Real People Investment Holdings Limited

Audited consolidated annual financial statements

For the year ended 31 March 2021

Real People Investment Holdings Limited
Audited Consolidated Annual Financial Statements for the year ended 31 March 2021

General information

Country of incorporation and domicile	South Africa
Company registration number	1999/020093/06
Nature of business and principal activities	Home finance, debt acquisition and management services, long term insurance products
Registered office	12 Esplanade Road Quigney East London 5201
Contact details	Telephone: +27 (0) 43 702 4600 Email: corporate@realpeople.co.za
Website	Corporate website: www.realpeoplegroup.co.za Consumer website: www.realpeople.co.za
Auditors	Deloitte & Touche Chartered Accountants (SA) Registered Auditors
Level of assurance	The audited consolidated financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
Preparer	The audited consolidated annual financial statements were internally compiled by: MT Laube, CA(SA), Group Controller
Supervised by	DJ Munro, CA(SA), Group Chief Financial Officer
Issued	10 June 2021

Contents

Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the audited consolidated annual financial statements and related financial information included in this report. It is their responsibility to ensure that the audited consolidated annual financial statements fairly present the state of affairs of the group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the consolidated financial statements.

The consolidated annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on monitoring and assessing the control environment. To enable the directors to meet these responsibilities, the board examines the standards for internal control to ensure the risk of error or loss is reduced in a cost effective manner. The directors receive regular reports from internal audit as part of planned internal audit programmes, which assist in evaluating the group's internal controls. Internal audit places emphasis on accountability, responsibility, independence, reporting, communication and transparency, both internally and in respect of all key external stakeholders. The directors received reports from the Group Information Technology function on the adequacy and effectiveness of the group's information system controls. The board also received reports from the channel Credit and Pricing Committee members regarding the adequacy and effectiveness of the credit monitoring processes and systems. Having considered, analysed, reviewed and debated information provided by management, internal audit and the external auditors, the directors conclude that internal controls and mitigating actions by management where control processes require improvement, provide sufficient assurance that controls are in place or subject to a programme of improvement. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the audited consolidated financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors consider it appropriate to adopt the going concern basis for preparing the consolidated annual financial statements, as the directors have no intention to liquidate the group or cease trading within the foreseeable future (twelve months from signature date). The group targets and stress scenario analysis give the directors sufficient assurance to justify the going concern basis.

The external auditors are responsible for independently auditing and reporting on the group's consolidated financial statements. The consolidated financial statements have been audited by the group's external auditors and their report is presented on pages 12 to 16.

The audited consolidated annual financial statements set out on pages 5 to 11 and 17 to 61, which have been prepared on the going concern basis, were approved by the board on 10 June 2021 and were signed on their behalf by:

NW Thomson
Chairman

N Grobbelaar
Group Chief Executive Officer

Company Secretary's Certification

Declaration by the Company Secretary in respect of Section 88(2)(e) of the Companies Act 71 of 2008

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the company has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

C Wilkinson
Company Secretary

10 June 2021

Audit Committee Report

Overview

The Real People Investment Holdings Limited Group Audit Committee (RPIH AC) continues to promote improvement in the risk management and control practices of the company and its subsidiaries. RPIH AC assists the board in fulfilling its oversight responsibilities, in particular with regard to evaluation of the adequacy and efficiency of accounting policies, internal controls and financial and corporate reporting processes with an ongoing focus on enhancement therein. In addition, the RPIH AC assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors.

There is a separate Risk Committee which is responsible for reviewing the adequacy and overall effectiveness of the group's risk management agenda.

This report aims to provide details of how the RPIH AC has satisfied its various obligations during the period, as well as discuss some of the key issues that arose during the year and how the committee addressed these to promote the integrity of RPIH financial reporting.

Composition and governance

The RPIH AC had five members during the year, all of whom are independent non-executive directors. Mr RR Buddle was appointed as a member of the RPIH AC on 1 June 2020. Mr KT Hopkins resigned with effect from 31 December 2020. The committee met eight times during the period from 1 April 2020 to 31 March 2021.

Name	Audit Committee attendance
KT Hopkins – Chairman (outgoing)	7/7
RR Buddle – Chairman (incoming)	6/6
PG de Beyer	8/8
DTV Msibi	8/8
NW Thomson	8/8

The chair of the committee reports to the board on its activities and the matters discussed at each meeting.

The Group Chief Executive Officer (CEO), the Group Chief Financial Officer (CFO), the Chief Operating Officer (COO), other senior executives, the Internal Audit Partner from KPMG, and representatives of the external auditors are invited to attend all RPIH AC meetings. Other members of management are invited to attend certain meetings in order to provide the committee with greater insight into specific issues or areas of the group.

The RPIH AC Chair has regular contact with the management team to address relevant matters directly. The external and internal auditors have direct access to the committee, including closed sessions without management, on any matter that they regard as relevant to the fulfilment of the committee's responsibilities. The RPIH AC Chair meets with the internal and external auditors separately between AC meetings as and when required.

The committee members are provided with training on a range of financial, regulatory, and other topical compliance matters when there have been new developments in these areas that are relevant to the group.

The performance of the committee is assessed annually. The 2021 review concluded that the committee continued to operate effectively, and successfully discharged its responsibilities and duties.

Internal control

The committee is responsible for reviewing the effectiveness of systems of internal control, financial reporting and risk management assurance, and for considering the findings of any internal investigations into control weaknesses, fraud or misconduct, and management's response thereto.

The RPIH AC receives regular reports from internal audit as part of the planned internal audit programme, which assists in evaluating the group's internal controls. Significant areas of focus in the reports include the following:

- identifying material risks within the group, how those risks are managed and changes to these risks during the year;
- creating and maintaining an effective internal control environment throughout the group;
- demonstrating the necessary respect for the control environment; and
- identifying and recommending corrections to weaknesses in systems and internal controls.

The Risk Committee receives reports from the Group Information Technology function on the adequacy and effectiveness of the group's information system controls. The Risk Committee also receives reports from the Credit and Pricing Committees regarding the adequacy and effectiveness of the credit monitoring processes and systems. The RPIH AC members are all members of the Risk Committee.

Audit Committee Report

The RPIH AC receives regular reports regarding key issues facing the group from management and regular reports regarding governance and compliance matters. Where there have been improvements required in internal controls, the Committee monitors the key actions required to affect the required improvements.

Having considered, analysed, reviewed and debated information provided by management, internal audit and the external auditors, the RPIH AC has recommended to the RPIH board that internal controls and mitigating actions by management where control processes require improvement provide the AC with sufficient assurance that adequate controls are in place or subject to a programme of improvement. Due to the complexity of many of the matters the committee is required to exercise judgement over, the committee and management have and continue to make use of external independent advisors to inform these judgements.

Financial reporting process

The RPIH AC received regular reports from the Group CFO regarding the financial performance of the group, the tracking and monitoring of key performance indicators, details of budgets, forecasts, long-term plans, financial reporting controls and processes, supporting the adequacy and reliability of management information used during the financial reporting process.

The RPIH AC has reviewed and approved the accounting policies of the group as reported in the annual financial statements, monitoring the consistency of application and compliance with accounting standards. No changes in accounting policy have been made during the current financial year.

The RPIH AC also:

- received a summary of the key technical accounting matters from the Group CFO for consideration as well as a summary of critical accounting judgements and estimates made during the financial reporting period and after the reporting period to take into account adjusting subsequent events;
- received feedback where there were substantive discussions between management and the external auditors; and
- discussed key areas of judgement with management and the external auditors.

The finance team continued to support appropriate outcomes in all aspects, acting with a high degree of commitment to all stakeholders.

The RPIH AC considered the following significant issues and key areas of management judgement applied in the preparation of the financial statements in the current year.

Area of judgement	Judgements Applied	Assessment and Conclusion
Credit risk provisioning	*Determination of expected losses* Consideration was given to expected credit losses (ECLs), the probability of default (PD), loss given default (LGD) and the exposure at default on a forward looking basis. *Impact of COVID-19* The portfolio overlay provision was increased by R85.3 million in the prior year to account for the estimated additional impairment impairment arising from the COVID-19 adjusting event. During the current year the overlay decreased by R75.0 million as credit losses were experienced and the deterioration in the book resulted in increased historic credit model coverage. *Impact of a new debit order collection mechanism by the Banking Industry* The Banking Industry's implementation of a new debit order collection mechanism called DebiCheck has significant implications for collections success rates. An overlay of R17.2 million has been provided for to account for this forward-looking collections risk. Refer to note 3.1 to the annual financial statements for a description of the methodology and inputs used in making this assessment and the loss allowance per risk identified.	RPIH AC reviewed the input from internal experts to provide assurance on the model, its inputs and the disclosures relating to the financial instruments, and the key judgements and estimates applied in the determination thereof. RPIH AC concluded that these estimates were appropriate and in accordance with the underlying accounting standards.

Audit Committee Report

Area of judgement	Judgements Applied	Assessment and Conclusion
Credit impaired assets	All books purchased are assumed to originate in stage 3 as Purchased Originated Credit Impaired Assets. *Determination of credit impaired value of assets* Management re-calibrates the amortised cost model assumptions on an ongoing basis incorporating the most recent available collection data in order to estimate expected cash flows. This is considered a significant area of judgement due to the extent of judgement and/or estimation applied. The methodology for determining estimated future collections is back tested and the methodology updated from time to time where necessary. *Impact of COVID-19* The additional impairment arising from the COVID-19 adjusting event in the prior year was the shortfall in the present value of estimated future cash flows under this scenario against the original 2020 financial year valuation expectation. A portfolio overlay provision of R90.2 million was raised in the prior year to account for the estimated additional impairment arising from the COVID-19 adjusting event. During the year the unamortised balance remaining reduced by R86.9 million. *Impact of a new debit order collection mechanism by the Banking Industry* The Banking Industry's implementation of a new debit order collection mechanism called DebiCheck has significant implications for collections success rates. An additional overlay of R15.7 million has been provided for to account for this forward-looking collections risk. Refer to note 3.1 to the annual financial statements for a description of the methodology and inputs used in making this assessment and the loss allowance per risk identified.	The RPIH AC reviewed the input from internal experts to provide assurance on the work performed by credit modelling specialists. The RPIH AC concluded the model, its inputs and the disclosures relating to the financial instruments, and the key judgements and estimates applied in the determination thereof, to be appropriate and in accordance with the underlying accounting standards. RPIH AC reviewed the methodology for estimating the forward looking stress attributable to COVID-19 and DebiCheck on collections and resulting impact on impairments and concluded that the methodology and impairments levels to be appropriate.
Deferred tax asset recognition	The group has estimated tax losses which have not been recognised in the Statement of Financial Position as IFRS requires that deferred tax assets will not be recognised until recoverability is probable. All deferred tax assets have been fully impaired.	The full amount remains impaired. The AC has not altered its position on recognising deferred tax assets.
Going concern assessment	As described in note 33 to the consolidated financial statements and in the directors' report, the impact of COVID-19 led to significant collections shortfalls during the current period. In the intervening period and prior to signature date, RPIH has successfully re-negotiated its debt capital amortisation profile and debt covenants sufficiently to support the business and maintain the going concern status.	RPIH AC considered the validity of the going concern assumption by addressing the following elements: • Confirmed the RPIH debt amendments required to confirm going concern status. • Considered the budget for the forward-looking assessment and have confirmed that this is based on sound principles and that the assumptions underpinning its preparation are reasonable. • Reviewed the forecast financial covenants and confirmed that based on the budget, these will not be breached during the period of the standstill agreement.

Audit Committee Report

Area of judgement	Judgements Applied	Assessment and Conclusion
		• Assessed the budget impact for stress by assessing a relative estimation error and confirmed sufficient tolerance for error before covenants breach during the going concern test horizon. • Confirmed that based on this analysis that the group is a going concern and able to pay its liabilities as they fall due and is not likely to breach loan covenants over a 12-month horizon. The RPIH AC concluded that the going concern assumption is subject to the successful negotiation of the terms of the standstill agreement.

External audit findings

The external audit report aims to provide information that allows users of the financial statements to understand how the external auditors have considered and evaluated the significant matters identified during the course of their audit. The RPIH AC considered the significant audit issues that formed the basis of the auditors' opinion, which are presented on pages 12 to 16 in the auditor's report.

Combined assurance

The group has maintained a combined risk assurance programme with the key intention of optimising the efficiency and effectiveness of the activities of risk management, compliance and audit in order to better illustrate, consolidate and report on all assurance activities. Management has established a combined assurance framework and project plan that engages with the four lines of defence. A risk ranking and associated control effectiveness framework has been integrated into the combined assurance framework. This process will ensure a continuous process of assurance being provided through testing, validation and verification of controls and risk management frameworks. The RPIH AC is of the view that the arrangements put in place for the combined assurance model are adequate and achieve the objective of a more effective, integrated approach across the disciplines of risk management, compliance and audit.

Internal audit

Internal audit performs an independent assurance function and forms part of the third line of defence. Internal audit has a functional reporting line to the AC chair and an operational reporting line to the Group CFO.

Internal audit submits reports to the RPIH AC to allow the AC to evaluate the adequacy and effectiveness of internal controls. In particular the RPIH AC:

- ensures that internal audit has a direct reporting line to the Chair of the RPIH AC;
- reviewed and recommended the Internal Audit Charter for approval by the board of directors;
- monitored the effectiveness of the internal audit function in terms of its scope, execution of its plan, coverage, independence, skills, staffing, overall performance and position within the organisation; and
- monitored and challenged, where appropriate, action taken by management with regard to adverse internal audit findings.

External auditors

The RPIH AC is responsible for the appointment, compensation and oversight of the external auditors for the group. The RPIH board has a well-established policy on auditor independence and audit effectiveness. During the financial year the RPIH AC:

- approved the audit fees for the year under review;
- approved the external auditors' annual plan and related scope of work, confirming suitable reliance on internal audit and the appropriateness of key audit risks identified; and
- monitored the effectiveness of the external auditors in terms of their audit quality, expertise and independence, as well as the content and execution of the audit plan.

An annual review of the quality of the audit and performance of the external auditors was undertaken in 2020.

Audit Committee Report

As part of the assessment of the external auditors' independence, the committee ensured compliance with the Non-audit Services Policy. This policy governs the types of service that can be performed by the auditors, as well as the value and scope of the non-audit services provided by the auditors. Only those non-audit services that do not affect their independence and entail skills and experience that make them the most appropriate suppliers were approved during the period. Fees paid to the auditors are disclosed in note 20 to the annual financial statements. The RPIH AC recommended that the shareholders reappoint Deloitte as the external auditors for 2022.

Annual financial statements

The RPIH AC reviewed and discussed the audited consolidated financial statements. The RPIH AC recommended to the board that the annual financial statements be approved.

