

CREDIT RATING ANNOUNCEMENT

GCR upgrades PSG Konsult Limited's rating to A-(ZA); Outlook Stable.

Johannesburg, 13 July 2016 -- Global Credit Ratings has today upgraded the national scale issuer ratings assigned to PSG Konsult Limited to A⁻_(ZA) and A1⁻_(ZA) in the long term and short term respectively; with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to PSG Konsult Limited ("PSGK") based on the following key criteria:

PSGK's upgrade reflects its conservative balance sheet fundamentals, risk profile and sound earnings capacity. PSGK has been successful in executing its business plan, which has seen its business profile continue to strengthen, supported by robust growth in revenue and earnings over recent years. This has followed the well-defined strategy to refocus on core operations, which has allowed for the capturing of additional margin in the asset management and insurance businesses, albeit still anchored by its traditional, uniquely positioned advisory franchise network.

GCR views PSGK's ability to generate strong and consistent financial results, even during weak economic periods, as a rating strength. This has largely been supported by the fact that the overwhelming majority of fee income is more of an annuity type than performance related. Overall, the company has achieved strong CAGR of 33% in recurring headline earnings over the past three years, whilst other metrics such as assets under management have been rising faster than the market. The scalable business model and revenue diversity achieved is expected to continue to allow the group to optimise margins.

The ratings factor in the strong parentage, with the PSG Group holding a majority 62% shareholding. By virtue of this, PSGK benefits from managerial and operational support, and potentially greater group distribution synergies over the longer term. In addition, cognisance is taken of the PSGK's sound capital adequacy and strengthening risk management systems and automated processes, which are increasingly being embedded into strategic decision-making. Continued investment into IT systems and back-office support capacity will remain of high importance going forward.

PSGK continued to reflect minimal financial leverage on its standalone balance sheet at FYE16, owing to the redemption of all term facilities over the prior two years. Accordingly, funding flexibility is considered strong, further supported by stable cash generation capabilities and access to undrawn debt facilities and the equity markets.

Rating constraints include the sensitivity of the company to intense competition in all its operating segments and the highly volatile investment market conditions. This could potentially see large fluctuations in fee income, both in respect of performance and demand for financial products. Furthermore, compared with other large financial service groups, PSGK has a relatively small market share in its chosen markets.

Upward rating movement over the medium to longer term could be driven by consistent market share gains in all the operating units, increased revenue diversity, and sustained strong credit metrics. A sustained downturn in the domestic economy could negatively impact fee and commission income, while severe market volatility could result in liquidity constraints. Any exposures that increase PSGK's risk profile may lead to negative rating action.

NATIONAL SCALE RATINGS HISTORY

Initial Rating (September 2011)

Long term: BBB_(ZA)

Short term: A2_(ZA)

Outlook: Stable

Last rating (June 2015)

Long term: BBB⁺_(ZA)

Short Term: A2_(ZA)

Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for rating corporate entities, updated February 2016
PSGK issuer rating reports (2011-2015)

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

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.
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.
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.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
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 corporate or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.
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.
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.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
National Scale Rating	The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
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.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
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.
Redemption	The repurchase of a bond at maturity by the issuer.
Risk	The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.
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.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Working Capital	Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.

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.

PSG Konsult Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to PSG Konsult Limited with no contestation of the rating.

The information received from PSG Konsult Limited and other reliable third parties to accord the credit ratings included:

- The F16 audited annual financial statements (plus prior year of comparative numbers)
- April 2016 management accounts
- Investor presentations
- Other non-public information

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.



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