Evolving Finance. Improving Lives.

Evolution Credit Limited

Audited consolidated annual financial statements

For the year ended 31 March 2022

General Information

Former company name	Real People Investment Holdings Limited
Company registration number	1999/020093/06
Country of incorporation and domicile	South Africa
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@evolution.za.com Website: www.evolution.za.com
Auditors	Deloitte & Touche Chartered Accountants (SA) Registered Auditors
Level of assurance	These audited consolidated annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.
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	14 June 2022

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 annual forecast 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 examined by the group's external auditors and their report is presented on pages 11 to 15.

The audited consolidated annual financial statements set out on pages 5 to 10 and 16 to 56, which have been prepared on the going concern basis, were approved by the board on 10 June 2022 and were signed on their behalf by:

NW Thomson **Chairman**	**N Grobbelaar** **Group Chief Executive Officer**

14 June 2022

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

14 June 2022

Audit Committee Report

The Evolution Credit Group Audit Committee continues to promote improvement in the risk management and control practices of the company and its subsidiaries. The Audit Committee 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 Audit Committee 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 Audit Committee 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 group financial reporting.

Composition and governance

The Audit Committee had four members during the year, all of whom are independent non-executive directors. The committee met five times during the period from 1 April 2021 to 31 March 2022.

Name	Audit Committee attendance
RR Buddle – Chairman	5/5
PG de Beyer	5/5
DTV Msibi	5/5
NW Thomson	5/5

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 Audit Committee 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 Audit Committee 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 Audit Committee Chair meets with the internal and external auditors separately between 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 2022 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 Audit Committee 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 Audit Committee members are all members of the Risk Committee.

The Audit Committee 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.

Audit Committee Report

Having considered, analysed, reviewed and debated information provided by management, internal audit and the external auditors, the Audit Committee has recommended to the board that internal controls and mitigating actions by management where control processes require improvement, provide the committee 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, when appropriate the committee and management rely on the work of independent advisors to inform these judgements.

Financial reporting process

The Audit Committee 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 Audit Committee 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. There has been a change in estimate as noted in the annual financial statements.

The Audit Committee 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;
- 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 Audit Committee 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. *Changes made to the non-performing loan segmentation* Management introduced a new methodology where the payment behaviour variable has been removed from the segmentation, and a time-based variable introduced as the previous segmentation resulted in volatile monthly movements. Refer to note 3 to the annual financial statements for a description of the change in estimate. *Forward-looking indicators* The South African consumer is still facing a myriad of challenges which could impact their ability to service their debt. Higher levels of non-payment of collectable instalments were considered in determining ECLs. Refer to note 4.1 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 committee 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. The committee concluded that these estimates were appropriate and in accordance with the underlying accounting standards.
Credit impaired assets	All books purchased are assumed to originate in stage 3 as purchased credit-impaired financial assets.	The committee reviewed the input from internal experts to provide assurance on the work performed by credit modelling specialists.

Audit Committee Report

Area of judgement	Judgements Applied	Assessment and Conclusion
	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. *Shortening the collection curve from 120 months to 96 months* The shorter collection curve more closely aligns with operational processes. Refer to note 3 to the annual financial statements for the reasons for the change in estimate. *Forward-looking indicators* The South African consumer is still facing a myriad of challenges which could impact their ability to service their debt. Higher levels of non-payment of collectable instalments were considered in determining ECLs. Refer to note 4.1 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 committee concluded the model, its inputs and the disclosures relating to the financial assets, and the key judgements and estimates applied in the determination thereof, to be appropriate and in accordance with the underlying accounting standards. The committee reviewed the methodology for estimating the forward looking stress 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 committee has not altered its position on recognising deferred tax assets.
Going concern assessment	Based on the group's annual forecast the group is able to meet its financial covenants and has sufficient financial resources to meet its obligations as they fall due within the foreseeable future (twelve months from signature date). The funding special purpose entities have significant buffers in their covenants with low risk of being breached. The board of directors are no longer concerned about going concern risk over the next 12 months.	The committee considered the validity of the going concern assumption by addressing the following elements: • 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. • 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.

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 their audit. The Audit Committee considered the significant audit issues that formed the basis of the auditors’ opinion, which are presented on pages 11 to 15 in the auditor’s report.

Audit Committee 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 an established combined assurance framework and with action plans that engage the four lines of defense wherever appropriate. 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 committee 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 defense. Internal audit has a functional reporting line to the Audit Committee chair and an operational reporting line to the Group CFO.