RR Buddle
Audit Committee Chairman

10 June 2021

Directors' Report

The directors submit their report on the audited consolidated annual financial statements of Real People Investment Holdings Limited and its subsidiaries, associates and joint venture ("the group") for the year ended 31 March 2021.

The separate company annual financial statements of Real People Investment Holdings Limited are available from the company's registered office.

1. Nature of business

The group's operations include providing home finance through a network of reputable building retailers, debt acquisition and management services, and long term insurance products.

2. Review of financial results and activities

The audited consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the group are set out in these audited consolidated annual financial statements.

COVID-19 and national lockdown

The goal of management has been to ensure the sustainability of the group post the impact of COVID-19. This required managing cash and other resources to minimise the short-term adverse impact on the business. The group completed an internal restructure which reduced the cost base to restore profitability and ensure alignment between staff costs and business performance.

During the year Real People Investment Holdings Limited (RPIH) company lenders agreed to a debt standstill agreement from 30 September 2020 to 31 December 2021. The terms of the debt standstill agreement allowed a capital payment holiday under the RPIH company senior facility agreement from 30 September 2020 to 31 December 2021, inclusive. RPIH company lenders also granted relevant covenant waivers during the debt standstill agreement.

Given the impact of COVID-19 on the results of the group, management embarked on a debt terms amendment process for the senior facility agreement held by RPIH. The progress made in finalising this matter is described as an event after the reporting period. The debt amendments thus implemented are sufficient to enhance the sustainability of the business.

Transfer of the insurance business to a Cell Captive

The group obtained approval from the Prudential Authority, in terms of section 50(4)(a) of the Insurance Act, 2017, on 26 May 2020 to transfer all the assets and liabilities relating to its insurance business to a Cell Captive arrangement with Old Mutual Alternative Risk Transfer Limited. The transfer date and Cell Captive launch took place on 1 July 2020. The staff in the company were transferred to the group's operating company, Opco 365 Proprietary Limited. Income and expenditure of the Cell Captive has been included in the group's statement of profit or loss, with the investment shown on the statement of financial position at the equity accounted value. The administration functions for the policy book remain the responsibility of the group who will share in the profits through a preference share holding.

Sale of equity investments

The group sold the equity stakes in Dorreal Properties Proprietary Limited and Imfundo Finance (RF) Limited, refer to note 10 in the notes to the financial statements.

3. Events after the reporting period

Subsequent to the RPIH debt standstill agreement and covenant waivers implemented in September 2020, the directors have entered into a debt amendment agreement that revised the RPIH debt capital amortisation profile and updated the debt covenants to align with the revised cashflow generation forecasts and reduced balance sheet size post COVID-19. Refer to note 33 for particulars on the RPIH debt amendments.

Umuzi Finance (RF) Ltd, one of the group's special purpose entities, entered into a senior debt agreement with a Development Finance Institution. The agreement makes available a R120.0 million facility that will be used to fund the acquisition of eligible loans. The facility is available for drawdown until April 2022 and will be repaid over a period of 5 years bearing interest at a prime rate plus a margin of 100 basis points from advance date.

Directors' Report

The directors are not aware of any other material event which occurred after the reporting date and up to the date of this report which may require adjustment to these financial statements or has not already been disclosed in the notes to the financial statements.

4. Going concern

The directors consider it appropriate to adopt the going concern basis for preparing the consolidated annual financial statements, as the directors have no intention to liquidate the group or cease trading within the foreseeable future (twelve months from signature date). The assessment of going concern is based on the group's forecasts, rescheduled senior debt capital amortisation profile and revised covenants. The directors also considered the liquidity and funding position of the group following the implementation of the amendments. Refer to note 33 of the financial statements for further detail noting the directors' assessment of going concern.

5. Directorate

The directors in office at the date of this report are as follows:

Directors	***Office***	***Designation***	***Changes in appointment***
NW Thomson	Chairperson	Non-executive Independent	
PG de Beyer		Non-executive Independent	
DTV Msibi		Non-executive Independent	
RR Buddle		Non-executive Independent	Appointed 01 June 2020
K Hopkins		Non-executive Independent	Resigned 31 December 2020
N Grobbelaar	Group chief executive officer	Executive	
DJ Munro	Group chief financial officer	Executive	

6. Company secretary

The company secretary is C Wilkinson.

Postal address:	PO Box 19610 Tecoma East London 5214
Business address:	12 Esplanade Road Quigney East London 5201

7. Auditors

Deloitte & Touche continued in office as auditors for the group for 2021.

At the annual general meeting, the shareholders will be requested to reappoint Deloitte & Touche as the independent external auditors of the group and to confirm [Auditor rotation] as the designated lead audit partner for the 2022 financial year.

8. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

9. Dividends

No ordinary or preference dividends were declared for the year.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Real People Investment Holdings Limited

Report on the Audit of the Consolidated Annual Financial Statements

Opinion

We have audited the consolidated financial statements of Real People Investment Holdings Limited (the Group) set out on pages 17 to 61, which comprise the consolidated statement of financial position as at 31 March 2021 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2021, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
IFRS 9 “Financial Instruments” Loans and advances carried at amortised cost less loan provision	
Loans and advances carried at amortised cost less provision are disclosed in note 3 of the consolidated Financial Statements. The associated impairment provisions are significant in the context of the consolidated financial statements. The determination of credit losses is inherently uncertain and is subject to significant judgement by the directors. Models used to determine credit impairments are complex and certain inputs are not observable. The Home Finance business lends to individuals. These loans are generally low in value and are assessed collectively. The Group develops models to determine expected credit losses (“ECLs”) across the portfolio. The DMC business acquires packaged distressed consumer debt books from entities who extend credit to their customers. The group develops discounted cash flow models to determine ECLs across the portfolio. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group estimation of ECLs are: • Model estimations – Inherently judgemental modelling is used to estimate ECL which involves determining Probabilities of Default (“PD”), Loss Given Default (“LGD”) and Exposures at Default (“EAD”). The PD and LGD models (Home Finance) and the discounted cash flow models (DMC) are the main sources of complexity in the ECL and as a result are considered the most significant judgemental aspect of the Group’s ECL modelling approach. • Post-model adjustments – Adjustments to the model-driven ECL results are raised by management to address known impairment model limitations or emerging trends as well as risks not captured by models. They represent approximately 4.8% of the ECL (2020: 13.6%). These adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts especially in relation to: o Economic uncertainty as a result of COVID-19 pandemic In the prior period, the outbreak of the COVID-19 pandemic and the nationwide lockdown instituted in March 2020 necessitated the determination of an additional COVID-19 impairment provision. This has been refreshed in the current year to take into account the most recent experience ; and o The impact on collections related to introduction of DebiCheck The new debit order authentication regime came into effect from 1 May 2021 with the old Naedo platform being de-commissioned in August 2021. This new payment regime is expected to impact historical collections trends which are key input into the modelled ECLs.	For the base impairment model we engaged our internal credit specialists and we performed the following: • Evaluating the appropriateness of the Group’s IFRS 9 credit impairment methodologies (including the staging criteria used); • Inspecting model code for the calculation of certain components of the ECL model (including the staging criteria); • Where models were changed or updated during the year, evaluating whether the changes (including the updated model code) were appropriate by assessing the updated model methodology and evidence; • Evaluating the model output by independently implementing the model by rebuilding the model code; • Assessing the reasonableness of the model predictions by reviewing management’s back-testing activities and reperforming these on a sample basis; and • Confirmed the accuracy and completeness of the information used and data inputs and also compared internal data and assumptions to those used more widely in the market. In considering the post model adjustments we: • Reperformed of the calculation of both the Covid-19 and the DebiCheck post-model adjustment including assessment of the reasonableness of the overlays given industry best practice. • Confirmed the accuracy and completeness of the information used and data inputs and also compared internal data and assumptions to those used more widely in the market; • Assessed the reasonableness of the DebiCheck and Covid-19 adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to source data where possible. • Considered the completeness of the disclosures made and the sensitivity analysis presented for accuracy and completeness Our conclusion • We found that the significant judgements applied in determining the impairment against loans and advances together with the related disclosures are appropriate.

Key Audit Matter	How the matter was addressed in the audit
Going concern	
These factors individually and collectively result in a significant audit risk that credit impairments may be misstated. Given the combination of inherent uncertainty in the determination of the credit impairment, the material nature of the balance and the significant judgements made by directors we considered the determination of the impairment provision to be a key audit matter.	
As described in note 33 to the consolidated financial statements and in the directors' report, the impact of Covid-19 led to significant collections shortfalls during the current period with additional impairments taken. In the intervening period and prior to signature date, RPIH has successfully re-negotiated its debt amortisation profile and debt covenants sufficiently to support the business and maintain the going concern status. The Board of Directors in considering whether the revised terms with the lenders provide satisfactory support for the business to enable it to continue to trade for the next 12 months have (as disclosed in note 33): • Considered the budget for the next 12 months and have confirmed that this is based on sound principles and that the assumptions underpinning its preparation are reasonable; • Reviewed the forecast financial covenants and confirm that based on the budget, these will not be breached during the next 12 months; • Assessed the budget impact for various stress scenarios as described in note 33 confirming that this does not result in a financial covenant breach during the next 12 months; • Considered the required investments required in the Group's SPV's and funding appetite in the market to make these investments; and • Confirmed that based on this analysis that the Group is a going concern are able to pay its liabilities as they fall due and is not likely to breach loan covenants in the next 12 months. Due to the significant judgement required by the directors in making assumptions around the future profitability of the business and its budgets and forecasts, this is considered to be a key audit matter.	We performed the following audit procedures: • Obtained an understanding of the terms of the new debt amortisation profile and the revised financial covenants; • Obtained an understanding of the key assumptions underpinning the budgets and forecasts and their reasonability in light of previous performance; • Challenged the reasonability of the directors' budgets and forecasts for 2022 and 2023 financial years and consider the accuracy of the past forecasts against actual observed results; • Considered the revised forecast financial covenants and whether, based on management's budgets, these would be breached in the 12 months from the date of this report; • Considered the headroom in the financial covenants in the event that the budgeted results differ to the actual results; • Considered the stresses applied to the budgeted results and ensured that these do not result in a financial covenant cashflow breach; • Considered the required investments for the Group's SPV's and funding appetite in the market to make these investments; • Considered the adequacy of the disclosures made in the consolidated financial statements to ensure that these sufficiently and accurately disclosed the key assumptions underpinning the going concern assessment of the directors. We have concluded that the disclosures on this matter are appropriate in the consolidated financial statements and that budgets support the view that the adoption of the going concern basis of accounting is appropriate.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Real People Investment Holdings Limited Audited consolidated annual financial statements for the year ended 31 March 2021", which includes the Directors' Responsibility and Approval, the Company Secretary's Certification, the Audit Committee's Report and the Directors' Report, as required by the Companies Act of South Africa, which we obtained prior to the date of this report. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Deloitte.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Deloitte.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of suchcommunication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Real People Investment Holdings Limited for 5 years.

Deloitte & Touche
Registered Auditor
Per: Penny Binnie Partner
10 June 2021

5 Magwa Crescent
Waterfall City
2090
Gauteng
South Africa

Consolidated Statement of Financial Position as at 31 March 2021

Figures in Rand thousand	Notes	2021	2020
Assets			
Equipment	6	17 862	19 288
Right-of-use assets	7	5 633	14 099
Intangible assets		-	387
Amount receivable from Old Mutual Alternative Risk Transfer	9	9 914	-
Investments in associates and joint venture	10	-	12 554
Net advances	3	1 066 354	1 314 580
Other receivables	11	26 261	15 357
Derivatives	12	18 847	28 700
Tax receivable		7 130	-
Cash and cash equivalents	13	426 793	326 600
Total Assets		1 578 794	1 731 565
Equity and Liabilities			
Equity			
Share capital and equity notes	4	1 308 857	1 308 857
Cash flow hedging reserve		2 084	2 430
Accumulated loss		(1 034 595)	(1 143 226)
Total Equity		276 346	168 061
Liabilities			
Borrowings - Non-current	5	928 118	693 700
Lease liabilities	7	5 717	15 625
Deferred tax	8	349	-
Provisions	14	13 469	7 918
Borrowings - Current	5	312 442	807 165
Trade and other payables	15	37 471	33 864
Tax payable		4 882	5 232
Total Liabilities		1 302 448	1 563 504
Total Equity and Liabilities		1 578 794	1 731 565

Consolidated Statement of Profit or Loss

Figures in Rand thousand	Notes	2021	2020
Gross yield from assets	17	584 075	770 533
Impairment reversal (expense)		3 080	(399 299)
Net yield		**587 155**	**371 234**
Net assurance income - funeral benefits	18	23 518	32 721
Outsourced collection income		45 556	54 951
Other income	19	22 490	9 895
Operating expenses		(425 558)	(487 308)
Operating profit (loss)	20	**253 161**	**(18 507)**
Finance costs	21	(142 256)	(201 387)
Income (loss) from equity accounted investments		2	(13 633)
Foreign exchange gains	22	1 420	362
Profit (loss) before taxation		**112 327**	**(233 165)**
Income tax expense	23	(3 696)	(23 631)
Profit (loss) for the year		**108 631**	**(256 796)**

Consolidated Statement of Comprehensive Income

Figures in Rand thousand	2021	2020
Profit (loss) for the year	**108 631**	**(256 796)**
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Effects of cash flow hedges	(346)	1 955
Other comprehensive (loss) income for the year net of taxation	**(346)**	**1 955**
Total comprehensive income (loss)	**108 285**	**(254 841)**

Consolidated Statement of Changes in Equity

Figures in Rand thousand	Share capital and equity notes	Cash flow hedging reserve	Accumulated loss	Total equity
Balance at 01 April 2019	**1 308 857**	**475**	**(886 430)**	**422 902**
Loss for the year	-	-	(256 796)	(256 796)
Other comprehensive income (loss)	-	1 955	-	1 955
Total comprehensive income	**-**	**1 955**	**(256 796)**	**(254 841)**
Balance at 01 April 2020	**1 308 857**	**2 430**	**(1 143 226)**	**168 061**
Profit for the year	-	-	108 631	108 631
Other comprehensive income (loss)	-	(346)	-	(346)
Total comprehensive (loss) income	**-**	**(346)**	**108 631**	**108 285**
Balance at 31 March 2021	**1 308 857**	**2 084**	**(1 034 595)**	**276 346**
Note	4			

Consolidated Statement of Cash Flows

Figures in Rand thousand	Notes	2021	2020
Cash flows from operating activities			
Cash generated from operations	24	500 463	138 798
Finance costs		(141 590)	(197 636)
Tax paid	25	(7 370)	(13 891)
Net cash generated from (utilised by) operating activities		**351 503**	**(72 729)**
Cash flows from investing activities			
Purchase of equipment	6	(10 175)	(12 867)
Proceeds on sale of equipment		2 038	852
Investment in Cell Captive preference shares	9	(1 000)	-
Proceeds on sale of investment in joint venture		10 847	-
Dividend received from associate		-	1 890
Net cash generated from (utilised by) investing activities		**1 710**	**(10 125)**
Cash flows from financing activities			
Proceeds from borrowings		160 000	468 000
Repayment of borrowings		(409 378)	(475 403)
Payment on lease liabilities		(3 642)	(11 174)
Net cash utilised by financing activities		**(253 020)**	**(18 577)**
Total cash movement for the year		**100 193**	**(101 431)**
Cash and cash equivalents at the beginning of the year		326 600	428 031
Total cash and cash equivalents at end of the year	13	**426 793**	**326 600**

Accounting Policies

Corporate information

Real People Investment Holdings Limited is a public company incorporated and domiciled in South Africa. The separate company annual financial statements of Real People Investment Holdings Limited are available from the company's registered office.

