The Cellular division was previously disclosed as part of the disposal group. Efforts to find a buyer for the cellular business were unsuccessful and the cellular sales channel was closed in June 2014. The debtors book will continue to be collected by the group and has therefore been re-classified as part of the discontinued run off business.

Disposal Group
This business unit includes the general purpose lending book and the debit order Second Chance book, which are both in run off.

An impairment of R146.7m was required in December 2014 to account for lower than expected receipting levels.

General purpose lending asset	Pre-adjustment	Post adjustment
Provision coverage – portfolio	4.7%	25.1%
Provision coverage – specific	64.8%	76.8%
W/O assets	79.5%	80.7%

Asset quality
Real People's gross NPL ratio increased from 38.0% at FYE14 to 53.5% at FYE15 largely due to the group's declining balance sheet and the weaker performance of its legacy portfolio. Despite evidence of improved asset quality on newer vintages, the challenging operating environment, characterised by weak economic growth, high unemployment and elevated inflation, 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 balance sheet exposure to impaired loans in general, and written-off exposures in particular. The group's written-off loan book was R436m (or 53.1% of eligible capital) at FYE15.

While the provisioning coverage of NPLs improved (up from 67.7% at FYE14 to 78.1% at FYE15) and net NPLs (NPLs less provisions) decreased to R307m (FYE14: R361m) or 37.4% of eligible capital (FYE14: 39.4%) at FYE15, the group's profitability, capital buffers and overall credit profile remain highly exposed to a material deterioration in asset quality/loan recoveries.

Table 8: Asset quality	F14 R'm	F15 R'm
Gross advances	2 942	2 628
Performing	*1 823*	*1 223*
Non-performing	*1 119*	*1 405*
Less : Provisions	(758)	(1 098)
Net advances	**2 184**	**1 530**
Written-off advances†	439	436
Gross NPL ratio (%)	38.0	53.5
NPL coverage (%)	67.7	78.1
Net NPLs/Eligible capital (%)	39.4	37.4

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

Financial performance and prospects

A five-year financial synopsis is reflected at the back of this report, supplemented by the commentary below.

In F15, the group recorded a substantial loss after tax of R323m (F14: after-tax loss of R251m) driven by margin compression and high impairments, necessitating the R385m capital raise in December 2014. Furthermore, loan origination volumes were restricted, due to capital and funding constraints in the first three quarters of F15, negatively impacting earnings.

Interest income declined by 19.2% to R635m in F15 due to restrained loan originations and a weaker collections experience.

Although borrowings decreased by 15.2% in F15, funding costs increased by 4.3% to R392m at FYE15 (FYE14: R376m), reflecting the high cost of preference shares and subordinated debt added to the funding mix, and the group's increased risk profile.

Staff costs, which accounted for 46.2% of operating expenses at FYE15 (FYE14: 50.9%), reduced by 9.4% in F15, following the retrenchment of 280 employees in F15, and a cut back in training and travel costs for staff. Despite the reduction in staff costs and advertising expenses, total operating expenditure remained flat, due to a rise in collection costs and commissions (owing to increased debit order costs driven by supplier price increases), and a foreign currency exchange loss of R46m relating to a recycling of the related foreign currency translation reserve from equity through profit or loss as a consequence of ceasing residual collections on previously written-off books in Malawi and Botswana on which collections have ceased, amongst other expenses.

GCR notes that while the Responsible Finance and discontinued receivables business segments generated pre-tax operating losses (totalling R321m) in F15, DMC posted a pre-tax operating profit of R118m.

Table 9: Pre-tax profit/(loss) by business cluster	F14 R'm	F15 R'm
Responsible Finance	(20)	(147)
DMC	(1)	118
Discontinued receivables	(172)	(174)
Group central services*	(126)	(100)
Total pre-tax loss	**(319)**	**(303)**

* Group central services house the centralised functions which operate across the group.
Source: Real People.

Prospects and conclusion

Profitability is likely to remain under pressure, as compression on margins will persist given expected increases in funding costs, and increased resource allocation to collections.

Recovery and growth will be premised on management's ability to improve the overall collection experience, attract fresh funding inflows in order to resume balance sheet growth in its main businesses (namely, Responsible Finance and DMC), while adapting to the challenging macroeconomic and evolving regulatory environments.

