Real People Investment Holdings Limited

South Africa Financial Institution Analysis **February 2018**

Rating class	Rating scale	Rating	Rating outlook	Review date
Long-term	National	B-(ZA)	Evolving	August 2018
Short-term	National	B(ZA)		

Financial data:

(USDm comparative)

	31/03/16	31/03/17
R/USD (avg.)	13.78	14.07
R/USD (close)	14.83	13.41
Total assets	269.3	212.8
Total capital	36.2	(8.1)
Total funding	216.3	208.2
Net advances	187.8	164.2
Liquid assets	41.0	34.5
Operating income	70.5	38.1
Profit after tax	0.7	(43.1)
Market cap.		not listed

Rating history:

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

Last rating (March 2017)
Long-term rating: CCC(ZA)
Short-term rating: C(ZA)
Rating outlook: Negative

Related methodologies/research:

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

Real People rating reports (2011-16)

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Summary rating rationale

- The ratings take into consideration Real People Investment Holdings Limited's ("Real People", "the group") successful capital restructure (concluded on 5 December 2017) following a seven-month debt standstill agreement to facilitate ongoing creditor negotiations to restructure the group's capital. Accordingly, the ratings reflect the improvement in the group's capital structure and liquidity profile subsequent to the re-profiling of debt through debt to equity conversion, rescheduled senior debt maturity and debt moratorium, and rescheduled debt covenants. In addition to the debt restructuring, the group has commenced a restructuring exercise to streamline its business including the disposal of its loss making East African operations (8% of group assets at FY17). Notwithstanding this, the successful turnaround of the group will also depend on the group's ability to access fresh funding required for forecast levels of asset origination/growth amid a challenging economic/regulatory environment which continues to pose credit, earnings and funding risks to the group and financial sector in general. The 'Evolving' outlook reflects the potential for upward or downward ratings movement contingent on the performance of the group post debt restructure.
- Real People, through its underlying businesses, provides developmental and unsecured credit (exclusively home finance through a network of reputable building retailers), debt management and acquisition, and insurance products and services to individuals. Home finance contributed 42% of group assets at 3Q FY18, with debt management and acquisition contributing 46%.
- In May 2017, the group entered into a debt standstill agreement with its senior and subordinated debt funders, which concluded in a debt to equity conversion of R930m (as at FY17). The debt standstill agreement emanated from the inevitability that the group would breach its capital adequacy ratio ("CAR") debt covenant of 30% in the near term due to on-going operational losses and risk of further capital erosion. The creditors included all Note holders under the issuer's South African Domestic Medium-Term Note Program. As part of the agreement, no interest or capital repayments were made during the standstill period. Real people is not obliged to service interest/capital on the remaining senior debt (R732m at 3Q FY18) until 30 June 2018, with contractual repayment obligations until September 2025.
- The group had a negative capital base of R108.8m at FY17, reducing the covenanted CAR to below 30%. Post the capital restructure the group's capital base amounted to R364m at 3Q FY18 (based on unaudited management accounts at 31 December 2017). The capital restructure introduced three new covenants (effective June 2018) as follows: permanent capital/total assets (< 20%) (3Q FY18: 22.6%) replacing the previous CAR covenant; cost/income (≤ 68%) (3Q FY18: 55.6%); and debt service cover (1.05 times). The new covenants are measurable only after the first capital payment in June 2018.
- After recording a R614.2m loss in FY17, the continuing operations of the group has shown a return to profitability following the implementation of the restructure recording a profit after tax of R72.2m for the nine months ending 31 December 2017 (3Q FY18), which was ahead of expectations and on target to record an after tax profit for FY18. Discontinued operations (East Africa) have no recourse to the Group.
- The group's gross non-performing loan ("NPL") ratio declined to 38.9% in 3Q FY18 (FY17 restated: 43.4%) when the prior year balances are restated for IFRS 9 implemented in the current financial year.
- The group is funded primarily by wholesale structured debt funding (secured and unsecured) and equity financing (including debt converted to equity instruments in terms of the restructure). The group's poor trading results placed significant pressure on earnings, liquidity and capital and negatively affected Real people's ability to raise funding on balance sheet at group level. The group has changed its funding model post debt restructure from raising debt at group level to raising funding at business level via off balance sheet special specific vehicles ("SPVs"). Therefore, liquidity is managed per each specific funding entity.

Factors that could trigger a rating action may include

Positive change: A demonstrated track record of improved earnings performance, improved asset quality trends driven by low credit losses and sound underwriting, and comfortable liquidity and capital buffers, would help strengthen Real People's financial profile and put upward pressure on the ratings.

Negative change: A downward review of the ratings may result from inability to service rescheduled debt obligations (missed scheduled payment of either interest or principal), breach of debt covenants, funding and liquidity pressures that materially impact the group's profitability and long-term sustainability, high capital encumbrance by unreserved NPLs, and/or challenges stemming from slow economic growth and weak internal capital generation.