Internal audit submits reports to the committee to allow the committee to evaluate the adequacy and effectiveness of internal controls. The committee:

- ensures that internal audit has a direct reporting line to the chairman;
- 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 regarding adverse internal audit findings.

External auditors

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

- 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 2021.

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 21 to the annual financial statements. The committee recommended that the shareholders reappoint Deloitte as the external auditors for 2023.

Annual financial statements

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

RR Buddle
Audit Committee Chairman

14 June 2022

Directors' Report

The directors submit their report on the audited consolidated annual financial statements of Evolution Credit Limited (formerly Real People Investment Holdings Limited) and its subsidiaries and associate (the group) for the year ended 31 March 2022.

The separate company annual financial statements of Evolution Credit 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.

Evolution Credit Limited concluded a debt amendment agreement for the senior facility agreement held by the company. The amendments revised the debt capital amortisation profile and updated the debt covenants to align with the revised cashflow generation forecasts and reduced balance sheet size.

3. 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 annual forecast. Refer to note 34 of the financial statements for further detail noting the directors' assessment of going concern.

4. Events after the reporting period

Umuzi Finance (RF) Ltd, the Evolution Finance special purpose entity, has been engaging lenders to restructure the entity with the goal of improving the credit rating of the entity, reducing funder risk and enhancing returns. The changes include increased minimum capital levels, updated portfolio covenants, updates to junior note terms and an updated servicer fee structure.

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

5. Directorate

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

Directors	***Office***	***Designation***
NW Thomson	Chairperson	Non-executive Independent
PG de Beyer		Non-executive Independent
DTV Msibi		Non-executive Independent
RR Buddle		Non-executive Independent
N Grobbelaar	Group Chief Executive Officer	Executive
DJ Munro	Group Chief Financial Officer	Executive

Directors' Report

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 2022.

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 L Marshall as the designated lead audit partner for the 2023 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 Evolution Credit Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Evolution Credit Limited (the Group) set out on pages 16 to 56, which comprise the consolidated statement of financial position as at 31 March 2022 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statements 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 2022, 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 sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018),* parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. 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.

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><th colspan="2">IFRS 9 “Financial Instruments” Loans and advances carried at amortised cost less loan provision</th></tr>
<tr><td>Loans and advances carried at amortised cost less provision are disclosed in note 4 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 Evolution Finance business lends to individuals. These loans are generally low in value and are assessed collectively. The Group develops models to determine expected losses across the portfolio.

The DMC business acquires packaged distressed consumer debt books from entities who extend credit to their customers. The group develops models to determine expected future cashflows from the portfolio.

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.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group estimation of expected credit losses (“ECL’s”) 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 models (Evolution Finance) and the LGD models are the main source 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. 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 macro-economic conditions and forward looking information (“FLI”) taking into account the most recent experience.; and
o The impact on collections related to introduction of DebiCheck. This new payment regime is expected to impact historical collections trends which are key input into the modelled ECLs.</td><td>For the base impairment models we engaged our internal credit specialists and we performed the following:
• Evaluating the appropriateness of the Group’s IFRS 9 impairment methodologies (including the staging criteria used);
• Obtained an understanding of the various assumptions used, the impairment modelling, and data management processes, systems and methodologies;
• Evaluated the design and implementation of controls in respect of the determination of the ECL provisioning;
• 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;
• 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;
• Confirmed the accuracy and completeness of the information used and data inputs and compared internal data and assumptions to those used more widely in the market; and