The group's operations include providing home finance through a network of reputable building retailers, debt acquisition and management services, and long-term insurance products.

1. Significant accounting policies

1.1 Basis of preparation

The audited consolidated financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these audited consolidated annual financial statements and the Companies Act of South Africa of South Africa, as amended. These audited consolidated financial statements comply with the requirements of the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The audited consolidated financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the company's functional and presentation currency.

The directors of the group considered in terms of IAS 1 a liquidity-based statement of financial position to be more relevant and to provide more reliable information as the group does not supply goods or services within a clearly identifiable operating cycle. Therefore, all assets and liabilities are presented in order of liquidity.

These accounting policies are consistent with the previous period.

1.2 Going concern

The directors consider it appropriate to adopt the going concern basis for preparing the consolidated financial statements, as the directors have no intention to liquidate the group or cease trading within the foreseeable future (twelve months from signature date). Refer to note 33 for events after the reporting date and the factors considered in making the going concern assessment.

1.3 Significant judgements and sources of estimation uncertainty

The preparation of audited consolidated annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty

Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group’s history, existing market conditions in the micro-finance industry as well as forward looking estimates at the end of each reporting period. The most significant single event in the prior year was the impact of the COVID-19 lockdown and on a forward-looking basis the expected impact on the transition to the DebiCheck payment mechanism. The key assumptions and inputs used are disclosed in notes 1.5, 1.6. and 3.1.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Doubtful debt allowances on stage 3 impairment provisions under section 11(j) of the Income Tax Act

In the prior year, the group applied for a directive from the South African Revenue Services (SARS) to approve the use of an 85% doubtful debt allowance on stage 3 impairment provisions. Temporary directives were granted on 19 March 2021 in respect of the 2020 tax year.

SARS further advised that the group may rely on this directive when making provisional tax payments for the 2021 year of assessment but must obtain a 2021 directive prior to submitting its tax return for the 2021 year of assessment.

In order to apply for the 2021 directive, SARS requires completed Loss Allowance Models which are reconciled to the corresponding audited financial statements. The 2021 directives will therefore be applied for as soon as the audited financial statements are finalised. Nonetheless, the financial statements have been prepared on the basis that the 2021 directive will also be granted as provisionally catered for in the current 2020 directive.

Critical judgements in applying accounting policies

Recognition of deferred tax assets

The recognition of deferred tax assets on taxable losses in Real People Investment Holdings Limited and subsidiaries, where applicable, has been suspended and the deferred tax assets recognised in prior financial years impaired until there is a history of sustainable profitability.

The group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future or to the extent that it is probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised in the foreseeable future and there is a history of sustainable profitability. Estimates of future taxable income are based on forecast results from operations and the application of existing taxation laws.

1.4 Financial instruments

Initial recognition

The group initially recognises financial assets and liabilities on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not classified as fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification and measurement

Financial assets and financial liabilities are classified in the categories amortised cost or fair value through profit or loss. Note 30 Financial instruments and risk management presents the financial instruments held by the company based on their specific classifications.

Financial assets are not reclassified after initial recognition, except in the period after the group changes its business model for managing financial assets.

Financial instruments (continued)

Financial assets at amortised cost

Impairment

The group recognises a loss allowance for expected credit losses (ECL) on all financial assets measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans. Expected credit losses are a probability-weighted estimate of credit losses.
- For financial assets that are not credit impaired a credit loss is the present value of the difference between the contractual cash flows due to the group and the cash flows that the group expects to receive. The default measurement horizon is 12 months for all current status loans and measured on a lifetime basis for loans in arrears.
- For financial assets that are credit-impaired the group recognises the cumulative change in lifetime expected credit losses since initial recognition. At each reporting date, the group recognises in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss.

Write off policy

The group writes off a loan when there is no realistic prospect of recovery. This is generally when the group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Loans written off may still be subject to enforcement activities in order to comply with the group's procedures for recovery of amounts due.

Modifications

If the terms of a financial asset are modified, the group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. The original financial asset is derecognised and a new financial asset is recognised at fair value. The expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. The group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Derecognition

The group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognised in profit or loss.

The group derecognises financial liabilities when the group obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Reclassification

The group only reclassifies affected financial assets if there is a change in the business model for managing financial assets. If a reclassification is necessary, it is applied prospectively from the reclassification date. Any previously stated gains, losses or interest are not restated. The reclassification date is the beginning of the first reporting period following the change in business model which necessitates a reclassification.

Financial liabilities are not reclassified.

1.5 Net advances - Home Finance

The Home Finance channel provides unsecured developmental home improvement loans to the lower LSM (living standards measure) segments of the South African market through a network of buildware merchants.

Credit risk

An appropriate credit risk premium is incorporated into the pricing structure of each product to ensure that acceptable returns are generated for shareholders. Credit risk premiums are based on expected probability of defaults and estimated recoveries from defaulters. Proprietary credit risk scoring models are used to assess the credit worthiness of individuals in conjunction with the requirements of the National Credit Act No. 34 of 2005 prior to the granting of loans.

Credit risk is mitigated through scorecard management and backtesting, credit performance metrics and a variety of collection mechanisms. Management evaluates credit risk on an ongoing basis.

The group's exposure to concentration risk is low due to the nature and distribution of the loan books. The advances portfolio comprises large volumes of low value loans.

Classification

Performing loans

Customer loans that are classified as performing have a cumulative arrears ratio of three or less, that is, three or less cumulative contractual instalments in arrears. The group has rebutted the IFRS 9 assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

The performing loans are then categorised further into stage 1 or 2 for credit impairment purposes.

- Stage 1: loans have no arrears and there is no significant increase in credit risk. The impairment provision for these loans is calculated using lifetime expected loss over a 12-month probability of default.
- Stage 2: loans have an arrears ratio which is greater than one and less than or equal to three months in arrears, or have an arrears ratio of nil, but have signs of a significant increase in credit risk. The impairment provision for these loans is calculated using lifetime expected credit losses.

The significant increase in credit risk is assessed on an individual or collective basis using all reasonable and supportable information, including an assessment of forward-looking indicators. The Home Finance portfolio is assessed on a semi-annual basis to identify if any part of this portfolio shows signs of a significant increase in credit risk. A population, which represents the relative size of such portfolio, is identified and a lifetime loss on this population in line with stage 2 requirements is calculated.

Contractual delinquency (CD) is measured using a mathematical rounding definition, hence, an account that reaches 30 days past due is categorised as contractual delinquency equal to one (CD 1). Stage 2 is defined as accounts with contractual delinquency between one and three which results in an account that has reached 30 days past due state being impaired on lifetime expected credit losses.

Modifications

Accounts under debt review or administration are classified as modified as the contractual instalment and terms are updated to reflect the revised arrangement. A gain or loss on modification is recognised in profit or loss as the gross carrying value of the loan is amended to reflect the revised arrangement. These loans are classified as stage 3 loans as they are credit impaired.

Non-performing loans

An account is deemed to be in default and is classified as a credit-impaired financial asset if the arrears on the account is more than three contractual instalments. These accounts are classified as stage 3 for impairment provision purposes and the impairment provision is based on lifetime expected credit losses. Stage 3 is the final stage for impairment purposes, that is, once a customer moves into stage 3, the impairment provision will always be calculated with reference to stage 3, irrespective of whether the arrears are caught up. A portfolio modelling approach is used to estimate cash flows for each segment within the portfolio. Segments are based on payment behaviour, specifically, the number of payments in the preceding three months, customer recency profile and for accounts where no payment has been received for the preceding 12 months.

Accounting Policies

1.5 Net advances - Home Finance (continued)

Contracts moving into stage 3 are treated as modified. The gross carrying value of the contract is assessed on default and a modification loss is recognised in profit or loss.

A loan is derecognised in full when there is no expectation of cash recoveries. For example, the account is written off when the contract has reached prescription, the loan account is fraudulent or upon death of the customer where the account is not settled by a credit life policy.

The group undertakes various collections actions to maximise the cash recoveries on each loan account. The intent of such activity is not to enter into or originate a new financial instrument or credit agreement, nor to reset the arrears status of a contract to zero. It is not the group’s intention to enter into new loan agreements with customers who have defaulted or have a poor repayment record on their loans. For these reasons, modifications are not considered to be events that would lead to the derecognition of existing financial assets and re-recognition of a new financial asset.

Management assesses portfolio credit losses for any (linear and non-linear) relationship with forward-looking economic indicators or scenarios on an annual basis. Should such economic indicators correlate to the performance of the loan book, management will take the likely forward-looking scenarios into account when determining the expected credit loss adjustments. Where no correlation is found, management considers a general view of economic factors and applies an appropriate management overlay.

1.6 Net advances - Acquired Debt (formerly known as DMC)

Purchased portfolios

The credit impaired amortised cost valuation methodology is applied to acquired debt.

The purchase price paid for these portfolios has been determined through various pricing models applied on a portfolio basis whose main drivers are expected collections, costs and return requirements. Recoveries are generated through the various collection processes in the group.

The acquired debt portfolios are credit impaired at the date of acquisition. The portfolios are purchased at deep discounts due to the non-performing nature of the assets. The group evaluates the portfolio as a whole and determines what cash flows can be extracted. IFRS 9 is therefore applied on a portfolio basis and the financial asset is defined as each separately purchased and priced portfolio.

The effective interest rate is determined as the rate that exactly discounts the expected cash flows at date of acquisition to the purchase price.

For more recently acquired portfolios cash flows are estimated based on the original priced cash flow estimates per portfolio. The estimates are determined using statistical techniques based on historical performance on other similar portfolios previously acquired. Should there be significant deviation from these cash flows then management applies judgement to consider whether an adjustment is required.

For remaining acquired debt portfolios, the cash flow estimates are forecast using three statistical models that fit statistical functions through actual cumulative receipts on a portfolio level. The expected cash flows are calculated separately on each debt portfolio acquired in the last 10 years. It is assumed that a portfolio will yield cash flows from collection activities for a maximum period of 10 years (120 months).

Since acquired debt portfolios are measured and managed at a portfolio level the contractual cash flows are represented by the original priced cash flows and not the contractual cash flows of the underlying contracts. Therefore, any changes in expected cash flows are treated as changes in lifetime expected credit losses and not as a modification.

The group performs a statistical analysis to assess the correlation between macro-economic factors and receipting performance. The macro-economic factors include the petrol price, consumer price index, prime rate, unemployment levels, gross domestic product and unsecured credit supply as these are considered to have the most significant impact on over indebted clients. Refer to note 3.1 for the outcome of the current year's assessment.

1.6 Net advances - Acquired Debt (formerly known as DMC) (continued)

Other portfolios being collected

The Acquired Debt channel continues to collect and manage the assets from discontinued activities from within the group. The portfolios are considered credit impaired as the original contracts are out of term and the asset class is in run off. Modifications are not considered as the assets are already modified at inception due to all contracts being outside of their original contractual terms and contracts being already extensively modified during the collection process.

Cash flows are forecast based on back tested run-off triangle techniques. The effective interest rate applied to these cash flows are the debt's original effective interest rate at date of origination.

Credit risk

An appropriate risk premium is included when pricing acquired debt portfolios to ensure that acceptable returns are generated for shareholders. Credit risk premiums are based on the expected probability of extracting cash flows from portfolios after taking into considerations the cost investment required to collect these cash flows.

Credit risk is mitigated through the establishment of a pricing committee that evaluates each portfolio on which offers are submitted. The committee evaluates the credit risk of each portfolio by assessing the collectability of the underlying loans in the portfolio. The collectability of the underlying loans is determined with reference to collections experience on similar portfolios purchased to date.

1.7 Hedge accounting

The group designated derivatives entered into for the purpose of hedging foreign currency and interest rate risk arising from foreign borrowings as cash flow hedges.

At the inception of the hedge relationship, the group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. At the inception of the hedge and at each reporting date, the group assesses whether the derivative is effective in offsetting changes in cash flows of the hedged foreign borrowings, which is when the hedging relationship meets all the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the group actually hedges and the quantity of the hedging instrument that the group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the group adjusts the hedge ratio of the hedging relationship (that is, rebalances the hedge) so that it meets the qualifying criteria again.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity. The ineffective portion is recognised in profit or loss. Cumulative gains or losses recognised through other comprehensive income are transferred to profit or loss in the same period that the cash flows of hedged items affect profit or loss.

Hedge accounting is discontinued when the hedge no longer meets the requirements of hedge accounting after rebalancing or the hedging instrument expires, is sold, terminated or exercised.

1.8 Consolidation

Basis of consolidation

The audited consolidated financial statements incorporate the financial statements of the company and all investees that are controlled directly or indirectly by the group.

The group has control of an entity when it is exposed to or has rights to variable returns from involvement with the entity and it has the ability to affect those returns through use of its power over the entity.

1.8 Consolidation (continued)

Securitisations form an integral part of the group’s funding strategy. The issuer, which is a bankruptcy remote special purpose entity, issues notes to fund the purchase of eligible loans from subsidiaries of the group that are the originators of the loans. The subsidiaries do not retain any rights and obligations in the assets of the special purpose entities, nor do they retain any obligation to the creditors of the special purpose entity in the event of liquidation. The issuer's activities are restricted to those of the securitisation programme and fall within the ambit of the National Credit Act.

The special purpose entities have been designed so that their activities are largely laid out in the transaction documents and the contractual arrangements entered into on or before closing of the transaction. Voting rights are therefore not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks only and the contractual arrangements determine the direction of the relevant activities. The board can only operate within the mandate of the transaction documents. Where the group has arranged the transaction, acts as administrator and servicer and is exposed to a residual return, the special purpose entity is consolidated into the group's accounts. Refer to note 32 for a list of special purpose entities.

An associate is an entity over which the group has significant influence and which is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Refer to note 10 for details of associates.

A joint venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Refer to note 10 for details of the joint venture.