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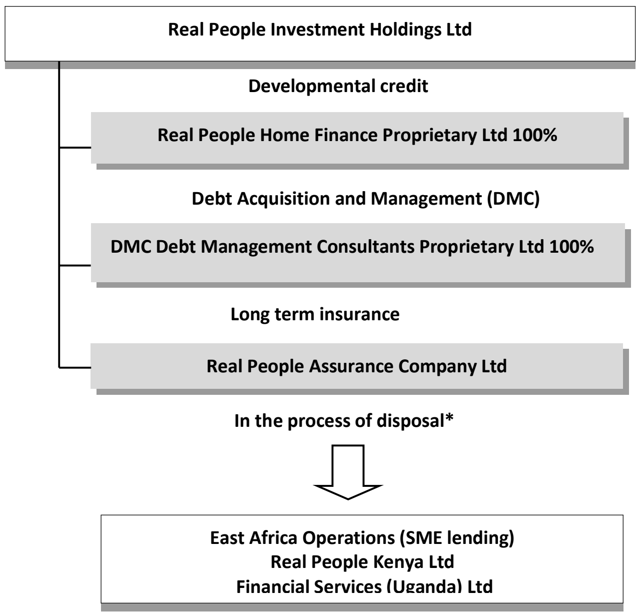
Organisational profile[1]

Business summary

Real People comprises three principal divisions providing unsecured home finance mainly in the form of developmental credit (through a network of reputable building retailers), debt acquisition and management services, and long-term insurance products to individuals and small and medium enterprises. The core operating subsidiaries of the group are depicted in Figure 1 below:

Figure 1: Group core operating subsidiaries



* The East African operations are in the process of being sold as part of the groups restructuring process. As at the date of this report, Kenyan Competitions Commission approval is all that remains outstanding.

Ownership structure

The group's shareholding structure reflects a mixture of institutional shareholders, private equity investors and management. The group's shareholding structure before the debt restructure concluded in December 2017 is shown in Table 1

Table 1: Shareholder pre-restructure*	%
Old Mutual	30.1
Management Private Equity consortium	29.1
Norfund	15.7
Other Private Equity	13.2
Private Individuals	8.0
BEE consortium	3.9

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

The shareholding structure post restructuring is shown in Table 2. Ordinary shares were authorised and issued to the holders of the various instruments. Table 2 sets out the resultant holding of ordinary shares, with a portion set aside for the management share incentive trust. Holders of existing ordinary shares, subscribed for in January 2015, exchanged 50% of their shares, for an equivalent amount of new B preference shares.

Table 2: Shareholding post-restructure	%
Investec Asset Management Company	22.9
Nordic bondholders	18.4
Management Incentive Trust	15.0
Norfund	11.7
ResponsAbility	7.1
BIFM	7.0
NHFC	6.7
Black Economic Empowerment ("BEE")	5.0
Old Mutual	2.1
Other	4.1
Total	**100.0**

Source: Real People.

Strategy and operations

The group's current lending strategy of providing responsible finance unfolded in 2013 with a focus on providing purpose-specific finance for home improvements, rather than consumer finance. The group ceased general purpose lending at the same time and disposed of its established branch network but retained the general purpose lending book, which underperformed in the years that followed, ultimately significantly contributing to the debt restructure concluded in December 2017.

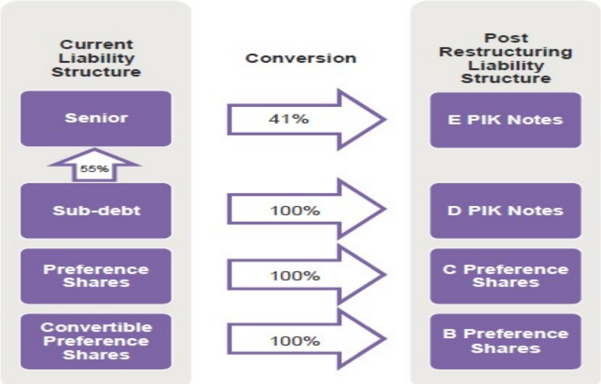
The disposal of the group's East Africa operations (all approvals for the sale barring Kenyan competition commission approval have been obtained as at the date of this report) leaves the group focused solely as a South African operation with its other remaining business being that of acquiring distressed debt portfolios and providing outsourced collections services.

The debt standstill agreement and capital restructure

On 17 May 2017, Real People announced that the company had entered into a debt standstill agreement (until 31 August 2017, subsequently extended to 30 November 2017) with the required majority of its creditors (a minimum 70% of its senior unsecured creditors and 100% of its subordinated debt creditors). The creditors included all noteholders under the Issuer's South African DMTN. The standstill agreement emanated from the inevitability that the group would breach its covenanted CAR in the near term due to: rising capital needs primarily due to increased provisioning requirements to more adequately cover for declining asset quality in its legacy general purpose loan portfolio as well as in Eastern Africa; the implementation of IFRS 9; and as a consequence of these pressures - a potential write-down of part of the company's deferred tax assets (R215m at FY17); and on-ongoing loss-making operations in Kenya including liquidity concerns that the group would not be in a position to service its future outstanding debt obligations. The debt standstill agreement facilitated creditor negotiations and led to the successful restructure of Real People's capital structure, concluded in December 2017. Under the terms of the agreement, no interest or capital repayments were made to creditors during the standstill period.

[1] For a more detailed organisational profile of Real People, refer to past rating reports.