Real People Investment Holdings Limited

(Rands in millions except as noted)

Year end: 31 March					
Income Statement	**2011**	**2012**	**2013**	**2014***	**2015**
Interest income	459	524	810	786	635
Interest expense	(140)	(208)	(285)	(376)	(392)
Net interest income	**319**	**316**	**525**	**410**	**243**
Other income	607	867	1 063	989	735
Total operating income	**926**	**1 183**	**1 588**	**1 399**	**978**
Bad debt charge	(210)	(510)	(802)	(1 078)	(642)
Operating expenditure	(562)	(515)	(578)	(640)	(639)
Profit (loss) before tax	**154**	**158**	**208**	**(319)**	**(303)**
Tax	(59)	(63)	(78)	68	(20)
Profit (loss) after tax	**95**	**95**	**130**	**(251)**	**(323)**
Other after-tax income / (expenses)	27	29	(19)	(53)	<1
Attributable income / (expenses)	**122**	**124**	**111**	**(304)**	**(323)**
Balance Sheet					
Common shareholders equity	984	1 031	1 010	733	546
Minority interest	7	(6)	(9)	(15)	(10)
Total capital and reserves	**991**	**1 025**	**1 001**	**718**	**536**
Interest bearing borrowings	1 884	2 586	3 090	3 629	3 079
Other liabilities	736	667	215	212	140
Total capital and liabilities	**3 611**	**4 278**	**4 306**	**4 559**	**3 755**
Cash and liquid assets	850	657	342	315	433
Net loans and advances	1 844	2 727	3 403	3 470	2 855
Total interest earning assets	**2 694**	**3 384**	**3 745**	**3 785**	**3 288**
Fixed and intangible assets	53	50	52	75	72
Investments	1	1	101	168	54
Other assets	863	843	408	531	341
Total assets	**3 611**	**4 278**	**4 306**	**4 559**	**3 755**
Ratio Analysis (%)					
Financial management					
Interest expenses / Average gross advances	18.4	18.4	17.7	20.6	22.4
Interest expenses / Average funding liabilities	8.4	9.3	10.1	11.2	11.7
Interest bearing debt / Total capital (:1)	1.9	2.5	3.1	5.0	5.6
Total capital / Total assets	27.4	24.0	23.2	15.7	14.3
Internal capital generation	9.7	6.9	5.2	(14.1)	(14.2)
Cash and liquid assets / Total assets	23.5	15.4	7.9	6.9	11.5
Asset quality					
Bad debt charge / Average gross advances	13.7	22.4	24.8	29.6	18.3
Bad debt charge / Total operating income	22.7	43.1	50.5	77.0	65.7
Net charge-off ratio	(28.6)	(5.3)	(12.9)	(21.7)	(26.5)
Efficiency					
Operating expenses / Average gross advances	73.4	45.4	35.7	35.2	36.4
Operating expenses / Operating income	60.7	43.6	36.4	45.8	65.3
Profitability					
Net interest margin	20.8	13.9	16.2	11.3	6.9
Net interest income / Average gross advances	41.6	27.8	32.4	22.5	13.8
Non interest income / Total operating income	65.6	73.3	67.0	70.7	75.2
Net profit margin	16.6	13.4	13.1	(22.8)	(31.0)
Portfolio yield	139.3	122.5	115.8	97.5	78.1
ROaE	13.6	12.3	10.9	(34.9)	(50.5)
ROaA	4.0	3.2	2.6	(6.9)	(7.8)
Nominal growth indicators					
Total Assets	43.7	18.5	0.7	5.9	(17.6)
Total Advances	24.7	67.4	27.6	0.7	(7.9)
Shareholders equity	19.9	4.9	(2.1)	(27.4)	(25.5)
Net income	25.1	1.5	(10.4)	(372.7)	n.a.

* Restated.

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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.
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	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.
Bad Debt	A bad debt is 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.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital	The sum of money that is invested to generate proceeds.
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.
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	Corporate governance broadly 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.
Cost of Funds	The rate that a bank pays to borrow funds.
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.
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.
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.
Economies of Scale	Economies of scale are the cost advantages of an increase in output if the fixed costs of doing so, such as those for plant and equipment, remain the same. The marginal cost, or the cost of the last unit of production, falls as output is raised.
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	A standardised marketplace in which different assets are traded.

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.
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.
Franchise	Business or banking franchise; a bank's business.
Fraud	The unlawful and intentional making of a misrepresentation which causes actual and or potential prejudice to another.
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.
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.
IFRS	IFRS is designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
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.
JSE	Johannesburg Stock Exchange.
King III	King Code of Governance Principles and the King Report on Governance (King III) is a corporate governance code determining standards of conduct for public, private and non-profit organisations.
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.
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.
Market risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
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.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest,

	tax, depreciation, auditors' fees and directors' fees.
Non-Performing Loan	When a borrower is overdue, typically 90+ days in arrears or as defined by the lender, or in the transaction documents.
NPL Ratio	The ratio of non-performing loans and advances to total gross loans and advances, expressed as a percentage.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
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	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).
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Regulatory Capital	The total of primary, secondary and tertiary capital.
REPO Rate	In South Africa the REPO rate refers to the rate at which the South African Reserve Bank lends money to banking institutions. The money is lent through a repurchase agreement.
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.
Securities	Various instruments used in the capital market to raise funds.
Securitisation	Is 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.
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.
Write-off	The total reduction in the value of an asset.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

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.