1.9 Equipment

Equipment is carried at cost less accumulated depreciation and any impairment losses. Depreciation is recognised in profit or loss and is calculated using the straight-line method to allocate the cost of equipment over their estimated useful lives to their residual values, as follows:

Item	***Useful life***
Furniture and fittings	6 years
Motor vehicles	5 years
Office equipment	5 years
Computer equipment	2 - 5 years
Leasehold improvements	6 years

Capital work in progress is not depreciated.

The residual value, useful life and depreciation method of each material asset is reviewed at the end of each reporting period.

1.10 Leases

Group as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date for all lease agreements for which the group is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. Low value leases include leases for printers, copiers, coffee machines or water coolers. For short-term leases or low value leases, the group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease where applicable.

Lease liability

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs.

Right-of-use assets

Right-of-use assets are subsequently measured at cost less accumulated depreciation over the lease term.

Accounting Policies

1.11 Reinsurance contract - Amount receivable from Old Mutual Alternative Risk Transfer (OMART)

The group's interest in the OMART Cell Captive is accounted for as an in-substance reinsurance contract. A reinsurance contract is an insurance contract issued by one insurer (the reinsurer) to compensate another insurer (the cedant) for losses on one or more contracts issued by the cedant. The reinsurer has an obligation under a reinsurance contract to compensate a cedant if an insured event occurs.

The premiums, claims, fees, investment income and tax accumulated in the Cell Captive are presented on the statement of profit or loss and other comprehensive income. The statement of financial position reflects an asset receivable from OMART.

Recognition and measurement of insurance liability in Cell Captive

Insurance contracts are those contracts that transfer significant insurance risk. The Cell Captive sells credit protection, funeral assistance, cancer medical cover and accidental death insurance contracts.

The valuation of the insurance liability was performed using the Finance Soundness Valuation methodology, in accordance with the Standard of Actuarial Practice Note 104 issued by the Actuarial Society of South Africa. The assumptions used for valuing liabilities are based on realistic expectations for future experience, plus prescribed margins for prudence and further discretionary margins. The result of the valuation method and assumptions is that profits are released appropriately over the term of each policy, to avoid premature recognition of profits that may give rise to losses in later years. The assets and liabilities have been valued on methods and assumptions that are consistent with each other.

In the current year, a change has been implemented to the actuarial method for determining the amount of Incurred-But-Not-Reported (IBNR) liability balance recognised in the accounts. In the prior year, the actuarial assessment offset the IBNR against negative policyholder liabilities leaving a nil balance due to the higher negative balance in policyholder liabilities. The OMART actuaries now responsible for the Cell Captive do not apply this offset and require a gross up for the IBNR exposure to be accounted for. The current year IBNR balance is R4.0 million (and in the prior year, the amount not included in the accounts was R8.0 million).

The IBNR liability has been calculated as three times the average risk premium (over the most recent three months). A loss ratio of 17.25% was assumed, based on reported experience over recent years. A Compulsory Margin of 8.0% of the total IBNR reserve has been included in IBNR reserves, which is a weighted average of 7.5% mortality, 10% morbidity/disability and 15% medical margins.

1.12 Impairment of non-financial assets

The company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

1.13 Share capital and equity

The ordinary shares, preference shares and Payment-In-Kind notes are classified as equity.

1.14 Provisions

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation except where the expected outflow is within the next twelve months and the effects of discounting are not considered to be material.

Executive and management employees are eligible for consideration for a short-term incentive paid annually after the year-end results are finalised. Discretionary individual incentive allocations are based on a combination of group, channel and individual performance, including financial, non-financial and risk management elements.

1.15 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The liabilities have been calculated at undiscounted amounts based on current salary rates.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

1.16 Revenue

Interest and similar income

Interest income is recognised in profit or loss using the effective interest method. Service fees are deemed to be an integral part of the yield of the asset as the quantum of the fee charged to the customer account is significantly higher than the commensurate and incremental costs incurred to service the customer's account.

When calculating the effective interest rate for financial instruments other than credit impaired assets, the group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. The calculation includes transaction costs and fees that are an integral part of the effective interest rate. The effective interest rate is applied to the gross carrying amount of the financial asset before adjusting for any expected credit loss allowance.

For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses. Interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Insurance income

Premiums on insurance contracts are recognised gross of commission when due. Refer to note 1.11 for the types of insurance contracts provided to customers by the Cell Captive. Insurance benefits are recognised when the obligation to pay the benefit has been established.

Revenue from contracts with customers

Fee income

Fees and commission income that are integral to the effective interest rate on a financial asset are included in the measurement of the effective interest rate.

Income earned on the execution of a significant performance obligation is recognised when the significant performance obligation has been performed.

Income earned from the provision of services is recognised over time as the performance obligation is fulfilled. Fees charged for servicing loans that are out of term are recognised in revenue as the performance obligation is provided, which occurs monthly when the fees are levied.

Outsourced collection income

The group enters into service level agreements with outsourced clients to collect outstanding debt on their behalf. The performance obligation per the contract is the collection service provided by the group. The revenue earned by the group is a commission which is calculated as a percentage of monthly collections. The revenue is recognised at the point of successful collection of the debt which is when the performance obligation is satisfied.

Notes to the Audited Consolidated Annual Financial Statements

2. New Standards

2.1 Standards effective and adopted in the current year

In the current year, the group adopted the amendment to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Policies and Errors which clarified and aligned the definition of 'material' and provided guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

2.2 Standards not yet effective

The group has chosen not to early adopt the standards which have been published and are mandatory for the group's accounting periods beginning on or after 01 April 2021 or later periods. All the new standards and interpretations have been considered. Those expected to have an impact on the group are as follows:

IFRS 17 Insurance Contracts

This standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The effective date of the standard is for years beginning on or after 1 January 2023.

IFRS 17 is expected to have an impact on reporting by cell owners as the Cell Captive Shareholder Participation Agreement is seen as an in-substance reinsurance arrangement. OMART is preparing for the transition as this will impact reporting, modelling and other processes. The intention is to work on parallel reporting a year before the effective date. The group expects to adopt the standard for the first time in the 2024 audited consolidated annual financial statements.

The expected impact of the standard is a change in revenue recognition as the Cell Captive will be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums.

Figures in Rand thousand	2021	2020

3. Net advances

Net advances are presented at amortised cost, which is net of loss allowance, as follows:

	2021	2020
Home Finance channel	516 289	786 325
Acquired debt channel (previously known as DMC)	550 065	528 255
	1 066 354	1 314 580

The Home Finance channel offers a credit facility to customers. The undrawn facilities at 31 March 2021 are R12.1 million (2020: R30.4 million).

Home Finance accounts under debt review or administration are classified as modified contracts. The modification loss due to debt review for the year is R19.2 million (2020: R26.2 million).

Exposure to credit risk

Net advances inherently exposes the group to credit risk, being the risk that the group will incur financial loss if counterparties fail to make payments as they fall due.

Credit loss allowances

The following tables set out the carrying amount and loss allowance:

2021

	Basis of loss allowance	*Gross carrying amount*	*Loss allowance*	*Amortised cost*
Home Finance channel				
Performing loans - stage 1	12-month ECL	319 276	(33 708)	285 568
Performing loans - stage 2	Lifetime ECL (not credit impaired)	116 157	(48 189)	67 968
Non-performing loans - stage 3	Lifetime ECL (credit impaired)	1 529 242	(1 366 489)	162 753
Acquired debt channel	Lifetime ECL (purchased or originated credit impaired)	723 203	(173 138)	550 065
		2 687 878	(1 621 524)	1 066 354

2020

	Basis of loss allowance	*Gross carrying amount*	*Loss allowance*	*Amortised cost*
Home Finance channel				
Performing loans - stage 1	12-month ECL	642 959	(114 590)	528 369
Performing loans - stage 2	Lifetime ECL (not credit impaired)	174 506	(71 001)	103 505
Non-performing loans - stage 3	Lifetime ECL (credit impaired)	1 448 681	(1 294 230)	154 451
Acquired Debt channel	Lifetime ECL (purchased or originated credit impaired)	763 026	(234 771)	528 255
		3 029 172	(1 714 592)	1 314 580

Figures in Rand thousand	2021	2020

3. Net advances (continued)

Reconciliation of loss allowances

The following tables show the movement in the loss allowances for net advances.

Home Finance performing loans - stage 1: Loss allowance measured at 12-month ECL:

Opening balance	114 590	50 358
New contracts originated	10 980	46 187
Movement between stages	(37 232)	(37 818)
Significant increase in credit risk	(1 581)	(3 454)
Forward looking overlay	(53 049)	59 317
Closing balance	33 708	114 590

Home Finance performing loans - stage 2: Loss allowance measured at lifetime ECL (not credit impaired):

Opening balance	71 001	41 096
Release of loss allowance on transfer to lifetime ECL (credit impaired)	(116 290)	(84 588)
New contracts originated	1 018	12 414
Movement between stages	98 013	88 027
Forward looking overlay	(5 553)	14 052
Closing balance	48 189	71 001

Home Finance non-performing loans - stage 3: Loss allowance measured at lifetime ECL (credit impaired):

Opening balance	1 294 230	1 379 055
Release of loss allowance on contracts written off	(142 667)	(241 380)
Movement between stages	54 410	3 321
Modification loss on contracts moved to stage 3	163 650	131 523
Forward looking overlay	(3 134)	21 711
Closing balance	1 366 489	1 294 230

Acquired debt channel: Loss allowance measured at lifetime ECL (purchased or originated credit impaired):

Opening balance	234 771	59 161
Accounting policy change	-	(9 449)
Lifetime ECL	(25 723)	78 204
Forward looking overlay - reversal of unamortised balance remaining from prior year	(71 572)	-
Forward looking overlay - current year	35 662	106 855
Closing balance	173 138	234 771

Fair value

Refer to note 30 Financial instruments and risk management for the fair value of net advances. The fair value was calculated using expected recovery curves. Fair value measurements are categorised as level 3 on the fair value hierarchy as the valuation includes unobservable inputs.

Figures in Rand thousand

3. Net advances (continued)

Home Finance coverage ratios

The coverage ratio per contractual delinquency (CD) status is as follows:

2021	*Stage 1 CD 0*	*Stage 2 CD 1*	*Stage 2 CD 2*	*Stage 2 CD 3*	*Stage 3*	*Total*
Gross advances	319 276	81 291	23 893	10 973	1 529 242	1 964 675
Impairment allowance	(33 708)	(33 298)	(9 471)	(5 420)	(1 366 489)	(1 448 386)
Carrying value	285 568	47 993	14 422	5 553	162 753	516 289
Coverage ratio	10,6 %	41,0 %	39,6 %	49,4 %	89,4 %	73,4 %

2020	*Stage 1 CD 0*	*Stage 2 CD 1*	*Stage 2 CD 2*	*Stage 2 CD 3*	*Stage 3*	*Total*
Gross advances	642 959	115 485	38 082	20 939	1 448 681	2 266 146
Impairment allowance	(114 590)	(43 224)	(15 624)	(12 153)	(1 294 230)	(1 479 821)
Carrying value	528 369	72 261	22 458	8 786	154 451	786 325
Coverage ratio	17,8 %	37,4 %	41,0 %	58,0 %	89,3 %	65,3 %

3.1. Forward-looking information

The group considers future economic conditions when determining expected credit losses (ECL). In the current year these include:

- COVID-19,
- Forward looking macro-economic conditions, and
- DebiCheck.

COVID-19 impact on net advances valuations

The revised valuations calculated using historical actual data resulted in reduced collections expectations on all portfolios revealing the impact that the COVID-19 lockdown had on receipting expectations. Data points during the hard lockdown from April 2020 to June 2020 were not taken into consideration in the revaluation due to the abnormal stress experienced over this period.

The Quarterly Labour Force Survey report published by Statistics South Africa indicates an improvement in the employed population in the last quarter of the 2020 calendar year which suggests that a stabilisation is now occurring. This is in line with the expectation from the job loss index that was used as a proxy to determine the impact of COVID-19 on asset valuations at the end of the 2020 financial year.

The group is of a view that moderate levels of GDP growth and employment will continue, driven by a return of international tourism in 2022 and government's infrastructure programme gathering momentum. A further hard lockdown is not considered likely. The current collection rates are regarded as sustainable.

Based on collections performance achieved between December 2020 and January 2021 it does not appear that the increased lockdown levels introduced during the second COVID-19 wave had a negative impact on the collections of the portfolios. The impact of further lock downs of this nature will therefore not be taken into consideration in the calculation of expected credit losses.

The group is of the view that the current impact on the revised valuations at reporting date is sufficient and no further adjustments will be considered for the impact of COVID-19.

Management have identified a further risk relating to merchant stores where Home Finance loans are originated. Since emerging from the lockdown merchants have benefited from an unusual increase in trade which the group believes is not sustainable in future months. A slowdown in sales volumes holds the risk of possible store closure which could have a negative impact on newer loans that have been originated through these stores. A separate provision has been raised for this risk.

3.1 Forward-looking information (continued)

Macro-economic conditions

No significant correlation has been identified between the performance of the net advances portfolios and changes in macro-economic indicators in past financial years. The assessment has not been performed in the current year due to the volatility in asset performance and macro-economic indicators during the current year arising from the impact of the COVID-19 lockdown.

DebiCheck

DebiCheck is a secure debit order payment system that requires electronic bank-side authentication of debit order details at the commencement of a mandate.

Historically approximately 75% of the group's collections have been obtained using the Non-Authenticated Early Debit Order (Naedo) collection mechanism. This mechanism will be replaced by DebiCheck. From 1 May 2021 no new Naedo mandates will be allowed and on 1 November 2021 the Naedo collections mechanism will be decommissioned.

During the transition period to DebiCheck, existing Naedo mandates are allowed to be migrated to the Migrated Naedo mechanism. An interim allowance has also been made for Registered Mandate Services (RMS) which is a registered mandate where a DebiCheck authentication has not been obtained after the authorisation timeframe has expired.

This change from Naedo to DebiCheck is expected to have a negative impact on debt collections.

In assessing the impact of the transition from Naedo, the group has made a conceptual hypothesis that the total rand value collected from customers in the market will remain unchanged throughout the transition to DebiCheck. The processing hierarchy differs per pay mechanism. DebiCheck and Migrated Naedo are collected in the first processing hierarchy whereas RMS and Naedo are deducted in the second payment hierarchy. Success rates on collections in the first payment hierarchy are expected to improve leaving a smaller balance of the collectable amount for collections in the second hierarchy. The mix of deductions between the various mechanisms will therefore determine the net impact, which may be neutral, positive, or negative. A lending business should expect improvement in collection performance on the assumption that loans are only granted to DebiCheck authenticated customers. Conversely, the debt collection industry is expected to be negatively impacted as there is a low incentive for customers to authenticate their debit order, resulting in a higher proportion of customers collecting in the second payment hierarchy under RMS.