Figure 2: Debt Equity Conversion



On 5 December 2017, Real People successfully concluded its capital restructure, after obtaining final approval from its Nordic bondholders. The capital restructure resulted in the conversion of all outstanding preference shares and portions of subordinated debt and senior unsecured debt to equity capital as detailed below. Senior lenders agreed to a 15-month moratorium on payments to unsecured senior debt effective from 1 April 2017 with the first repayments under the new agreement scheduled for 30 June 2018.

Senior Debt

- 41% of the Senior Instruments (together with 55% of converted subordinated debt) at 31 March 2017 have been exchanged for E Payment-In-Kind Notes ("E PIK Notes") issued by Real People Investment Holdings Limited ("RPIH") and held by the holders of the Senior Instruments.

Subordinated Debt

- 55% of Subordinated Debt at 31 March 2017 has been converted into Senior Debt.
- The remaining Subordinated Debt at 31 March 2017 has been exchanged for D Payment-In-Kind Notes ("D PIK Notes") issued by RPIH and held by the holders of the Subordinated Debt.

Preference Shares

- The Preference Shares at 31 March 2017 were exchanged for C Preference Shares ("New C Prefs") issued by RPIH, and held by holders of the Preference Shares.
- The outstanding balance on the New C Prefs was reduced to a lower level than the outstanding balance on the Preference Shares at 31 March 2017, by an amount equal to the discount to face value at 31 March 2017.

Convertible Shares

- The Convertible Preference Shares at 31 March 2017 were exchanged for B Preference Shares ("New B Prefs") issued by RPIH, and held by the holders of the Convertible Preference Shares pro-rata to their Convertible holdings.

The Pre- and Post- restructure capital structure is shown in Table 3 below.

Table 3: Capital structure pre-& post restructuring	**Pre-Restructuring Rm**	**Post Restructuring Rm**
Senior Unsecured Debt	1 240	732
Subordinated Debt	103	-
Redeemable Preference Shares	141	-
Convertible Preference Shares	177	-
Equity Instruments*:		
E-PIK Notes	-	509
D-PIK Notes	-	103
C-Preference Shares	-	141
B-Preference Shares	-	177
Total	**1 661**	**1 661**

* No payments can be made to any of the equity instruments until such time as all of the outstanding senior debt has been repaid and any such payments remain entirely at the board's discretion.

Source: Real people

The conversion of R930m of debt and quasi debt instruments to equity with the concomitant reduction in debt service requirements has significantly improved the group's liquidity position and provided the capital base for a sustainable operation.

Key drivers of future performance

The successful debt restructure has resulted in a focused South African based business as summarised in Table 4 below.

Table 4: Main business lines	
Developmental credit (Responsible finance)	- Unsecured home finance provided through a network of reputable building retailers. - Specifically targeted at the needs of the home improvement market. - Registered Developmental Credit Provider under the National Credit Act ("NCA"). - 122 staff members. - Average loan size of ZAR 22k. - Over 27,000 loans granted in 2017 with a value of ZAR612m. Since inception approximately 400,000 loans have been granted.
Debt Acquisition and Management	- DMC is a debt collector - Specialising in the purchase and collection of late stage arrears customer debt from banks, retailers and cellular service providers. - Also offer outsourced collections services - Servicer for Group's SPVs and Home Finance business - 902 staff members.
Insurance	- Provides home finance clients with credit life cover products, as well as a variety of life, disability and loss of income benefits to the broader Real People and external customer bases. - 29 staff members.

Source: Real People.

Governance structure

As at February 2018, the group's board comprised six board members, reduced from 10 following the conclusion of the restructure. Other changes include the appointment of a new board chairperson and group chief financial officer ("CFO"). Apart from the chief executive officer ("CEO") and CFO all other board members are independent non-executive directors.

The board is supported by a number of committees, including the Group Executive Committee, Audit and Risk Committee ("ARC")[2], as well as, Capital, Social and Ethics, and Remuneration committees. The group complies, to the extent practicable, with the King III Code of Corporate Governance and the board has formally agreed to adhere to King IV going forward.

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, aligned to a holistic strategy (given the integrated nature of the group's origination and servicing model), an 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

[2] ARC (majority membership of independent NEDs) meets quarterly.

consolidated annual budgeting and monthly performance reporting are supplemented by internal and external audits. The group also outsource internal audit services to KPMG effective September 2016, which is expected to improve the efficiency and independence of this function. Combined assurance is therefore a critical pillar of the business. The management team is committed to implementing a group wide enterprise risk management process and the governance principles of King IV. This will enable management and the board to deliver insight into earnings volatility and financial resource allocation for sustainable growth and delivery of profit for shareholders.

Human resources and staffing

The leadership is well positioned to effect strategy and lead the group in its recovery and subsequent development trajectory.

Table 5: Staffing breakdown

By management layer:	Average internal tenure (years)			
	FY15	FY16	FY17	3Q FY18
Executive team	6.6	7.6	8.8	7.6
Senior management	9.4	8.7	8.4	10.06
Middle management	8.4	8.8	8.3	8.3
Servicing employees	4.6	4.3	4.7	3.8
By business function:			**No. of employees**	
	FY15	FY16	FY17	3Q FY18
Business management	76	52	41	81
Financial control	30	24	24	26
Legal and compliance	9	4	1	7
IT and operations	823	1002	895	890
Human resources & admin.	219	171	144	100

Source: Real People.

