# Financial Report (not-audited)

For the quarter ended 31 December 2021

# Contents

# Group statement of financial position December 2021

| | Actual | Prior year | Actual vs Prior year % |
|---|---|---|---|
| **Total Assets** | **1,520.2** | **1,550.5** | **-2.0%** |
| **Evolution Finance net advances** | **514.4** | **540.3** | **-4.8%** |
| Performing loans | 377.1 | 359.9 | 4.8% |
| Gross performing loans | 450.7 | 465.5 | -3.2% |
| Provision against performing loans | (73.6) | (105.6) | -30.2% |
| Non-performing loans | 137.3 | 180.3 | -23.8% |
| **Acquired debt net advances** | **626.0** | **556.0** | **12.6%** |
| Acquired assets | 607.5 | 519.0 | 17.1% |
| Discontinued receivables | 18.6 | 37.0 | -49.8% |
| **Investments and loans** | **14.4** | **15.6** | **-7.9%** |
| **Other assets** | **45.4** | **43.5** | **4.4%** |
| Right-of-use asset | 4.1 | | |
| Equipment | 17.7 | 18.3 | -3.3% |
| Other receivables | 23.6 | 25.1 | -6.1% |
| **Deferred tax assets** | **0.0** | **0.0** | **0.0%** |
| **Cash and cash equivalents** | **319.9** | **395.2** | **-19.1%** |
| **Total Equity** | **(371.9)** | **(244.6)** | **52.1%** |
| **Total Liabilities** | **(1,148.3)** | **(1,305.9)** | **-12.1%** |
| **Borrowings** | **(1,043.1)** | **(1,249.1)** | **-16.5%** |
| **Deferred and current tax liabilities** | **(12.9)** | **(7.6)** | **69.2%** |
| **Other liabilities** | **(92.3)** | **(49.2)** | **87.6%** |
| **Total equity & liabilities** | **(1,520.2)** | **(1,550.5)** | **-2.0%** |

- **Key take outs**
  - Assets
    - The year on year decline in the Evolution Finance (EF)(formerly Home Finance) book is attributable to lower production during the COVID-19 lockdown and resulting book amortisation. EF loan originations have continued to improve on prior year however the riots in KZN and Gauteng have slowed the growth trend on a YTD basis.
    - The Acquired Debt channel's assets continue to trend upward.
    - The group has not recognised any deferred tax assets arising from tax losses or temporary differences.
  - Equity is higher on account of the profit for the year.
  - Liabilities
    - Borrowings are lower year on year following loan repayments and limited new funding raised during the year compared to prior years. Other liabilities include provisions for incentive provisions that were not included in the prior year.