Activation roll rate model

The impact of DebiCheck on the collections expectations has been determined using an activations roll rate model. The model determines how the pool of existing paying accounts falls off and how new paying accounts (activations) are created. The collections expectations under the current valuation methodology has been used to determine the activations that are required to meet the collections under the valuation (the base activations). Six-month historic averages have been used to determine the receipting value of the activations and the fall off rates of existing paying accounts.

Collections in the model are split into new receipt activations (activations) and paying accounts (paying pool).

- Activations: These are receipts obtained from clients that have not made a payment in the last three consecutive months. Activations are obtained from outbound and inbound call centre consultants, visitation network agents, SMS campaigns, external debt collectors and from contracts currently under administration or debt review.
- Paying pool: These are accounts from which payment has been received in the last three consecutive months (excluding new activations). The paying pool has been calculated with reference to the prior months paying pool and activation receipts.

Areas where adjustments were applied in the roll rate model

- Different buckets for new activation and fall offs are constructed for the various payment mechanisms as each payment mechanism has different rates of payer activation and fall off rates. The DebiCheck authentication rate determines the activations mix between DebiCheck and RMS.
- The migration of the existing Naedo paying pool has been allocated to the Migrated Naedo payment mechanism over the DebiCheck transition period.
- It has been assumed the performance of the RMS mechanism will deteriorate over the transition period as higher volumes of DebiCheck mandates are loaded onto the banking system.

3.1 Forward-looking information (continued)

- As more collection volumes are transitioned into the DebiCheck system within the banking industry it is expected that system failures will emerge over the implementation period. An implementation risk adjustment has been incorporated into the model over this period.
- The cash flow impact of DebiCheck is calculated as the difference in cash flows between the roll rate model and the statistical and priced cash flows.
- The shortfall between the valuation expectation at March 2023 per the roll rate model will continue at the same rate until the end of the collections curve.

Approach for the calculation for the various portfolios

	COVID-19 impact	*DebiCheck impact*
Acquired debt	Purchases prior to 1 April 2019: The revised valuation cash flow curve run off trajectory has steepened due to the COVID-19 actual data points. This steeper trajectory continues into the future which is considered sufficient. Purchases between 1 April 2019 and 31 March 2020: The portfolios are held at original priced cashflows which include an impairment based on the job loss index as detailed in the prior financial year. Purchases between 1 April 2020 and 31 March 2021: Original priced cash flows have been used.	There is likely to be a negative impact due to low authentication rates resulting in proportionately higher levels of collections in RMS in the second priority window. The activation roll rate model has been used to model the DebiCheck transition impact on un-stressed collections.
Discontinued receivables	The revised valuation cash flow curve run off trajectory has steepened due to the COVID-19 actual data points. This steeper trajectory continues into the future which is considered sufficient. The impairment based on the job loss index has been retained due to the quality of activation stock and uncertainty as the asset class runs off.	There is likely to be a negative impact due to low authentication rates resulting in proportionately higher levels of collections in RMS in the second priority window. The activation roll rate model has been used to model the DebiCheck transition impact on un-stressed collections.
Home Finance - Stage 1	The probability of default (PD) has been updated to incorporate COVID-19 data points. The modelling window has been reduced from 36 to 24 for PDs and loss given default (LGD) to give greater weight to COVID-19 actual data points. A merchant risk exposure provision has been raised based on 1% of stage 1 closing balances.	There is likely to be a positive impact on PDs due to all collections being on DebiCheck which will be within the first payment priority. PDs were therefore adjusted by an implementation risk factor relating to the transition to DebiCheck. LGD curves were adjusted by the Acquired Debt DebiCheck impact.
Home Finance - Stage 2	The LGD curve run off trajectory has steepened due to the COVID-19 actual data points.	There is likely to be a negative impact on recoveries due to reactivations being collected on higher levels of RMS. LGD curves were adjusted by the Acquired Debt DebiCheck impact.
Home Finance - Stage 3	The modelling window has been reduced from 36 to 24 for PDs and LGDs to give greater weight to COVID-19 actual data points.	There is likely to be a negative impact on recoveries due to reactivations being collected on higher levels of RMS. LGD curves were adjusted by the Acquired Debt DebiCheck impact.

Sensitivity to forward-looking information assumptions

The Acquired debt valuation models and Home Finance provision models were updated for historic collections experience during 2020, giving rise to updated Acquired debt valuation collection curves and revised Home Finance PDs and LGDs. The change in provision levels over the prior year also include amortisation of the book and new production during the year.

Figures in Rand thousand

3.1 Forward-looking information (continued)

2021	*Acquired debt*	*Home Finance*	*Total*
Loss allowance			
Historical model	137 477	1 415 041	1 552 518
COVID-19	3 277	10 295	13 572
DebiCheck implementation risk	32 384	19 319	51 703
Merchant store risk	-	3 731	3 731
Forward-looking information (FLI) overlay	35 661	33 345	69 006
	173 138	1 448 386	1 621 524

2020	*Acquired debt*	*Home Finance*	*Total*
Loss allowance			
Historical model	127 916	1 384 741	1 512 657
COVID-19	90 194	85 295	175 489
DebiCheck implementation risk	16 661	2 072	18 733
Macro-economic risk	-	7 713	7 713
Forward-looking information (FLI) overlay	106 855	95 080	201 935
	234 771	1 479 821	1 714 592

Movement in loss allowance	*Acquired debt*	*Home Finance*	*Total*
Historical model	9 561	30 300	39 861
COVID-19	(86 917)	(75 000)	(161 917)
DebiCheck implementation risk	15 723	17 247	32 970
Macro-economic risk	-	(7 713)	(7 713)
Merchant store risk	-	3 731	3 731
Forward-looking information (FLI) overlay	(71 194)	(61 735)	(132 929)
	(61 633)	(31 435)	(93 068)

Valuation sensitivity to parameter estimation error	*Acquired debt*	*Home Finance*	*Total*
FLI sensitivity, provision understatement risk			
COVID-19 overlay			
5% overlay estimation error	164	515	679
Forecast error estimate on DebiCheck parameters			
5% estimation error on all parameters (cumulative)	17 486	7 508	24 994

FLI sensitivity, provision overstatement risk

The model parameters, with limited variation, have a linear impact with an equal and opposite impact on modelled value outcomes when the error estimates are overstated.

3.2. Loans and advances that received financial relief

COVID-19 relief

During the level 5 hard lockdown period the group rolled out debt relief measures for Home Finance customers through the Servicing Call Centre that was operational at the time. Customers were granted a one month payment relief where financial assistance was requested by customers as a result of COVID-19. This relief measure has been treated as a distressed restructure and the staging and coverage have been adjusted in the line with the group’s normal practice.

Figures in Rand thousand	2021	2020

3.2. Loans and advances that received financial relief (continued)

COVID-19 relief	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross advance	1 363	8 191	55 211	64 765
Impairment allowance	(336)	(2 780)	(42 243)	(45 359)
	1 027	5 411	12 968	19 406

Capital holiday

After the hard lockdown up-to-date qualifying customers were offered a one to three month capital holiday to provide financial relief for a limited period of time. These accounts would not go into arrears during the capital holiday period and customers were still required to pay interest and fees during this time. The relief offered to these customers was deemed to be temporary and qualified as a non-distress restructure.

Capital holiday	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross advance	-	32 065	558	32 623
Impairment allowance	-	(10 132)	(417)	(10 549)
	-	21 933	141	22 074

4. Share capital and equity notes

Authorised share capital	2021	2020
1,000,000,000 ordinary shares with no par value	-	-
2,500,000,000 unclassified shares with no par value	-	-
500,000,000 A ordinary shares with no par value	-	-
500,000 B preference shares with no par value	-	-
100,000 C1 preference shares with no par value	-	-
100,000 C2 preference shares with no par value	-	-
	-	-

Issued share capital and Payment-In-Kind (PIK) notes	2021	2020
102,166,387 ordinary shares	-	-
18,029,362 A ordinary shares	-	-
104,217 B preference shares	155 909	155 909
34,626 C1 preference shares	53 567	53 567
9,045 C2 preference shares	74 967	74 967
D PIK notes*	96 600	96 600
E PIK notes*	493 265	493 265
Share premium	434 549	434 549
	1 308 857	1 308 857

* The PIK notes are classified as equity in terms of IFRS.

The holders of ordinary shares and A ordinary shares are entitled to vote at meetings of the shareholder.

The classes of shares have the following ranking:
- The ordinary shares rank after all other classes of shares in the company which do not rank pari passu with the ordinary shares.
- The A ordinary shares rank pari pasu with the ordinary shares.
- The B preference shares rank in priority in all respects to the ordinary shares and the A ordinary shares, but rank behind the D PIK notes, E PIK notes and the C preference shares.
- The C preference shares rank in priority in all respects to all other classes of shares, but rank behind the D PIK notes and the E PIK notes.

Figures in Rand thousand	2021	2020

5. Borrowings

	2021	2020
Held at amortised cost		
Secured loans	915 510	1 033 010
Unsecured loans	325 050	467 855
	1 240 560	1 500 865
Split between non-current and current portions		
Non-current liabilities	928 118	693 700
Current liabilities	312 442	807 165
	1 240 560	1 500 865

The group was required to maintain the following financial covenants at each measurement date (31 March, 30 June, 30 September and 31 December of each financial year):

- Cost to income ratio: Minimum ratio of 68%
- Debt service cover ratio: Minimum of 1.05 times
- Permanent equity to total assets ratio (excluding ring-fenced special purpose entities): Minimum ratio of 22.5% on a measurement date that falls on or before 31 March 2021 and 25% on a measurement date that falls after 31 March 2021 and ends on or before the final maturity date.

During the financial year the impact of COVID-19 became apparent and the lenders were engaged to amend the borrowings and re-negotiate covenants. The Real People Investment Holdings Limited (RPIH) company lenders agreed to a debt standstill agreement from 30 September 2020 to 31 December 2021. The terms of the debt standstill agreement allow a capital payment holiday under the RPIH senior facility agreement from 30 September 2020 to 31 December 2021, inclusive. The RPIH company lenders also granted relevant covenant waivers during the debt standstill agreement. Refer to note 33 for details of the revised terms concluded after reporting date.

The lenders to DMC Evolution (RF) Limited approved a covenant measurement amendment to carve out the COVID-19 debt collections stress from the receipting covenant by using the group's forecast job loss index as a basis for this.

All borrowings in currency other than South African Rands have been fully hedged with cross currency swaps.

Prior to the amendment after reporting date, the Real People Investment Holdings Limited loan repayments were due each quarter until 30 September 2025. The average effective interest rate on the borrowings was 11.0% (2020: 12.7%). Refer to note 30 for the payment profile of the loans.

The fair values of the financial liabilities with variable interest rates approximate carrying value. The fair value of the financial liabilities with fixed interest rates are calculated using the present value of cash outflow at the market rate. The carrying value of fixed rate borrowings is R113.6 million (2020: R178.4 million). Fair value measurements are categorised as level 3 on the fair value hierarchy as the valuation includes unobservable outputs.

Refer to note 26 Changes in liabilities arising from financing activities for details of the movement in the borrowings during the reporting period and note 30 Financial instruments and financial risk management for the fair value of borrowings and risk management disclosure.

The following represents the book value of the security for the secured borrowings:

	2021	2020
Net advances	793 334	912 824
Cash and cash equivalents	335 526	177 513
Motor vehicles	-	622
	1 128 860	1 090 959

Figures in Rand thousand

6. Equipment

	2021			2020		
	Cost	***Accumulated depreciation / impairment***	***Carrying value***	***Cost***	***Accumulated depreciation***	***Carrying value***
Property	295	(100)	195	295	-	295
Furniture and fittings	784	(470)	314	5 501	(4 883)	618
Motor vehicles	4 389	(3 418)	971	8 327	(5 181)	3 146
Office equipment	514	(315)	199	3 346	(2 412)	934
Computer equipment	44 866	(28 751)	16 115	58 315	(51 994)	6 321
Leasehold improvements	832	(764)	68	832	(720)	112
Capital work in progress	-	-	-	7 862	-	7 862
	51 680	(33 818)	17 862	84 478	(65 190)	19 288

Reconciliation of equipment - 2021

	Opening balance	***Additions***	***Disposals***	***Transfers***	***Depreciation***	***Impairment loss***	***Closing balance***
Property	295	-	-	-	-	(100)	195
Furniture and fittings	618	39	(76)	-	(267)	-	314
Motor vehicles	3 146	-	(1 019)	-	(1 156)	-	971
Office equipment	934	13	(516)	-	(232)	-	199
Computer equipment	6 321	10 123	(815)	7 862	(7 376)	-	16 115
Leasehold improvements	112	-	-	-	(44)	-	68
Capital work in progress	7 862	-	-	(7 862)	-	-	-
	19 288	10 175	(2 426)	-	(9 075)	(100)	17 862

Reconciliation of equipment - 2020

	Opening balance	***Additions***	***Disposals***	***Depreciation***	***Closing balance***
Property	295	-	-	-	295
Furniture and fittings	480	453	-	(315)	618
Motor vehicles	5 148	87	(483)	(1 606)	3 146
Office equipment	298	843	-	(207)	934
Computer equipment	7 102	3 622	(49)	(4 354)	6 321
Leasehold improvements	162	-	-	(50)	112
Capital - Work in progress	-	7 862	-	-	7 862
	13 485	12 867	(532)	(6 532)	19 288

The transition to a work from home model for most of the group's workforce and the reduction in the office space utilised following the cancellation or curtailment of office rental agreements meant the disposal of surplus equipment during the year.

7. Leases

The group leases office space for its operations. The leases for the buildings in East London were renegotiated following a reduction in the requirement for office space. The right of use asset and lease liability were derecognised and a new lease arrangement was recognised. The new lease arrangement was measured at the present value of the remaining lease payments discounted at a rate of 10.2% (2020: 13.7%).

Figures in Rand thousand	2021	2020

7. Leases (continued)

Net carrying amount of right-of-use assets

Buildings	5 633	14 099

At reporting date the group expected to continue to occupy the office space in East London for the remaining lease period. The recoverable amount was therefore expected to be the carrying value.

Opening balance	14 099	-
Initial application of IFRS 16 Leases	-	23 971
Depreciation recognised on right-of-use assets	(3 110)	(9 872)
Lease derecognised on lease modification	(11 428)	-
New lease recognised	6 072	-
	5 633	14 099

Other disclosures

Interest expense on lease liabilities	648	2 828
Expenses on short term leases included in operating expenses	5 151	3 492
Leases of low value assets included in operating expenses	26	64
Total cash outflow from leases	8 819	14 730

At 31 March 2021, the group is committed to R88 619 (2020: R0.8 million) for short-term leases representing the amount due under lease agreements at that date.