Financial reporting

Real People's financial statements are prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act. The group appointed new external auditors (Deloitte) for the financial year ending 31 March 2017, taking over from Grant Thornton. Deloitte issued two separate opinions on Real peoples financial statements, a disclaimer of opinion on the FY17 financial performance and cash flows and qualified opinion on the comparability of the FY17 statement of financial position with the prior year.

Basis for disclaimer

- Going concern (company had entered into a debt standstill agreement) and covenant breaches.
- The possibility that significant adjustments passed in FY17 may have also had impact on FY16.
- Adjustments included: alignment with market best practice as advised by Deloitte;
  changes as a result of previous interpretation and application of complex accounting standards; and changes in current circumstances.

Basis for qualification

- The FY17 statement of financial position is not comparable with that of FY16 as a result of the significant adjustments made in FY17.

Operating environment[3]

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

In South Africa, growth remained subdued in 2017, recording at 1%, (2016: 0.3%) on the back of a recovery in agriculture, somewhat offset by a moribund manufacturing sector. The consolidated budget deficit deteriorated to an estimated 4.3% in 2017 from 3.3% in 2016 as a result of revenue shortfalls, and total public debt is increased to an estimated 54.2% of GDP in 2017 (2016: 50.7%), albeit still sustainable. Although inflationary pressures have eased, the South African Reserve Bank remains cautious on repo rate cuts, in view of strengthening oil prices and the attendant effect of policy developments in the US and Europe on emerging market currencies. While the country is yet to derive real uplift from signs of progressive improvement in the global economy, mainly due to persistent structural challenges, the recent political changes are anticipated to address the legislative and regulatory ambivalence with respect to economic transformation, restore institutional integrity, and drive more robust economic growth. Despite a degree of volatility, the rand exchange rate was relatively resilient in 2017, before rallying towards year-end and breaching the R12/$ mark in January 2018 on renewed positive investor sentiment, even in the face of expected monetary policy tightening in some advanced economies.

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 25% (2016), per NCR statistics.

Regulatory developments

In recent years, consumer finance (NCR) regulation has been aimed at balancing control of consumer over-indebtedness with promoting financial inclusion. In this regard, 2015-16 saw several regulatory and legislative changes. The National Credit Amendment Act (2015), introduced credit affordability assessment guidelines (impacting consumer credit providers), and debt collection activities were affected by revised rules on debt

[3] Given that about 87% 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.

prescription. Other legislative changes included the introduction of caps on fees/interest rates which may be charged on consumer loans (The Prescribed Rate of Interest Act); data use and protection (The Protection of Personal Information Act – POPI); the use of Emolument Attachment Orders ("EAOs"); and the release of draft credit insurance regulation.

The abovementioned regulatory changes affect most registered credit providers lending to consumers or small/micro businesses, and also impact the collections environment in direct and indirect ways.

Affordability assessment regulation (a key revision to the NCR implemented in September 2015), aimed at tightening affordability assessment criteria by requiring credit providers to calculate discretionary income more strictly (i.e., including existing debt and maintenance obligations).

The Department of Trade and Industry ("DTI") published regulations for interest rate limits and fees for credit agreements (effective May 2016). Profitability for lenders and pricing for borrowers has been most impacted in the unsecured (especially short -term) credit segment, where lending is often priced close to regulatory upper limits. These regulations changed calculation formulas for maximum prescribed interest rates, and initiation and servicing fees which may be charged on various types of consumer credit agreements.

The Payments Association of South Africa ("PASA"), under the auspices of SARB, is in the process of replacing the current non-authenticated early debit order system ("NAEDO") utilised by most mass market financial product providers with a mechanism that requires more direct customer authentication of the payment mechanism (ie, Authenticated Collections). SARB has approved an extended trial and implementation period with the final implementation date, if successful, set for 2019.

While regulations are intended to enhance financial stability, and support consumer protection, credit affordability, and consumer lending asset quality, they are also likely to suppress household credit supply. It should be noted that the bulk of the credit provided by Real People is classified as Developmental Credit in terms of the National Credit Act. Recent regulatory reforms have treated Developmental Credit generously with a view to promoting financial inclusion. As a result, Real People's lending operations have been largely unaffected by the rate and fee changes that have been made to unsecured credit as referred to above.

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.

Although statistics for the home improvement finance niche market are not freely available, Real People's Home Finance division is recognised as a dominant player in this market niche. The same is true for the acquired debt market where Real People's DMC division has been a dominant player in that market niche for a considerable time.

Financial flexibility

Likelihood of support

In the past, the group has been well supported by its shareholders through term loan facilities, as well as a successful capital raise in FY15, which was largely supported by existing shareholders (together with four new investors). However, shareholders were not willing to raise the additional capital required in 2017 to address capital shortfalls, which led to the debt standstill agreement with creditors to facilitate a capital restructure of the group. Consequently, a sustained financial turnaround is seen as a prerequisite for significant additional support.