In considering the post model adjustments we:
• Assessed the reasonableness of managements overlay adjustments to model outcomes for reasonability either by reperformance or independent challenge by evaluating it against the requirements of IFRS 9, historical trend data and independent macro-economic data published, as appropriate.
• Reperformed the calculation of both the FLI 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 FLI and DebiCheck 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</td></tr>
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<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td></td><td>Specific attention was also given to the following areas:
• Data used in the impairment model was reconciled to the source system;
• Modification Gains and Losses (MGL) components of managements base model and developed overlays (FLI and DebiCheck) through challenge and assessment; and
• Evaluation of the appropriateness of the disclosures included in the consolidated financial statements in accordance with the requirements of IFRS 7: Financial Instruments: Disclosure.
• Our conclusion
• We found that the significant judgements applied in determining the impairment against loans and advances together with the related disclosures are appropriate.</td></tr>
<tr><td colspan="2">Going concern</td></tr>
<tr><td>Evolution has successfully re-negotiated its debt amortisation profile and debt covenants sufficiently to support the business and maintain the going concern status. This has been enhanced with improved profitability in recent financial years ended including 2022.
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 34):
• 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 (note 34);
• Reviewed the forecast financial covenants and confirm that based on the budget, these will not be breached during the next 12 months (note 34);
• Assessed the budget impact for various stress scenarios (as described in note 34) 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 (note 34); and
• Confirmed that based on this analysis that the Group and its principle SPV are going concerns as they are able to pay their liabilities as they fall due and are not likely to breach loan covenants.
Due to the judgement required and recent history in making assumptions around the future profitability of the business and its budgets and forecasts this is considered to be a key audit matter by the auditor.</td><td>We performed the following audit procedures:
• Obtained an understanding of the terms of the 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 history;
• Challenged the reasonability of the directors’ budgets and forecasts for the 2023 financial years;
• Considered the revised forecast financial covenants and whether based on management’s budgets, these would be likely 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 the likelihood that these would result in a financial covenant cashflow breach;
• Considered the evidence that the Group’s assumptions around access to future funding are reasonable;
• 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 and that no material uncertainty exists with respect to going concern.</td></tr>
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Other Information

The directors are responsible for the other information. The other information comprises 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.

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.

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- 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.

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 such communication.

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 Evolution Credit Limited for 5 years.

DocuSigned by:
Deloitte & Touche
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Deloitte & Touche
Registered Auditor

Per: Llewellyn Marshall
Partner

15 June 2022

The Ridge,
6 Marina Road,
Portswood District,
V&A Waterfront,
Cape Town
8000

Consolidated Statement of Financial Position as at 31 March 2022

Figures in Rand thousand	Notes	2022	2021
Assets			
Equipment	7	16,382	17,862
Right-of-use assets	8	3,660	5,633
Amount receivable in terms of Cell Captive arrangement	9	14,529	9,914
Net advances	4	1,129,019	1,066,354
Other receivables	11	24,296	26,261
Derivatives	12	12,183	18,847
Tax receivable		-	7,130
Cash and cash equivalents	13	357,308	426,793
Total Assets		1,557,377	1,578,794
Equity and Liabilities			
Equity			
Share capital and equity notes	5	1,308,857	1,308,857
Cash flow hedging reserve		1,147	2,084
Accumulated loss		(916,316)	(1,034,595)
Total Equity		393,688	276,346
Liabilities			
Borrowings - Non-current	6	676,945	928,118
Lease liabilities	8	4,003	5,717
Deferred tax	15	815	349
Provisions	14	57,119	13,469
Borrowings - Current	6	377,165	312,442
Trade and other payables	16	44,307	37,471
Tax payable		3,335	4,882
Total Liabilities		1,163,689	1,302,448
Total Equity and Liabilities		1,557,377	1,578,794

Consolidated Statement of Financial Performance

Figures in Rand thousand	Notes	2022	2021
Gross yield from assets	18	533,399	584,075
Impairment gain		62,061	3,080
Net yield		**595,460**	**587,155**
Net assurance income - Funeral benefits	19	26,126	23,518
Outsourced collection income		51,144	45,556
Other income	20	22,896	22,490
Operating expenses		(457,332)	(425,558)
Operating profit	21	**238,294**	**253,161**
Finance costs	22	(115,304)	(142,256)
Income from equity accounted investments		-	2
Foreign exchange (losses) gains	23	(1,258)	1,420
Profit before taxation		**121,732**	**112,327**
Taxation	24	(3,453)	(3,696)
Profit for the year		**118,279**	**108,631**

Consolidated Statement of Comprehensive Income

Figures in Rand thousand	2022	2021
Profit for the year	**118,279**	**108,631**
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Effects of cash flow hedges	(937)	(346)
Other comprehensive (loss) income for the year net of taxation	**(937)**	**(346)**
Total comprehensive income	**117,342**	**108,285**

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 2020	**1,308,857**	**2,430**	**(1,143,226)**	**168,061**
Profit for the year	-	-	108,631	108,631
Other comprehensive (loss) income	-	(346)	-	(346)
Total comprehensive (loss) income for the year	**-**	**(346)**	**108,631**	**108,285**
Balance at 01 April 2021	**1,308,857**	**2,084**	**(1,034,595)**	**276,346**
Profit for the year	-	-	118,279	118,279
Other comprehensive (loss) income	-	(937)	-	(937)
Total comprehensive (loss) income for the year	**-**	**(937)**	**118,279**	**117,342**
Balance at 31 March 2022	**1,308,857**	**1,147**	**(916,316)**	**393,688**
Note	5			