Lease liabilities

The maturity analysis of lease liabilities is as follows:

Within one year	2 292	10 579
Two to five years	4 308	6 963
	6 600	17 542
Less finance charges component	(883)	(1 917)
	5 717	15 625

8. Deferred tax

Deferred tax for recognised assets or liabilities is attributable to the following:

Advances	(9 273)	-
Provisions	1 341	-
Tax losses available for set off against future taxable income	7 583	-
	(349)	-

Reconciliation of deferred tax for recognised assets or liabilities

At beginning of year	-	14 848
Advances	(9 273)	11 315
Provisions	1 341	-
(Decrease) increase in tax loss available for set off against future taxable income	(3 679)	750
Impairment of deferred tax asset	-	(26 913)
Deferred tax asset not recognised previously now utilised	11 262	-
	(349)	-

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2021	2020

8. Deferred tax (continued)

At beginning of year	-	14 848
Tax charged to profit or loss	(349)	12 065
Impairment of deferred tax asset charged to profit or loss	-	(26 913)
	(349)	-

The policy of the group, as outlined in note 1.3, is to recognise deferred tax assets only to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future based on the latest forecasts or to the extent that it is probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised in the foreseeable future and there is a history of sustainable profitability.

The group has estimated tax losses of R1 198.4 million (2020: R1 069.9 million) that are available indefinitely for offsetting against future taxable profits. These losses have not been recognised on the group statement of financial position.

9. Amount receivable from Old Mutual Alternative Risk Transfer

The group obtained approval from the Prudential Authority, in terms of section 50(4)(a) of the Insurance Act, 2017, on 26 May 2020 to transfer all the assets and liabilities relating to its insurance business into a Cell Captive Arrangement with Old Mutual Alternative Risk Transfer (OMART). The transfer date and cell launch took place on 1 July 2020.

The group invested in the preference shares in the OMART Real People Cell Captive which entitles it to the profits of the insurance business that is housed in the cell.

The group effectively retains underwriting risk due to the variability of underwriting profits. Insurance risk therefore arises and the arrangement is accounted for as an in-substance reinsurance contract issued to OMART. The agreement entitles the group to the net results of the cell. As a result, the group is exposed to the credit quality of OMART as OMART will be required to make payment to the group of the residual interest in the cell on redemption of the preference shares. The reinsurance premiums receivable from OMART and the claims payable to OMART are net settled.

If there is any capital shortfall or deficit in the cell, the group has an obligation to provide additional capital to the cell.

The receivable from OMART is measured at the net asset value of the cell at the end of the reporting period.

OMART Real People Cell Captive preference shares	1 000	-
OMART Real People Cell Captive profit for the year	8 914	-
	9 914	-

Summarised financial information

Summarised statement of financial performance	***OMART Cell Captive***	
	2021	***2020***
Net premium income	63 748	-
Net claims paid	(14 405)	-
Net insurance income	49 343	-
Investment income and expenses	(36 962)	-
Profit before tax	12 381	-
Tax expense	(3 467)	-
Total comprehensive income	8 914	-

Figures in Rand thousand

9. Amount receivable from Old Mutual Alternative Risk Transfer (continued)

Summarised statement of financial position	*OMART Cell Captive* 2021	2020
Assets		
Net outstanding premiums, accrued investment income and other debtors	77	-
Cash and cash equivalents	21 107	-
Total assets	21 184	-
Liabilities		
Gross liabilities in respect of contracts with policyholders *	4 502	-
Other payables	6 768	-
Total liabilities	11 270	-
Total net assets	9 914	-

* The gross liability, calculated per the policy in note 1.11 is summarised as follows:

Incurred-But-Not-Reported (IBNR) liability	4 169	-
Margins	333	-
	4 502	-

Solvency Capital Requirement (SCR)

The SCR is a risk-based measure of required regulatory capital for the Cell Captive. OMART uses the prescribed standardised formula to calculate its SCR and that of each cell. The risk categories incorporated in the standardised formula are market risk, life underwriting risk and operational risk.

- Market risk is the risk of loss arising from the impact of movements in market prices on the value of an insurer's assets and liabilities or of loss arising from the default of the insurer's counterparties.
- Life underwriting risk is the risk of loss arising from insurance obligations, such as from poor claims experience, expense over-runs and policy lapses.
- Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

Each cell captive within OMART is considered a stand-alone entity for SCR. The Real People Cell Captive had a SCR cover ratio of 1.27 at 31 December 2020. There have been no significant changes between 31 December 2020 and 31 March 2021.

10. Investment in associates and joint venture

Name of company	*Nature of investment*	*Ownership interest 2021*	*Ownership interest 2020*	*Carrying amount 2021*	*Carrying amount 2020*
Dorreal Properties Proprietary Limited ("Dorreal")	Joint venture	- %	50,00 %	-	12 176
Imfundo Finance (RF) Limited ("Imfundo")	Associate	- %	45,00 %	-	378
EFS Holdings Proprietary Limited ("EFS Holdings")	Associate	49,00 %	49,00 %	-	-
				-	12 554

The shares in Dorreal were sold to a third party with an effective date of 1 July 2020 for R21.1 million. The agreement included an arrangement whereby the proceeds flowing from the sale of the shares in Dorreal were advanced as loans to RP Views Proprietary Limited and Dorreal which form part of loan receivables disclosed in note 11. Dorreal is a private property company in South Africa which owns one of the buildings from which the group operates.

Figures in Rand thousand

10. Investment in associates and joint venture (continued)

The shares in Imfundo were sold to Aspire Academic Holdings Proprietary Limited, a related party, for an amount of R1.4 million. The agreement included the sale of the Imfundo junior loan. The total purchase consideration, inlcuding the amount for the junior loan, was R6.4 million with repayment terms over 40 months and bearing interest at the prime interest rate. The outstanding purchase price forms part of loan receivables disclosed in note 11.

EFS Holdings is a private company in South Africa who is the sole shareholder of Empower Financial Services Proprietary Limited, a private company that provides rehabilitative loans and financial rehabilitation solutions to overindebted individuals. The investment continues to be held at the impaired value of nil. The original investment was R37.8 million. The group does not have any further obligation for losses. The group's unrecognised share of profit relating to the current financial year amounted to R0.3 million (2020: R1.1 million), however, the cumulative unrecognised share of loss is R7.0 million loss (2020: R7.2 million) and therefore the carrying value remains at nil.

The group has no commitments or contingent liabilities relating to its joint venture and associates.

Summarised financial information of associates and joint venture

2021

Summarised statement of comprehensive income	*Revenue*	*Other income and expenses*	*Tax expense*	*Profit (loss) after tax*	*Total comprehensive income*
EFS Holdings	15 419	(14 814)	-	605	605

Summarised statement of financial position *Assets*	*Non-current assets*	*Cash and cash equivalents*	*Other current assets*	*Total current assets*	*Total assets*
EFS Holdings	8 283	4 823	286	5 109	13 392

Liabilities	*Non-current financial liabilities*	*Total non-current liabilities*	*Other current liabilities*	*Total current liabilities*	*Total liabilities*
EFS Holdings	47 357	47 357	5 708	5 708	53 065

Reconciliation of net assets to investments	*Total net assets*	*Interest % ownership*	*Impairment*	*Loan to associate*	*Investment*
EFS Holdings	(39 673)	(19 440)	(14 914)	34 354	-

Reconciliation of movement in investments	*Opening balance*	*Share of profit*	*Disposals*	*Closing balance*
Dorreal	12 176	2	(12 178)	-
Imfundo	378	-	(378)	-
	12 554	2	(12 556)	-

2020

Summarised statement of comprehensive income	*Revenue*	*Other income and expenses*	*Tax expense*	*Profit after tax*	*Total comprehensive income*
Dorreal	(9 447)	59 642	(4 134)	46 061	46 061
Imfundo	22 964	(13 083)	(2 776)	7 105	7 105
EFS Holdings	14 325	(12 129)	-	2 196	2 196
	27 842	34 430	(6 910)	55 362	55 362

Figures in Rand thousand 2021 2020

10. Investment in associates and joint venture (continued)

Summarised statement of financial position

Assets	***Non-current assets***	***Cash and cash equivalents***	***Other current assets***	***Total current assets***	***Total assets***
Dorreal	27 818	(180)	126	(54)	27 764
Imfundo	6	11 684	34 638	46 322	46 328
EFS Holdings	8 000	6 083	1 044	7 127	15 127
	35 824	17 587	35 808	53 395	89 219

Liabilities	***Non-current financial liabilities***	***Other non-current liabilities***	***Total non-current liabilities***	***Current financial liabilities****	***Total liabilities***
Dorreal	-	5 284	5 284	871	6 155
Imfundo	39 995	-	39 995	1 324	41 319
EFS Holdings	47 949	-	47 949	4 811	52 760
	87 944	5 284	93 228	7 006	100 234

Reconciliation of net assets to investments	***Total net assets***	***Interest % ownership***	***Additional investment in preference shares***	***Impairment***	***Loan to associate***	***Investment***
Dorreal	21 609	10 805	37 097	(35 726)	-	12 176
Imfundo	5 009	2 254	-	(1 876)	-	378
EFS Holdings	(37 633)	(18 440)	-	(15 914)	34 354	-
	(11 015)	(5 381)	37 097	(53 516)	34 354	12 554

Reconciliation of movement in investments	***Opening balance***	***Dividends received***	***Share of profit (loss)***	***Closing balance***
Dorreal	27 128	-	(14 952)	12 176
Imfundo	950	(1 890)	1 318	378
	28 078	(1 890)	(13 634)	12 554

11. Other receivables

	2021	2020
Financial instruments:		
Sundry receivables	11 256	6 933
Staff loans and advances	366	383
Loan receivables	10 411	4 033
Non-financial instruments:		
Prepayments and deposits	4 228	4 008
	26 261	15 357

Loan receivables include new loans to RP Views Proprietary Limited, Dorreal Properties Proprietary Limited and Aspire Academic Holdings Proprietary Limited following the sales outlined in note 10 above. The closing balance of the loans are R3.7 million, R1.9 million and R4.4 million respectively.

Categorisation of trade and other receivables

Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments:

	2021	2020
At amortised cost	22 033	11 349
Non-financial instruments	4 228	4 008
	26 261	15 357

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2021	2020

12. Derivatives

Hedging derivatives		
Cross currency swaps	3 847	13 700
Cash collateral asset	15 000	15 000
	18 847	28 700

The cross currency swaps above are classified as level 3 on the fair value hierarchy as they are specifically designed to match the terms of the loan. Financial assets at fair value through profit or loss are recognised at fair value.

The group relies on the valuation from the counterparty in the measurement of the derivatives.

The group has made cash collateral payments to the swap counterparty to compensate the counterparty for credit risk in terms of the contract.

Reconciliation of financial assets and liabilities classified as level 3		
Opening balance	28 700	11 891
Recognised in other comprehensive income	(9 853)	16 809
	18 847	28 700

13. Cash and cash equivalents

Bank balances	52 175	58 150
Investments in money market funds	374 570	268 377
Cash on hand	48	73
	426 793	326 600

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, investments in money market investment funds and cash at bank. The average return earned on these balances was 4.5% (2020: 7.0%). The cash and cash equivalents with a carrying value of R355.5 million (2020: R208.8 million) in special purpose entities are not available for use by the group.

Credit quality

The risk appetite for counterparty risk on investment in cash is low. In terms of the group's Cash Investment Policy, cash may only be invested with a pre-approved recognised commercial bank or in a fund with a pre-approved service provider that has a rating of F1+/AA- or higher. All deposits and investments are held with reputable financial institutions.

The credit quality of cash at bank and short-term deposits can be assessed by reference to external credit ratings:

Credit rating		
AA+ *	4 333	24 578
Aa1.za**	52 175	-
AA *	264 031	243 799
AA-	106 206	-
Ba1 **	-	58 150
	426 745	326 527

Rating scale::
* Global Credit Rating ** Moody's

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2021	2020

14. Provisions

Reconciliation of provisions - 2021

	Opening balance	Additions	Utilised during the year	Interest	Closing balance
Bonus provision	2 001	4 992	(6 993)	-	-
Incentive provision	5 917	10 463	(3 078)	167	13 469
	7 918	15 455	(10 071)	167	13 469

Reconciliation of provisions - 2020

	Opening balance	Additions	Utilised during the year	Reversed during the year	Interest	Closing balance
Bonus provision	1 987	8 997	(8 983)	-	-	2 001
Incentive provision	22 613	4 709	(20 119)	(1 472)	186	5 917
	24 600	13 706	(29 102)	(1 472)	186	7 918

The group has traditionally paid a discretionary annual personal performance bonus in December to qualifying employees. COVID-19 has impacted the operating environment of the business which has led to the group implementing a wide range of cost saving measures to ensure sustainability. This included a variable personal performance pay which replaces the discretionary annual bonus system.