Funding structure

Following the debt restructure the group's funding structure consists of borrowings raised through bilateral agreements (on balance sheet; senior unsecured lenders) and securitisations (both listed and unlisted).

Table 6: Funding base	FY16		FY17		3Q FY18	
by type	Rm	%	Rm	%	Rm	%
Bonds - South Africa	1 243	38.7	933	33.4	-	-
Bonds - Kenya	224	7.0	161	5.8	-	-
Loans†	1 571	49.0	1 506	54.0	1 459	100.0
Pref. shares	170	5.3	192	6.8	-	-
Total	**3 208**	**100.0**	**2 792**	**100.0**	**1 459**	**100.0**

† Includes loans from shareholders/related parties (pre-2018). FY18 includes senior unsecured and securitisations only.

Source: Real People.

The reduction in funding liabilities to R1.5bn at 3Q FY18, is attributable to the conversion of R930m of debt to equity and the freeze in raising any new capital during the standstill period. The average effective interest rate on borrowings was 13.7% at FY17 (FY16: 12.5%) reducing to 10.3% at 3Q FY17.

Table 7:	FY16*		FY17*		3Q FY18**	
Funding by	Rm	%	Rm	%	Rm	%
Secured	1 084	33.8	1 100	39.4	644	44.1
Subordinated	272	8.5	228	8.2	-	-
Unsecured	1 852	57.7	1 464	52.4	815	55.9
Total	**3 208**	**100.0**	**2 792**	**100.0**	**1 459**	**100.0**
By interest rates						
Floating rates	2 919	91.0	2 533	90.7	1 377	94.4
Fixed rates	289	9.0	259	9.3	82	5.6
Total	**3 208**	**100.0**	**2 792**	**100.0**	**1 459**	**100.0**

Source: Real People.

Post the restructure the group's funding model has shifted from on balance sheet borrowing to off-balance sheet borrowings via bankruptcy remote

SPVs. The bilateral agreements refer mainly to the previously listed South African DMTN noteholders and Nordic bondholders who, along with other senior lenders, have subscribed to a renegotiated senior agreement with common terms. The Kenyan bonds will not be consolidated in the group accounts following the conclusion of the disposal of the East Africa business, expected in the near future. There is also currently no recourse to the Group from these operations.

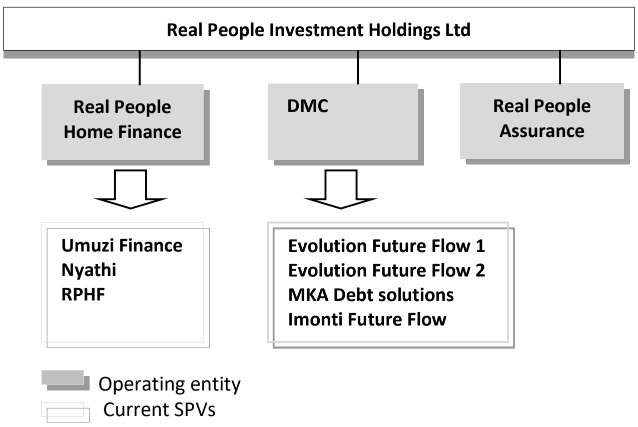
Table 8: Funding concentration	3Q FY18 Rm	%
Bilateral agreements	507	34.7
Kenyan bond	82	5.6
Nordic bond	226	15.5
Securitisations	644	44.1
Total	**1 459**	**100.0**

Source: Real People

Liquidity and interest rate risk

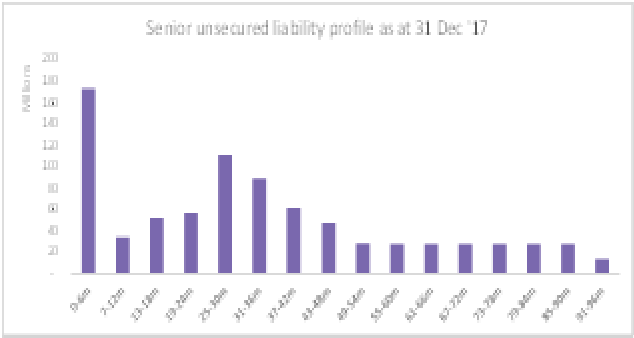
To relieve the debt and interest burden on the business the group entered into a voluntary debt restructure in May 2017 which included debt to equity conversion, rescheduling debt covenants, rescheduling senior debt maturity and a debt repayment moratorium. Following the restructure, the group's debt burden has been significantly reduced with R930m of debt instruments converted to equity instruments and extended repayment terms on the remaining senior debt of R732m at the point of conclusion of the restructure. Furthermore, the group has changed its funding model post the restructure from raising debt at group level to raising funding at business level via off balance sheet SPVs. Therefore, liquidity is managed per each specific funding vehicle with debt repayments provided directly from the ring-fenced underlying assets. The group's organisational structure is shown below, indicating the operating companies as well as the financing and securitisation vehicles:

Figure 3: Operating companies and financing/securitisation vehicles



Interest and capital repayments on outstanding debt (R732m at 3Q FY18) will commence after 30 June 2018 with an agreed contractual repayment profile to September 2025 per the graph below. To help mitigate interest rate risk, most lending and funding is at floating rates (lending rates reset as market rates change, while funding resets on pre-specified interest reset dates).