# Group statement of profit or loss December 2021

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| | Actual (quarter) R'm | RoPA % (quarter) % | Prior year (quarter) R'm [1] | Prior year RoPA % % | Prior year Variance % % | Actual YTD % | RoPA % YTD R'm | Prior year YTD % | Prior year RoPA % R'm | Prior year Variance % % |
|---|---|---|---|---|---|---|---|---|---|---|
| **Evolution Finance net yield** | **53.9** | **19.1%** | **77.7** | **28.4%** | **-30.6%** | **166.9** | **20.1%** | **203.2** | **22.4%** | **-17.9%** |
| PL net yield | 27.8 | 9.8% | 27.5 | 10.1% | 0.9% | 82.4 | 9.9% | 67.4 | 7.4% | 22.3% |
| NPL yield | 16.2 | 5.7% | 24.3 | 8.9% | -33.2% | 57.6 | 6.9% | 56.8 | 6.3% | 1.3% |
| Movement in FLI provision | | 0.0% | 14.7 | 5.4% | -100.0% | 0.3 | 0.0% | 40.1 | 4.4% | -99.2% |
| Net assurance income - Credit life | 9.9 | 3.5% | 11.1 | 4.1% | -10.9% | 26.6 | 3.2% | 38.8 | 4.3% | -31.6% |
| **DMC net yield** | **106.7** | **37.7%** | **105.7** | **38.6%** | **0.9%** | **284.7** | **34.3%** | **230.5** | **25.4%** | **23.5%** |
| **Yield on Acquired debt** | **100.9** | **35.7%** | **96.6** | **35.3%** | **4.5%** | **268.1** | **32.3%** | **213.7** | **23.5%** | **25.5%** |
| **Yield on discontinued receivables** | **5.8** | **2.0%** | **9.1** | **3.3%** | **-36.8%** | **16.6** | **2.0%** | **16.7** | **1.8%** | **-0.9%** |
| **Interest income non debtors** | **3.8** | **1.3%** | **4.5** | **1.6%** | **-15.8%** | **12.6** | **1.5%** | **13.4** | **1.5%** | **-5.9%** |
| **Net yield** | **164.4** | **58.2%** | **187.9** | **68.7%** | **-12.5%** | **464.2** | **55.8%** | **447.0** | **49.2%** | **3.9%** |
| **Finance Costs** | **(28.0)** | **-9.9%** | **(32.5)** | **-11.9%** | **-13.9%** | **(88.0)** | **-10.6%** | **(110.3)** | **-12.1%** | **-20.2%** |
| **Net margin** | **136.4** | **48.2%** | **155.3** | **56.8%** | **-12.2%** | **376.3** | **45.3%** | **336.7** | **37.1%** | **11.7%** |
| **Net assurance income - funeral benefits** | **6.9** | **2.5%** | **6.2** | **2.3%** | **11.2%** | **19.5** | **2.3%** | **20.5** | **2.3%** | **-4.6%** |
| **Outsourced collection income** | **15.3** | **5.4%** | **12.3** | **4.5%** | **24.9%** | **39.2** | **4.7%** | **34.9** | **3.8%** | **12.2%** |
| **Credit management revenue** | **2.1** | **0.7%** | **1.7** | **0.6%** | **24.5%** | **5.3** | **0.6%** | **4.3** | **0.5%** | **22.3%** |
| **Sundry income** | **3.4** | **1.2%** | **0.5** | **0.2%** | **649.1%** | **8.9** | **1.1%** | **12.8** | **1.4%** | **-31.0%** |
| **Operating income** | **164.2** | **58.1%** | **176.0** | **64.3%** | **-6.7%** | **449.1** | **54.0%** | **409.2** | **45.1%** | **9.7%** |
| **Allocated costs** | | **0.0%** | | | | | **0.0%** | | | |
| **Operating income after allocated costs** | **164.2** | **58.1%** | **176.0** | **64.3%** | **-6.7%** | **449.1** | **54.0%** | **409.2** | **45.1%** | **9.7%** |
| **Operating Expenditure** | **(128.3)** | **-45.4%** | **(103.0)** | **-37.7%** | **24.5%** | **(341.2)** | **-41.0%** | **(323.6)** | **-35.6%** | **5.4%** |
| **Human capital costs** | **(56.1)** | **-19.8%** | **(48.4)** | **-17.7%** | **15.8%** | **(154.7)** | **-18.6%** | **(169.5)** | **-18.7%** | **-8.7%** |
| **Non payroll costs** | **(54.5)** | **-19.3%** | **(50.1)** | **-18.3%** | **8.9%** | **(146.4)** | **-17.6%** | **(149.7)** | **-16.5%** | **-2.2%** |
| **STI and LTI provision** | (17.7) | -6.3% | (4.5) | -1.6% | 293.2% | (40.1) | -4.8% | (4.5) | -0.5% | 788.5% |
| **Hedging loss/gain** | **(0.1)** | **-0.0%** | **0.0** | **0.0%** | **-342.8%** | **(0.9)** | **-0.1%** | **1.0** | **0.1%** | **-195.7%** |
| **Profit before tax** | **35.8** | **12.7%** | **73.0** | **26.7%** | **-51.0%** | **107.0** | **12.9%** | **86.6** | **9.5%** | **23.6%** |
| **Taxation** | **(3.6)** | **-1.3%** | **(3.7)** | **-1.4%** | **-3.4%** | **(11.6)** | **-1.4%** | **(9.8)** | **-1.1%** | **18.1%** |
| **Profit After Tax** | **32.2** | **11.4%** | **69.3** | **25.3%** | **-53.5%** | **95.4** | **11.5%** | **76.7** | **8.4%** | **24.4%** |

- [1] **Prior year includes R44m Covid provision release for unforeseen outperformance held in provision during prior months in FY 21.**