15. Trade and other payables

	2021	2020
Financial instruments:		
Trade payables	6 394	3 912
Accrued leave pay	8 947	8 522
Accrued expenses	17 777	18 687
Non-financial instruments:		
VAT	4 353	2 743
	37 471	33 864

16. Revenue

	2021	2020
Revenue from contracts with customers		
Outsourced collection income	45 556	54 951
Revenue other than from contracts with customers		
Interest and similar income	539 905	715 409
Net insurance premiums (refer to note 18)	88 655	105 450
	628 560	820 859
	674 116	875 810

17. Gross yield from assets

	2021	2020
Interest and similar income	539 905	715 409
Net assurance income - credit life	44 170	55 124
	584 075	770 533

Figures in Rand thousand	2021	2020

18. Net insurance income

Credit life	44 170	55 124
Funeral benefits	23 518	32 721
	67 688	87 845
Net insurance premiums		
Premiums received	90 466	107 724
Premiums paid to reinsurers	(1 811)	(2 274)
	88 655	105 450
Net insurance benefits		
Insurance benefits	(21 437)	(18 385)
Insurance benefits recovered from reinsurers	470	780
	(20 967)	(17 605)
	67 688	87 845

19. Other income

Profit on sale of investments	11 442	-
Profit on sale of plant and equipment	587	320
Administration fees received	6 902	8 710
Gain on derecognition of right-of-use asset	1 558	-
Reversal of impairment loss on trade and other receivables	1 024	-
Other income	977	865
	22 490	9 895

20. Operating profit (loss)

Operating profit (loss) for the year is stated after charging the following, amongst others:

Auditor's remuneration - external		
Audit fees	5 100	6 158
Adjustment for previous year overruns	2 238	-
Other consultation services	97	160
Expenses	3	308
	7 438	6 626
Employee costs		
Remuneration	203 784	247 887
Retirement benefit plans: defined contribution expense	4 292	11 724
Termination benefits	14 271	1 467
	222 347	261 078
Depreciation and amortisation		
Depreciation of equipment	9 076	6 532
Depreciation of right-of-use assets	3 110	9 872
Amortisation of intangible assets	348	1 150
	12 534	17 554
Other		
Loss on plant and equipment written off	1 114	-

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2021	2020

21. Finance costs

	2021	2020
Borrowings	141 591	197 636
Lease liabilities	648	2 828
Tax authorities	17	923
	142 256	201 387

22. Foreign exchange gains

	2021	2020
(Loss) gain on derivatives	(5 103)	16 212
Gain (loss) on restatement of borrowings	6 523	(15 850)
	1 420	362

23. Income tax expense

Major components of the tax expense

	2021	2020
Current		
Income tax - current period	7 025	8 783
Income tax - OMART Cell Captive	3 467	-
Income tax - recognised in current tax for prior periods	(7 145)	-
	3 347	8 783
Deferred		
Originating and reversing temporary differences	349	(12 065)
Impairment of deferred tax asset	-	26 913
	349	14 848
	3 696	23 631

Reconciliation of the tax expense

	2021	2020
Applicable tax rate	28,00 %	28,00 %
Tax losses not raised as deferred tax assets	9,20 %	(25,39)%
Impairment of deferred tax assets	- %	(11,54)%
Deferred tax asset not recognised previously now utilised	(30,67)%	- %
Exempt income	(5,25)%	0,69 %
Legal and consulting fees not deductible	0,29 %	(0,28)%
Other expenses not deductible for tax purposes	0,38 %	(0,12)%
Expenditure not incurred in the production of income from trade	1,50 %	(0,98)%
Prior year adjustments	(0,16)%	(0,50)%
Average effective tax rate	3,29 %	(10,12)%

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2021	2020

24. Cash generated from operations

	2021	2020
Profit (loss) before taxation	112 327	(233 165)
Adjustments for:		
Depreciation and amortisation	12 534	17 554
Gains on disposal of equipment	(587)	(320)
Gain on sale of investments	(11 442)	-
Loss on plant and equipment written off	1 114	-
Gains on foreign exchange	(1 420)	(362)
(Income) loss from equity accounted investments	(2)	13 633
Finance costs	142 256	201 386
Impairment (reversal) loss on trade and other receivables	(1 024)	5 021
Gain on lease modification	(1 558)	-
Movements in provisions	5 551	(16 682)
Interest and fees charged to debtors	(583 203)	(778 866)
Impairment (reversal) expense	(3 080)	399 299
Profit before tax from OMART Cell Captive (refer to note 9)	(12 381)	-
Changes in working capital:		
Other receivables	3 227	6 389
Trade and other payables	3 641	(8 580)
Origination of advances	(146 554)	(649 932)
Purchase of advances	(165 545)	(185 279)
Receipts from advances	1 146 609	1 368 702
	500 463	138 798

25. Tax paid

	2021	2020
Opening balance	(5 232)	(9 417)
Current tax for the year recognised in profit or loss	(3 347)	(8 783)
OMART Cell Captive tax charge	3 467	-
Interest	(10)	(923)
Closing balance	(2 248)	5 232
	(7 370)	(13 891)

The tax charge for the OMART Cell Captive is included in current tax recognised in profit or loss but the tax liability is included in the equity accounted receivable disclosed in note 9.

26. Changes in liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities - 2021

	Opening balance	*Lease derecog-nition*	*Interest*	*Fair value changes*	*New leases*	*Total non-cash movements*	*Cash flows*	*Closing balance*
Borrowings	1 500 865	-	-	(10 927)	-	(10 927)	(249 378)	1 240 560
Lease liabilities	15 625	(12 987)	649	-	6 072	(6 266)	(3 642)	5 717
	1 516 490	(12 987)	649	(10 927)	6 072	(17 193)	(253 020)	1 246 277

Reconciliation of liabilities arising from financing activities - 2020

	Opening balance	*Interest expense*	*Fair value changes*	*New leases*	*Total non-cash movements*	*Cash flows*	*Closing balance*
Borrowings	1 493 776	-	14 492	-	14 492	(7 403)	1 500 865
Lease liabilities	-	2 828	-	23 971	26 799	(11 174)	15 625
	1 493 776	2 828	14 492	23 971	41 291	(18 577)	1 516 490

Figures in Rand thousand	2021	2020

27. Contingencies

African Frontier Capital (Proprietary) Limited (AFC) provided treasury services to the company during and prior to the 2018 financial year. AFC represents a "Personal Services Provider" as defined in paragraph 1 of the Fourth Schedule of the South African Income Tax Act and accordingly employees' tax should have been deducted from amounts paid and paid over to the South African Revenue Services (SARS). A letter requesting absolution has been submitted to SARS but no response has to date been received. SARS has not been prejudiced as the employees tax has been paid over to SARS by African Frontier Capital (Proprietary) Limited. The estimated potential liability is R4.5 million for which the company has a concomitant claim against AFC.

28. Related parties

Relationships

Shareholders with 5% or more voting rights	Ninety One SA Proprietary Limited (formerly Investec Asset Management Proprietary Limited) The Real People Incentive Trust Norwegian Investment Fund for Developing Countries Izabelo SEK B.V Izabelo NOK B.V BIFM Capital Investment Fund No.1 Proprietary Limited National Housing Finance Corporation (SOC) Limited Blockbuster Trading 3 Proprietary Limited
Directors	N Grobbelaar DJ Munro N Thomson PG de Beyer DTV Msibi RR Buddle
Subsidiaries and special purpose entities	Refer to note 32
Joint venture and associate	Refer to note 10

Related party balances

	2021	2020
Borrowings owing to shareholders with voting rights of 5% or greater		
Ninety One SA Proprietary Limited	105 948	149 921
Norwegian Investment Fund for Developing Countries	29 147	41 244
BIFM Capital Investment Fund No.1 Proprietary Limited	33 362	52 751
	168 457	243 916
Amounts included in trade receivables regarding related parties		
Imfundo Finance (FR) Limited*	-	5 034
Stratcap Funding Proprietary Limited (fully impaired)*	3 424	3 424
IQ Academy Proprietary Limited*	415	443
Aspire Academic Holdings Proprietary Limited*	4 397	-

Related party transactions

	2021	2020
Interest accrued to related parties		
Ninety One SA Proprietary Limited	14 095	23 927
Norwegian Investment Fund for Developing Countries	3 878	6 582
BIFM Capital Investment Fund No.1 Proprietary Limited	4 796	5 821
	22 769	36 330
Services to (from) related parties		
Administrative fees received from IQ Academy Proprietary Limited*	3 726	3 989
Administrative fees received from Imfundo Finance (RF) Limited*	3 159	4 360
Rent paid to related parties	(6 452)	(10 024)

Figures in Rand thousand

28. Related parties (continued)

	2021	2020
Sale to related party		
Sale of shares and junior loan in Imfundo Finance (FR) Limited to Aspire Academic Holdings Proprietary Limited*	6 472	-

* related party as there is a common director

29. Directors' emoluments

The key management of the company are the directors whose remuneration is reflected below.

Executive

2021

	Salaries	***Other benefits***	***Total***
N Grobbelaar	3 289	101	3 390
DJ Munro	2 252	71	2 323
	5 541	172	5 713

2020

	Salaries	***Incentive bonus - 2019***	***Incentive bonus - 2018***	***Other benefits***	***Total***
N Grobbelaar	3 676	1 477	1 339	207	6 699
DJ Munro	2 541	802	-	171	3 514
	6 217	2 279	1 339	378	10 213

Incentive bonuses are approved by the Group Remuneration Committee each year after reporting date. The amounts reflected above are the vested amounts paid to the directors in the current year based on performance in prior financial years and exclude deferred amounts not yet vested.

Other benefits include provident fund contributions.

Service contracts

All executive directors are subject to written employment agreements.

Figures in Rand thousand

29. Directors' emoluments (continued)

Non-executive

2021

	Directors' fees	*Committee fees*	*Directors' fees for services as directors of subsidiaries*	*Total*
NW Thomson	657	268	-	925
PG de Beyer	329	254	-	583
K Hopkins	249	219	-	468
DTV Msibi	329	124	43	496
RR Buddle	269	142	-	411
	1 833	1 007	43	2 883

2020

	Directors' fees	*Committee fees*	*Directors' fees for services as directors of subsidiaries*	*Total*
NW Thomson	701	302	-	1 003
PG de Beyer	351	273	-	624
K Hopkins	351	309	-	660
DTV Msibi	351	132	89	572
	1 754	1 016	89	2 859

30. Financial instruments and risk management

Categories of financial instruments

2021

	Notes	*Fair value through profit or loss*	*Amortised cost*	*Total*	*Fair value*
Net advances	3	-	1 066 354	1 066 354	1 411 701
Derivatives	12	18 847	-	18 847	18 847
Other receivables	11	-	22 033	22 033	22 033
Cash and cash equivalents	13	-	426 793	426 793	426 793
Borrowings	5	-	(1 240 560)	(1 240 560)	(1 243 973)
Trade and other payables	15	-	(33 117)	(33 117)	(33 117)
		18 847	241 503	260 350	602 284

2020

	Notes	*Fair value through profit or loss*	*Amortised cost*	*Total*	*Fair value*
Net advances	3	-	1 314 580	1 314 580	1 660 292
Derivatives	12	28 700	-	28 700	28 700
Other receivables	11	-	11 349	11 349	11 349
Cash and cash equivalents	13	-	326 600	326 600	326 600
Borrowings	5	-	(1 500 865)	(1 500 865)	(1 488 210)
Trade and other payables	15	-	(31 121)	(31 121)	(31 121)
		28 700	120 543	149 243	507 610

Figures in Rand thousand

30. Financial instruments and risk management (continued)

Capital risk management

The company's objective when managing capital is to safeguard the company's ability to continue as a going concern to provide returns to shareholders and sustainable benefits for other stakeholders.

The group is required to maintain a Permanent Capital to Total Adjusted Assets ratio as outlined in note 7.

- Permanent Capital means total equity less reserves for cash flow hedges, gains or losses from hedging arrangements which have been included in the income statement since 31 March 2017, equity in non-recourse funding special purpose vehicles, equity in Real People Assurance Company Limited, any junior loan granted by any member of the group to a non-recourse funding special purpose vehicle, any deferred tax asset and any intangible asset.
- Total adjusted assets means the total consolidated assets of the group less cash, any deferred tax assets, the total assets in non-recourse funding special purpose vehicles, the total assets of Real People Assurance Company Limited and any intangible asset.

The ratio is 51.3% at 31 March 2021 (2020: 23.3%) which is above the minimum requirement of 22.5% for this period.

Financial risk management

Overview

The board of directors has overall oversight for the establishment of the group's risk management framework. The board has delegated certain of its functions to committees but recognises that it retains ultimate oversight for the effective performance of the functions so delegated.

- The Audit Committee is responsible for overseeing external and internal audit, the financial statements and accounting practices and internal financial control.
- The Risk Committee is responsible for reviewing the adequacy and overall effectiveness of the group's risk management agenda.
- The channel Credit and Pricing Committees are responsible for the management of credit risk for net advances.

The aim of the committees is to assist the board in the execution of its duties by making recommendations on a variety of issues within a framework of defined terms of reference that have been agreed with the board.

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The maximum exposure to credit risk is presented in the table below:

			2021			2020	
	Notes	***Gross carrying amount***	***Credit loss allowance***	***Amortised cost / fair value***	***Gross carrying amount***	***Credit loss allowance***	***Amortised cost / fair value***
Net advances	3	2 687 878	(1 621 524)	1 066 354	3 029 172	(1 714 592)	1 314 580
Other receivables	11	22 033	-	22 033	11 349	-	11 349
Derivatives	12	18 847	-	18 847	28 700	-	28 700
Cash and cash equivalents	13	426 793	-	426 793	326 600	-	326 600
		3 155 551	(1 621 524)	1 534 027	3 395 821	(1 714 592)	1 681 229

Refer to the notes specific to the exposures in the table above, for additional information concerning credit risk.

Figures in Rand thousand

30. Financial instruments and risk management (continued)

Liquidity risk

The business model of the group is to finance relatively short-term assets with long-term liabilities, necessarily creating a liquidity mismatch. Monitoring and reporting takes the form of cash flow projections for the next week and next month as well as long term cash flow forecasting and an ongoing review of future commitments and credit facilities taking into account restrictions on cash flows between individual companies.

The group's short term liquidity policy requires that, at any point in time, the group has sufficient liquidity to honour all fixed payment commitments during the following three-month period. Origination volumes over the three month period are to be maintained at a level to ensure that all contractual payment commitments can be made during the period. Extensive forecasting is maintained to monitor the group's ability to comply with this policy.

The group is required to maintain a minimum debt service cover ratio of 1.05 as outlined in note 7. The debt service cover ratio is the ratio of free cash flow to debt service in respect of 12 months measured retrospectively every quarter. The ratio at 31 March 2021 is 1.35 (2020: 1.06).

The cash flows for the non-recourse funding special purpose entities are managed separately and in terms of the transaction documents agreed when each entity was established.

The table below analyses the group's assets and liabilities into relevant maturity buckets based on the remaining contractual period at reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows for liabilities and expected receipts from assets on a non-cumulative basis.

2021

	1 to 3 months	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets	681 364	658 182	1 484 986	191 655	3 016 187
Liabilities	(98 638)	(315 061)	(1 003 245)	(1 372)	(1 418 316)
	582 726	343 121	481 741	190 283	1 597 871

2020

	1 to 3 months	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets	570 880	807 272	2 035 558	92 650	3 506 360
Liabilities	(180 721)	(435 322)	(1 159 893)	(8 393)	(1 784 329)
	390 159	371 950	875 665	84 257	1 722 031

Tax risk management

The group has established a framework to govern the management of tax throughout the group. The group seeks to be efficient in its tax affairs and ensures that tax planning is built on sound, commercially viable transactions. The tax strategy is to comply with the legal requirements of the tax law, in a manner that ensures that it pays the right amount of tax while creating the highest possible sustainable shareholder value. The group is committed to act responsibly in relation to its tax affairs and to fulfil its compliance and disclosure obligations in accordance with all relevant laws. The group also strives to have and maintain transparent and constructive relationships with tax authorities.

30. Financial instruments and risk management (continued)

Foreign currency risk

The company is exposed to foreign currency risk as a result of borrowings which are denominated in foreign currencies. The group's foreign currency risk management policy requires that the currency exposure arising from foreign currency debt is hedged via the execution of cross currency hedging instruments with suitably rated swap counterparts. The business rationale of hedging the foreign exchange risk is to manage:

- The risk of volatility in the group's statement of profit or loss due to the effects of foreign exchange gains and loss.
- The risk that movements in foreign exchange influence the group's cash flow adversely due to capital and interest payments increasing.

Exposure in Rand

It is the group's strategy to hedge the foreign currency denominated borrowings in its entirety for foreign currency risk. The net carrying amounts, in Rand, of the various exposures, are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amounts at the closing rate at the reporting date.