Figure 4: Senior unsecured liability profile



Capital structure

Post restructure the group is required to adhere to the following covenants beginning June 2018.

Table 9: New debt covenants		
Ratio	**Measure**	**3Q FY18**
Permanent Capital/Total Assets	< 20%	22.6
Cost/income	≤ 68%	55.6
Debt service coverage	1.05X	n.a.*

*Applicable from 30 June 2018.
Source: Real People.

The group capital to total assets as at 3Q FY18 is shown in Table 10.

Table 10: Capitalisation (Rm)	3Q FY18
Total Equity per Balance Sheet	357
Share Capital and share premium	*1 030*
Accumulated loss	*(669)*
Reserves	*(4)*
Less: Deductions	(128)
Total adjusted Equity	**229**
Total Assets per Balance Sheet	1 937
Less: Deductions	(924)
Total Adjusted Assets	**1 013**
Permanent Capital/Total Assets Ratio	**22.6%**
Minimum covenant level from 30 June 2018: 20%	

Source: Real People.

Operational profile

Asset composition

Modest loan origination during the standstill period, tighter 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 has resulted in a much leaner balance sheet since FY2016 (<48%).

Table 11:	FY16		FY17		3Q FY18	
Asset mix	**Rm**	**%**	**Rm**	**%**	**Rm**	**%**
Cash and liquid assets	608	15.2	462	16.2	289	13.7
Net advances	2 784	69.7	2 201	77.1	1 543	73.3
Fixed and intangible assets	61	1.5	40	1.4	23	1.1
Investments	160	4.0	35	1.2	28	1.3
Other assets	381	9.5	116	4.1	222	10.5
Total	**3 994**	**100.0**	**2 854**	**100.0**	**2 105**	**100.0**

Source: Real People.

The presentation of segmental information in Table 12 corresponds to the current operational and management-related structure of the group.

Table 12: Assets by business segment	FY16		FY17		3Q FY18	
	Rm	%	Rm	%	Rm	%
Home Finance	1 004	25.1	1 023	35.8	906	43.0
Assurance	107	2.7	84	2.9	50	2.4
East Africa†	505	12.6	220	7.7	168	8.0
DMC^	1 865	46.7	1 402	49.1	964	45.8
Group Central Services*	513	12.9	125	4.4	16.7	0.8
Total assets	**3 994**	**100.0**	**2 854**	**100.0**	**2 105**	**100.0**

† Home 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.

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

* Group central services house the centralised functions which operate across the group.

Source: Real People.

Loan portfolio

Home Finance provides credit and related financial services to customers of building supply merchants in South Africa (Home Finance). DMC provides debt collection services to credit providers and retail customers in South Africa. DMC's loan portfolio is made up of acquired assets.

Table 13: Net advances	FY16		FY17		3Q FY18	
	Rm	%	Rm	%	Rm	%
Home Finance	818	29.4	841	38.2	730	44.3
East Africa	376	13.5	160	7.3	105	6.4
DMC	1 590	57.1	1 200	54.5	813	49.4
Total	**2 784**	**100.0**	**2 201**	**100.0**	**1 648**	**100.0**

Source: Real People.

Asset quality

The group's gross NPL ratio declined to 38,9% in 3Q FY18 (FY17 restated: 43,4%) when the prior year balances are restated for IFRS 9 implemented in the current financial year.

Table 14:	FY16	FY17	FY17	3Q FY18
Asset quality (Rm)	**IAS 39**	**IAS 39**	**Restated IFRS 9**	**IFRS 9**
Gross advances	**1 158**	**1 209**	**1 199**	**1 040**
Performing loans	*600*	*708*	*678*	635
Non-performing loans	*558*	*501*	*521*	405
Less : Provisions	**(496)**	**(492)**	**(510)**	**(380)**
Performing	*(43)*	*(80)*	*(119)*	*(101)*
Non-performing	*(453)*	*(412)*	*(392)*	*(278)*
Written off book	**155**	**124**	**73**	**67**
Gross	*1402*	*1488*	*1495*	*1 339*
Impairment	*(1 247)*	*(1 363)*	*(1421)*	*(1 272)*
Total home finance loans	818	841	762	727
DMC: Acquired assets	992	918	709	651
DMC: Legacy/Discontinued assets	572	281	236	163
Disposal Group: East	376	160	160	*105*
Net advances	**2 757**	**2 201**	**1 868**	**1 646**
Asset quality ratios (%):				
Gross NPL ratio	48.2	41.5	43.4	38.9
Portfolio coverage	7.1	11.3	17.5	15.9
Specific NPL coverage	81.1	82.1	75.2	68.8
Net NPLs/Capital	21.7	(86.7)	38.0	35.1

Source: Real People.

Credit quality and recovery has improved consistently over time and late stage non-performing loans from longer vintages are held for collections.

Financial performance

A five-year financial profile is shown on page 9 of this report, supplemented by the commentary below. The results shown were prepared in accordance with accounting standard IAS 39 and are thus not comparable to the FY18 results which have been prepared in accordance with IFRS 9.