# Group statement of profit or loss December 2021

- **Key take outs**
  - Evolution Finance (EF)
    - A smaller book in the current year with a reduction in negative rolls compared to experience in the prior year (impacted by lockdown), sees EF provisions decline significantly year on year. The unwind of the forward looking indicator (FLI) overlay is shown separately in the accounts. The NPL book continues to amortise as a result of lower production and lower credit risk appetite.
  - Acquired Debt
    - A significant portion of collections are from new activations and the visitation network. The prior year lock down influenced yield negatively in that period. The increase in yield this year is attributable to improved collections post lockdown. December collection volume outperformed relative to expectations.
  - Evolution Life
    - Income is 4.6% lower in the current year due to the smaller policy book and higher claims.
  - Outsourced
    - Collections volumes have improved relative to prior year from stock levels improving and support from targeted collections campaigns.
  - Operation expenses
    - In the current quarter collections costs remain higher than in the prior year due to temporary contact centre agents in place for this year's targeted holiday collections, offsetting cost savings from the operational restructure in the prior year. YTD cost savings are being realised and offset by incentive provisions not in the prior year.

# Covenants

| | Minimum per covenant | December 2021 R'm | December 2020 R'm |
|---|---|---|---|
| **(1) Permanent Capital / Total adjusted assets ratio** | **25.0%** | **74.3%** | **49.1%** |
| Equity per statement of financial position | | 371.9 | 244.6 |
| Cash flow hedge add back | | 6.0 | 5.6 |
| Qualifying equity | | 377.9 | 250.2 |
| Evolution Life equity | | (14.0) | (14.2) |
| SPV equity | | 206.0 | 234.0 |
| Intangible and deferred tax assets to be funded with equity | | - | - |
| SPV junior loans | | (186.5) | (222.5) |
| **Permanent Capital (on balance sheet equity)** | | **383.4** | **247.5** |
| Assets per statement of financial position | | 1,520 | 1,551 |
| Cash and Cash equivalents (on balance sheet) | | (116) | (161) |
| Intangible and deferred tax assets to be funded with equity | | - | - |
| Evolution Life Assets | | (14) | (14) |
| SPV assets | | (1,121) | (1,039) |
| SPV Junior loans Fair value | | 247 | 168 |
| **Total adjusted assets (on balance sheet assets)** | | **516.3** | **504.4** |
| **(2) Minimum Available Cash Balance** | **20.00** | **109.72** | N/A |
| **(3) Group Cost to Income Ratio** | **74%** | **64.0%** | **65.2%** |
| Operating Expenses | | 443.5 | 451.8 |
| Operating Income | | 693.2 | 692.8 |

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# Glossary

| Ratio | Definition |
|---|---|
| **Permanent capital / Total adjusted assets (reported quarterly)** | **Group equity reduced by:**<br>-The cash flow hedge<br>-Equity in SPVs and regulated Assurance Company<br>-Junior equity instruments in SPVs<br>-Deferred taxation & Intangible assets on balance sheet<br>**Total assets reduced by:**<br>-Assets in SPVs and regulated Assurance Company<br>- Cash and cash equivalents on balance sheet<br>-Deferred taxation & Intangible assets on balance sheet |
| **Gross yield on productive assets** | Annualised Net yield / Simple average Loans and advances and Acquired assets |
| **Net yield on productive assets** | Annualised Net yield / Simple average Loans and advances and Acquired assets |
| **Net yield on total assets** | Annualised net yield / Simple average total assets |
| **Return on total assets** | Annualised profit or loss after tax / Simple average total assets |
| **Return on productive assets (ROPA %)** | Annualised profit or loss after tax/ Simple average Loans and advances and Acquired assets |
| **Cost of funds** | Annualised Finance costs / Simple average Long term interest bearing borrowings |
| **Cost to income (reported quarterly)** | Operating expenses / Net yield (adjusted by direct costs reallocated from yield), Net assurance income - funeral benefits, Outsourced collection income and Sundry income |
| **Equity multiplier** | Average productive assets/Average equity |
| **Pre-tax return on equity** | Equity multiplier x Pre-tax return as a % of productive assets |
| **Return on equity** | Equity multiplier x Return as a % of productive assets |