	2021	2020
Norwegian Krona	41 847	57 825
Swedish Krona	52 593	78 132
Botswana Pula	33 362	52 751
	127 802	188 708

Exposure in foreign currency amounts

The net carrying amounts in foreign currency of the above exposure was as follows:

	2021	2020
Norwegian Krona (NOK'000)	24 188	34 227
Swedish Krona (SEK'000)	31 079	43 978
Botswana Pula (BWP'000)	24 921	35 264

Exchange rates

The following closing exchange rates were applied at reporting date:

	2021	2020
Rand per unit of foreign currency:		
Norwegian Krona	0,578	0,592
Swedish Krona	0,591	0,563
Botswana Pula	0,747	0,669

Foreign currency sensitivity analysis

The sensitivity of the derivatives, designated as hedging instruments, to foreign exchange rate movements was calculated using the average balance since inception of the swaps. If the Rand strengthens by 1% to the three loan currencies the swap values will decrease by R3.3 million (2020: R3.9 million).

Interest rate risk

The group originates a combination of floating and fixed yielding instruments. The fixed yielding acquired debt portfolios are valued at their original effective interest rates using collections forecasts whereas the originated performing loan books are valued at amortised cost and most of these loans are floating rate loans. The group has sufficiently matched floating rate loans with floating rate liabilities which limits the extent of short-term interest rate risk in earnings.

The interest rate component of the total yield on performing loans is charged up to the maximum rate permitted by the National Credit Act. The cash instalment on originated loans is fixed so that an increase in the variable interest rate results in maturity extension rather than an increase in instalment and therefore the cash flows on these assets behave more like fixed interest rate assets except for the resulting maturity extension if rates increase.

Interest rate profile

The interest rate profile of interest-bearing financial instruments at the end of the reporting period was as follows:

Figures in Rand thousand

30. Financial instruments and risk management (continued)

Interest rate sensitivity analysis

Interest rate risk is assessed by measuring the impact of changes in interest rates on net interest income, that is the difference between the total interest income and the total interest expense associated with floating rate assets and liabilities.

The sensitivity analysis includes only financial instruments exposed to floating rate mismatch risk at the reporting date.

The table below illustrates the sensitivity of profit before tax to an increase of 50 basis points. The sensitivity of 50 basis points represents management's assessment of the reasonably possible change in interest rates over the next financial year. This assumes that floating rate liabilities will reprice at their next repricing date with assets repricing immediately. All other variables remain constant. The sensitivity analysis includes only financial instruments exposed to interest rate risk which were recognised at the reporting date.

2021	***3 months***	***6 months***	***12 months***	***24 months***
Cumulative profit (loss): 50 basis points increase				
Home Finance - Performing loans	582	1 163	2 327	4 653
Cash and cash equivalents	533	1 067	2 134	4 268
Home Finance - Non-performing loans	(523)	(523)	(523)	(523)
Additional interest income on assets	592	1 707	3 938	8 398
Additional interest expense on liabilities	(494)	(1 889)	(4 741)	(10 401)
	98	(182)	(803)	(2 003)

2020	***3 months***	***6 months***	***12 months***	***24 months***
Cumulative profit (loss): 50 basis points increase				
Home Finance - Performing loans	1 073	2 147	4 294	8 588
Cash and cash equivalents	408	816	1 633	3 266
Home Finance - Non-performing loans	(437)	(437)	(437)	(437)
Additional interest income on assets	1 044	2 526	5 490	11 417
Additional interest expense on liabilities	(410)	(1 855)	(4 848)	(11 304)
	634	671	642	113

The table below illustrates the sensitivity of cash flow in the above scenario.

2021	***0-3 months***	***4-6 months***	***7-12 months***	***13-24 months***
Cash flow impact for the period: 50 basis points increase				
Net advances	-	-	-	-
Cash and cash equivalents	533	1 067	2 134	4 268
Fixed rate assets	-	-	-	-
Borrowings	(36)	(1 299)	(4 124)	(9 820)
	497	(232)	(1 990)	(5 552)

2020	***0-3 months***	***4-6 months***	***7-12 months***	***13-24 months***
Cash flow impact for the period: 50 basis points increase				
Net advances	-	-	-	-
Cash and cash equivalents	408	816	1 633	3 266
Fixed rate assets	-	-	-	-
Borrowings	(36)	(1 646)	(4 959)	(11 813)
	372	(830)	(3 326)	(8 547)

Figures in Rand thousand

30. Financial instruments and risk management (continued)

Insurance risk

The Cell Captive issues contracts that transfer insurance risk. The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insured contract, this risk is random and therefore unpredictable. Refer to note 9 for further detail on the Cell Captive.

31. Segmental information

The presentation of segment information corresponds to the current operational and management-related structure of the group.

Reportable segment	***Products and services***
Home Finance channel	Provides credit and related financial services (credit life cover) to customers of building supply merchants.
Acquired Debt channel *	Purchases non-performing loan portfolios and provides debt collection solutions to credit providers. Owns and collects the discontinued receivables of the group.
Outsourced Collections channel*	Collects outstanding debt on the behalf of corporate outsourced clients.
RP Life channel	Provides a variety of funeral, disability and loss of income benefits to customers. This channel previously operated from a licenced insurance provider and was known as the Assurance channel. It now operates within a Cell Captive and is known as RP Life.

Although the Outsourced collections and RP Life channels do not meet the quantitative thresholds required by IFRS 8 in the current year, management have concluded that this segment should be reported, as it is closely monitored by Core Exco as a potential growth area and is expected to materially contribute to company revenue in future.

* In the prior year the Acquired Debt and Outsourced collections operating segments were combined in the DMC division.

Segmental revenue and results

Core Exco assesses the performance of the operating segments based on the measure of contribution to the central cost centres and head office costs. This measure excludes the effects of non-recurring expenditure from the operating segments such as restructure costs and impairments when the impairment is the result of a non-recurring event. The measure also excludes the effects of income tax expense as this is managed by the central team for each legal entity within the group.

2021

	Net yield	***Other income***	***Total income after impairments***	***Profit (loss) before tax***	***Interest expense***
Home Finance	261 570	150	261 720	123 665	(79 605)
Acquired Debt	322 975	-	322 975	160 815	(67 221)
Outsourced Collections	-	45 649	45 649	15 675	-
RP Life	732	23 518	24 250	7 288	(11)
Channel total	585 277	69 317	654 594	307 443	(146 837)
Reconciling items					
Central cost centres and head office functions				(195 116)	
Profit before tax				112 327	

Figures in Rand thousand

31. Segmental information (continued)

2020

	Net yield	*Other income*	*Total income after impairments*	*Profit (loss) before tax*	*Interest expense*
Home Finance	204 051	80	204 131	(16 116)	(118 107)
Acquired Debt	163 291	-	163 291	(62 380)	(87 910)
Outsourced Collections	-	54 855	54 855	16 139	-
RP Life	929	32 721	33 650	15 372	-
Channel total	368 271	87 656	455 927	(46 985)	(206 017)
Reconciling items					
Central cost centres and head office functions				(186 180)	
Loss before tax				(233 165)	

Segment assets and liabilities

2021

	Total assets	*Total liabilities*
Home Finance	676 514	(645 801)
Acquired Debt	841 856	(884 017)
RP Life	13 726	(17 427)
Channel total	1 532 096	(1 547 245)
Reconciling items		
Central cost centres and head office functions	46 698	244 797
Total as per consolidated statement of financial position	1 578 794	(1 302 448)

2020

	Total assets	*Total liabilities*
Home Finance	938 542	(887 191)
Acquired Debt	704 712	(597 631)
RP Life	31 751	(36 530)
Channel total	1 675 005	(1 521 352)
Reconciling items		
Central cost centres and head office functions	56 560	(42 152)
Total as per consolidated statement of financial position	1 731 565	(1 563 504)

32. Group structure

The audited consolidated annual financial statements include the results of Real People Investment Holdings Limited and all its subsidiaries and special purpose entities as well as its equity accounted investments as disclosed in notes 9 and 10. The country of incorporation and principal place of business for all the entities within the group is South Africa.

The principal operating subsidiaries are as follows:

Name of company	*% holding 2021*	*% holding 2020*
Opco 365 Proprietary Limited	100,00 %	100,00 %
Real People Assurance Company Limited	100,00 %	100,00 %

Real People Assurance Company Limited is no longer trading and is earmarked for deregistration following the transfer of the insurance business as outlined in note 9.

Special purpose entities

The entities listed below are special purpose entities controlled by the group.
- Umuzi Finance (RF) Limited;
- DMC Evolution (RF) Proprietary Limited; and
- Real People Home Improvement Finance (RF) Proprietary Limited.

Real People Home Improvement Finance (RF) Proprietary Limited has reached the end of its useful life and it is the intention of the directors to find a suitable solution to wind up the company.

33. Events after the reporting period and going concern

Forecast process

Management have prepared a detailed bottom-up four year budget and cash flow forecast for the period through to 31 March 2025. This forecast formed the basis of renegotiating terms with the Real People Investment Holdings Limited (RPIH) lenders. This forecast was approved by management and the board.

The directors confirm that the budget is based on sound principles and that the assumptions underpinning its preparation are reasonable. This includes consideration of:
- Forecast economic indicators that could emerge in South Africa over the medium to long term.
- Solvency and liquidity requirements post restructure and the group's ability to raise funding through special purpose entities.
- Assessments under plausible stress events and the effects this would have on the covenant levels negotiated.

In arriving at this budget, management and the board have assumed that:
- Significantly lower asset origination levels based on more conservative funding volumes in the group's funding special purpose entities compared to past experience.
- A return to more normal yields following improvement in collections during 2021 and 2022.
- Decreased operating expenses following the cost rationalisation process included a leadership restructure and organisation design change.
- Lower finance costs on account of amortising debt and lower base rates after recent repo rate cuts.
- Lender appetite in the debt capital market is likely to be tentative initially until the economy normalises. The group's funding special purpose entities are forecast to be used for meeting the asset origination requirements.
- Finalisation of the amended debt amortisation profile and revised covenants.

The RPIH Lenders will continue to engage the company on a quarterly basis to assess company forecasts and operating cash flow to determine whether early payments of capital can be made if the company generates more cashflow than the base case forecast used for the loan amendment agreement. This process is structured in a manner that does not put the company's going concern at risk at each early payment date.

33. Events after the reporting period and going concern (continued)

Consideration of forecast covenants

The group will be subject to revised financial covenants. Amendments are as follows.

1) Permanent Capital to Total Assets Ratio
- Updated ratio including net junior investment as part of total assets instead of impairing the equity by the junior investment, as is currently the case.
- Updated covenant levels: 22.5% up to 31 March 2021 and 25% from 30 June 2021 onwards.

2) Cost to income ratio
- Covenant waiver up to and including 31 March 2021.
- Updated ratio to exclude once-off impairments/revaluations, restructure and retrenchment costs.
- Updated covenant levels: 74% up to and including 30 September 2023; 73% from 31 December 2023 up to and including 30 June 2024; and 72% from 30 September 2024 onwards..

3) Debt service coverage ratio
- This covenant has been replaced by a minimum on balance sheet cash covenant of R20.0 million per quarter end.

4) Minimum on-balance sheet cash and cash equivalents
- To simplify the cashflow covenant and align it with the dynamics of the business as an early warning indicator the cash covenant replaced the debt service cover ratio with effect from 30 June 2020. A minimum cash and cash equivalents balance of R20 million will be required on-balance sheet (excluding ring-fenced special purpose entity balances).

The forecast impact for receipting stress was assessed, in light of the above re-negotiated terms, by performing assessments of estimation error to confirm that there is sufficient buffer with which to reasonably mitigate a covenant breach during the period of the standstill agreement.

In considering the stress to be applied the directors considered the following over the going concern test horizon:
- Collections lower than expected,
- Funding raised and commensurately asset origination in the special purpose entities lower than expected,
- The impact of junior note investments to support forecast covenant breach remedies in Umuzi Finance (RF) Limited as well as junior note investments in DMC Evolution (RF) Limited to support funding raising activity in that company.

The trading environment remains challenging and therefore the directors have considered the headroom in terms of the covenants, relevant waivers obtained from the respective lenders in place and confirm that the group has adequate headroom to cover forecast estimation risks within reasonable levels. Such assessments include an assessment of the ability of RPIH to invest the required junior investments in special purpose entities with which to support special purpose entities covenant compliance and new fund-raising activities.

The covenants relevant to maintain ongoing funding in the active special purpose entities are as follows:

DMC Evolution (RF) Limited
- Receipting relative to original priced receipting, as amended during September 2020

Umuzi Finance (RF) Limited
- Long term liquidity covenant
- Excess spread covenant
- Cash reserve undertaking, being junior note funding to offset the excess spread shortfall

Liquidity and funding

The securitisation special purpose entities will rely on the group to provide junior investment facilities to maintain their covenant compliance status or to support funding requirements. RPIH has sufficient resources during the next 12 months, in light of the company Lenders' support and the investment proposal procedure allowed under the senior facility agreement, to invest the necessary junior capital investments required to maintain the active special purpose entities, Umuzi Finance (RF) Limited and DMC Evolution (RF) Limited.

The forecast demonstrated that the group, Umuzi Finance (RF) Limited and DMC Evolution (RF) Limited are able to pay their liabilities as they fall due and are not likely to breach loan covenants during the going concern horizon.

33. Events after the reporting period and going concern (continued)

Compliance and regulatory matters

The group is subject to a number of regulatory and taxation regimes. As described in note 1.3 to the financial statements, the group has submitted its application to SARS for a ruling as this pertains to doubtful debt allowances on stage 3 impairment provisions under section 11(j) of the Income Tax Act. This remains pending at the time of signing these financial statements. The group has taken external tax advice on its positions and the directors confirm that there is no reason to believe that the group will not be successful in its application.

Outcomes on the timing and solutions implemented for new authenticated collections regulations involves ongoing project management between various industries and the banking industry. In the group's forecast, this process is assumed to deliver fair outcomes for non-bank financial institutions in the collections industry. The group's asset valuations and product pricing incorporate receipting haircuts for the impact of the transition to authenticated collections.

Going concern conclusion

Based on these group forecasts, which included the effect of the internal restructure, capital payment holiday, rescheduled senior debt maturity and covenant waivers, the directors assessed the going concern of the group. The directors also considered the liquidity and funding position of the group following the implementation of the loan amendments.

The directors confirm that in light of the debt amendments, and considering the group's current trading position, forecasts and expected funds to be raised, the directors believe that the group will be able to comply with its financial covenants and be able to meet its obligations as they fall due and accordingly have formed a judgement that it is appropriate to prepare the financial statements on a going concern basis.

Other events after the reporting period

The directors are not aware of any other material event which occurred after the reporting date and up to the date of this report which may require adjustment to these financial statements or that has not already been disclosed in the notes to the financial statements.