The group recorded a post-tax loss of R614m for FY17. This was mainly driven by book valuation methodology adjustments in DMC and losses incurred in East Africa which is being disposed. The IFRS 9 loan value adjustments saw the businesses impair debtors for weaker credits written during earlier years. The profit in FY16 was supported by gains on the group's debt buy-back transactions during that period. The sale of non-core businesses, the implementation of rigorous IFRS 9 valuation requirements and the group's recent debt restructure, sees the group on a platform to deliver profit as evidenced in the current period's performance to date.

Table 15: Pre-tax profit/(loss) by business segment	FY16 Rm	FY17 Rm	FY18 Q3 Rm
Home Finance	59	(8)	76
Assurance	22	12	7
DMC	(46)	(205)	48
Group Central Services	86	(74)	(42)
Pre-tax profit/(loss) continued operations	**121**	**(275)**	**89**
Disposal group East Africa	(59)	(122)	(33)
Pre-tax profit/(loss)	**62**	**(397)**	**56**

Source: Real People.

FY17 results by business line are not comparable after amending IAS 39 (incurred loss valuation models) in anticipation of the more conservative IFRS 9 (expected loss) implementation in FY18. The change in accounting policy was retrospectively applied through an adjustment to opening retained income however the table on asset quality shows a restated view of assets for comparability purposes. On a year to date basis for Q3 FY18 the businesses show continued operating profits, pointing to a return to Group profitability.

Prospects and conclusion

The unaudited results for the nine months to 31 December 2017 are shown in Table 16.

The group capital restructure was completed on 5 December 2017 and the management accounts were prepared on that basis with effect from 1 April 2017 and the basis on which the FY18 audited accounts will be prepared and audited as agreed with Deloitte. The East African operations are treated as a disposal group for management accounting purposes as these companies are in the process of being sold.

Table 16: Income statement (Rm)	Budget 3Q FY18	Actual 3Q FY18	% variance
Interest income	531	567	6.7
Interest expense	(171)	(169)	(1.5)
Net interest income	**360**	**398**	**10.6**
Net assurance income	30	26	(10.5)
Outsourced collection income	37	34	(5.8)
Sundry income	1	1	40.0
Total operating income	**426**	**459**	**7.7**
Operating expenditure	(374)	(349)	(6.7)
Profit before tax and disposal group	**52**	**110**	**111.8**
Capital restructure costs	(38)	(43)	14.2
Hedging gain/(loss)	-	(8)	-
Foreign exchange gain/(loss)	-	(1)	-
Gain on derecognition of liability	-	50	-
STI Provision	-	(15)	-
Audit overruns	-	(5)	-
Profit before tax	**14**	**88**	**536.7**
Balance sheet			
Cash and bank	352	289	(18.0)
Loans and advances	1 551	1 543	(0.5)
Fixed and Intangible assets	26	23	(10.2)
Investments	26	28	9.7
Assets on disposal group	-	168	-
Other assets	89	54	(39.4)
Total assets	**2 044**	**2 105**	**3.0**
Borrowings	1 530	1 459.4	(4.6)
Liabilities on disposal group	-	160.3	-
Other liabilities	177	121.0	(31.6)
Equity of disposal group	-	7.4	-
Capital and reserves	337	356.6	5.9
Total capital and liabilities	**2 044**	**2 105**	**3.0**

Source: Real People.

The restructure has resulted in a return to profitability with the group recording a pre-tax profit of R88.5m at 3Q FY18, ahead of budgeted expectations.

Table 17: Pre-tax profit/(loss) by business segment (Rm)	3Q FY18 Budget	3Q FY18 Actual
Home Finance	37	70
Assurance	8	7
DMC	28	40
Group central services	(59.0)	(27.3)
Total	**14**	**89**

Source: Real People

Looking ahead, management will focus on ensuring the continuing businesses are: adequately capitalised and funded to ensure their sustainability; well positioned to deliver the financial performance required to attract new funding; and meet their post restructure debt repayment and capital realisation obligations

Notwithstanding this, recovery and growth will remain a challenge for the group given the tough economic conditions and tightening regulations. Rising credit risks, as the economy worsens, will continue to negatively impact the financial sector's (including Real People) 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, however variable rate pricing mitigates this to some extent.

Real People Investment Holdings Limited

(Rands in 000's except as noted)