Consolidated Statement of Cash Flows

Figures in Rand thousand	Notes	2022	2021
Cash flows from operating activities			
Cash generated from operations	25	218,029	500,463
Finance costs		(114,666)	(141,590)
Tax received (paid)	26	4,391	(7,370)
Net cash from operating activities		**107,754**	**351,503**
Cash flows from investing activities			
Purchase of equipment	7	(7,516)	(10,175)
Proceeds on sale of equipment		1,757	2,038
Investment in Cell Captive preference shares		-	(1,000)
Proceeds on sale of investment in joint venture		-	10,847
Proceeds received from associate	10	10,500	-
Net cash generated from investing activities		**4,741**	**1,710**
Cash flows from financing activities			
Proceeds from borrowings		261,000	160,000
Repayment of borrowings		(442,981)	(409,378)
Payment on lease liabilities		-	(3,642)
Net cash utilised by financing activities		**(181,981)**	**(253,020)**
Total cash movement for the year		**(69,486)**	**100,193**
Cash and cash equivalents at the beginning of the year		426,793	326,600
Total cash and cash equivalents at end of the year	13	**357,307**	**426,793**

Accounting Policies

Corporate information

Evolution Credit Limited is a public company incorporated and domiciled in South Africa. The separate company annual financial statements of Evolution Credit 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 annual 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, as amended.

These audited consolidated annual 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 annual 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 South African Rands.

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. There was a change in estimate in the current year as set out in note 3.

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 34 for 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 key assumptions and inputs used are disclosed in notes 1.5, 1.6, 3 and 4.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Critical judgements in applying accounting policies

Recognition of deferred tax assets

The recognition of deferred tax assets on taxable losses in Evolution Credit 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 31 Financial instruments and risk management presents the financial instruments held by the group 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 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.

Financial instruments (continued)

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 - Evolution Finance (formerly Home Finance)

The Evolution 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.

1.5 Net advances - Evolution Finance (continued)

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 Evolution 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 months since entry into stage 3.

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. The macro-economic factors considered are outlined in note 4.1.

1.6 Net advances - Acquired debt

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.

1.6 Net advances - Acquired debt (continued)

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 8 years. It is assumed that a portfolio will yield cash flows from collection activities for a maximum period of 8 years (96 months). There was a change in the maximum period in the current year, refer to note 3.

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 considered are outlined in note 4.1.

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 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.

Hedge accounting (continued)

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.

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 33 for a list of special purpose entities.

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

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 such as printers and copiers. 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.

1.11 Reinsurance contract - Amount receivable in terms of Cell Captive arrangement

The group's interest in the 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 the arrangement.

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.

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, 10.0% morbidity/disability and 15.0% medical margins.

1.12 Impairment of non-financial assets

The group 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 group 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.

The amount recognised as a provision for the group's Long-Term Incentive Scheme is the best estimate of the consideration required to settle the obligation and the expected timing of payment at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. The carrying amount is the present value of cash flow estimated to settle the obligation.

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.

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.

Accounting Policies

Revenue (continued)

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 and amendments

2.1 Standards and amendments not yet effective

The group has chosen not to early adopt the following standards, which have been published and are mandatory for the group's accounting periods beginning on or after 01 April 2022 or later periods.

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 01 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. Old Mutual Alternative Risk Transfer (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 as opening balances will require adjustment on implementation. 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.

Amendments to standards

It is unlikely that the amendments below will have a material impact on the group's audited consolidated annual financial statements but may result in a change in disclosure.

- Annual improvement to IFRS Standards 2018-2012: Amendments to IFRS 9 (effective January 2022)
- Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2 (effective January 2023)
- Definition of accounting estimates: Amendments to IAS 8 (effective January 2023)
- Classification of Liabilities as Current or Non-Current - Amendment to IAS 1 (effective January 2023)
- Onerous Contracts - Cost of Fulfilling a Contract: Amendments to IAS 37 (effective January 2022)
- Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12 (effective January 2023)

3. Change in estimate

IFRS requires that an entity regularly reviews the methodology and assumptions used for estimating expected credit losses to reduce any differences between estimates and actual credit loss experience. Provisioning methodologies for the group's net advances are reviewed annually to incorporate actual performance for the current year and to establish whether the methodologies still are appropriate.