Year end: 31 March					
Income Statement	**2013**	**2014**	**2015**	**2016**	**2017†**
Interest income	810 419	785 609	635 029	442 221	390 167
Interest expense	(285 834)	(375 532)	(392 397)	(390 241)	(399 416)
Net interest income	**524 585**	**410 077**	**242 632**	**51 980**	**(9 249)**
Other income	1 062 956	989 412	735 278	919 910	545 811
Total operating income	**1 587 541**	**1 399 489**	**977 910**	**971 890**	**536 562**
Bad debt charge	(801 963)	(1 078 020)	(642 129)	(263 591)	(223 022)
Operating expenditure	(577 385)	(640 710)	(638 560)	(646 271)	(710 330)
Exceptional items	-	-	-	-	-
Profit before tax	**208 193**	**(319 241)**	**(302 779)**	**62 028**	**(396 790)**
Tax	(77 940)	68 685	(20 460)	(52 662)	(209 836)
Profit after tax	**130 253**	**(250 556)**	**(323 239)**	**9 366**	**(606 626)**
Other after-tax income / (expenses)	(18 792)	(53 406)	79	1 261	(7 540)
Attributable income	**111 461**	**(303 962)**	**(323 160)**	**10 627**	**(614 166)**
Balance Sheet					
Common shareholders equity	1 009 489	732 898	546 306	550 141	(108 837)
Minority interest	(8 857)	(14 882)	(10 601)	(13 537)	-
Total capital and reserves	**1 000 632**	**718 016**	**535 705**	**536 604**	**(108 837)**
Interest bearing borrowings	3 090 046	3 628 845	3 078 974	3 208 211	2 791 724
Other liabilities	215 085	212 617	140 279	249 503	170 911
Total capital and liabilities	**4 305 763**	**4 559 478**	**3 754 958**	**3 994 318**	**2 853 798**
Cash & liquid assets	341 534	315 536	432 757	608 392	462 138
Net advances	3 403 521	3 469 942	2 855 738	2 784 453	2 201 428
Total interest earning assets	**3 745 055**	**3 785 478**	**3 288 495**	**3 392 845**	**2 663 566**
Fixed and intangible assets	52 348	75 182	72 043	61 276	39 601
Investments	101 189	167 933	54 251	159 632	34 658
Other assets	407 171	530 885	340 169	380 565	115 973
Total assets	**4 305 763**	**4 559 478**	**3 754 958**	**3 994 318**	**2 853 798**
Ratio Analysis					
Financial management					
Interest expenses / Average gross advances	17.7	20.6	22.4	28.4	30.4
Interest expenses / Average funding liabilities	10.1	11.2	11.7	12.4	12.4
Interest bearing debt / Total capital (:1)	3.1	5.0	5.6	5.8	(25.7)
Total capital / Total assets	23.2	15.7	14.3	13.4	(3.8)
Internal capital generation	5.2	(14.1)	(15.0)	0.5	(32.7)
Cash and liquid assets / Total assets	7.9	6.9	11.5	15.2	16.2
Asset quality					
Bad debt charge / Average gross advances	24.8	29.6	18.3	9.6	12.8
Bad debt charge / Total operating income	50.5	77.0	65.7	27.1	41.6
Net charge-off ratio	(12.9)	(21.7)	(26.5)	(32.8)	(10.6)
Efficiency					
Operating expenses / Average gross advances	35.7	35.2	36.4	47.1	54.1
Operating expenses / Operating income	36.4	45.8	65.3	66.5	132.4
Profitability					
Net interest margin	16.2	11.3	6.9	1.9	(0.5)
Net interest income / Average gross advances	32.4	22.5	13.8	3.8	(0.7)
Non interest income / Total operating income	67.0	70.7	75.2	94.7	101.7
Net profit margin	13.1	(22.8)	(31.0)	6.4	(74.0)
Portfolio yield	49.6	41.4	32.4	37.7	26.9
ROaE	10.9	(34.9)	(50.5)	1.9	(278.3)
ROaA	2.6	(6.9)	(7.8)	0.3	(17.9)
Nominal growth indicators					
Total Assets	0.7	5.9	(17.6)	6.4	(28.6)
Total Advances	27.6	0.7	(7.9)	(37.0)	(35.7)
Shareholders equity	(2.1)	(27.4)	(25.5)	0.7	(119.8)
Net income	(10.4)	(372.7)	6.3	(103.3)	(5 879.3)

† These reuslts have been prepared in accordancce with IAS 39 and thus not comparable to FY18 results.

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

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 (i.e., being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Basel	Basel Committee on Banking Supervision housed at the Bank for International Settlements.
Basel I	Basel Committee regulations, which set out the minimum capital requirements of financial institutions with the goal of minimising credit risk.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
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 Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Consortium	A group of companies that combine some or all of their resources to undertake a joint project.
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.
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 Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Debt Financing	Raising capital by selling debt instruments such as bonds, bills or notes.
Downgrade	The assignment of a lower credit rating to a company or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.
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.
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.
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.
Forecast	A calculation or estimate of future financial events.
Going Concern	An accounting convention that assumes a company will continue to exist and trade normally for the foreseeable future. In practice this is likely to mean at least for the next 12 months.
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.
Hedging	A financial risk management process or function to take a market position to protect against an eventuality. Taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
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.
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.
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 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.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Investment Grade	Credit ratings equal to or higher than 'BBB-'.
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.
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.
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.
Moratorium	A period of time in which an activity is suspended until such time as a change in circumstances permits its removal. For example, a borrower can declare a moratorium on the repayments of the principal, and sometimes the interest, on a loan.
National Credit Act	The National Credit Act 34 of 2005 (South Africa).
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
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.
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.
Securitisation	A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Senior Unsecured Debt	Securities that have priority ahead of all other unsecured or subordinated debt for payment in the event 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.
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.
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.

For a detailed glossary of terms please click here

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument, and d.) the validity of the 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 and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

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

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

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