Figures in Rand thousand 2022 2021

3. Change in estimate (continued)

Shortening the Acquired debt collection curve from 120 months to 96 months

Management shortened the recovery curve used in the current methodology from 120 months to 96 months due to the following reasons:

- Operationally debts are resolved earlier after purchase which could result in less cash being available in these portfolios in later years.
- The longest repayment plan offered to customers is 96 months.
- To reduce the risk in the tail of the collection curve given the volatile socio- and macro-economic environment and given that the loans purchased are unsecured.
- To align net advance valuations with new book pricing where a 96-month recovery curve is applied.

The net impact of reducing the length of the curve to 96 months was a downwards valuation of R54.6 million.

Changes made to the Evolution Finance non-performing loan segmentation

The valuation methodology in the previous financial year segmented the non-performing loan (NPL) portfolio into twenty six segments using payment behaviour. This segmentation has proven to be accurate in forecasting recoveries but created volatile monthly provision charges due to the large number of accounts migrating back and forth between the different segments in “good” and “bad” collection months. The relatively small size of the NPL portfolio and monthly NPL emergence was insufficient to maintain a high level of segmentation with statistical stability.

Management therefore introduced a time-based (months since entry into NPL) segmentation to replace the current segmentation based on payment behaviour. This has resulted in reducing the number of segments down to six which will produce a less volatile monthly impairment charge on these NPL loans.

The proposed segmentation has been back tested against the NPL book as at November 2018. The sum of the forecast recoveries was then compared to the actual recoveries over the subsequent two years. The recovery forecast for the back test period using the proposed segmentation is slightly more accurate over time when compared to the current segmentation

Material changes in the risk profile of new accounts originated over time could potentially affect the performance rank ordering of the recovery curves used for the new segmentation, however back tests show continued accuracy, even during a period where risk appetite changed materially.

The impact of the change in the methodology is an increase in the provision held against the NPL portfolio of R5.7 million.

4. Net advances

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

Evolution Finance	522,374	516,289
Acquired debt	606,645	550,065
	1,129,019	1,066,354

The Evolution Finance channel offers a credit facility to customers. The undrawn facilities at 31 March 2022 are R13.0 million (2021: R12.1 million).

Evolution Finance accounts under debt review or administration are classified as modified contracts. The modification loss due to debt review for the year is R11.6 million (2021: R19.2 million).

Exposure to credit risk

Net advances inherently expose 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.

Figures in Rand thousand 2022 2021

4. Net advances (continued)

Credit loss allowances

2022	*Basis of loss allowance*	*Gross carrying amount*	*Loss allowance*	*Amortised cost*
Evolution Finance				
Performing loans - stage 1	12-month ECL	392,538	(41,777)	350,761
Performing loans - stage 2	Lifetime ECL (not credit impaired)	70,372	(28,200)	42,172
Non-performing loans - stage 3	Lifetime ECL (credit impaired)	1,416,168	(1,286,727)	129,441
Acquired debt	Lifetime ECL (purchased credit impaired)	703,241	(96,596)	606,645
		2,582,319	(1,453,300)	1,129,019

2021	*Basis of loss allowance*	*Gross carrying amount*	*Loss allowance*	*Amortised cost*
Evolution Finance				
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	Lifetime ECL (purchased credit impaired)	723,203	(173,138)	550,065
		2,687,878	(1,621,524)	1,066,354

Reconciliation of loss allowances

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

Evolution Finance performing loans - stage 1: Loss allowance measured at 12-month ECL:	2022	2021
Opening balance	(33,708)	(114,590)
New contracts originated	(28,755)	(10,980)
Movement between stages	13,898	37,232
Significant increase in credit risk	(1,343)	1,581
Forward looking overlay	8,131	53,049
Loss allowance closing balance	(41,777)	(33,708)

Evolution Finance performing loans - stage 2: Loss allowance measured at lifetime ECL (not credit impaired):	2022	2021
Opening balance	(48,189)	(71,001)
Release of loss allowance on transfer to lifetime ECL (credit impaired)	50,292	116,290
New contracts originated	(2,790)	(1,018)
Movement between stages	(31,391)	(98,013)
Forward looking overlay	3,878	5,553
Loss allowance closing balance	(28,200)	(48,189)

The changes in the gross carrying amount of performing loans are further explained below:

	2022	2021
Performing loans gross carrying amount opening balance	435,433	817,412
New contracts originated	362,481	151,139
Contracts written off	(2,262)	(1,427)
Interest and similar income	154,510	197,704
Receipting	(414,971)	(511,205)
Transfer to non-performing loans	(72,281)	(218,190)
Performing loans gross carrying amount closing balance	462,910	435,433

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2022	2021

4. Net advances (continued)

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

Opening balance	(1,366,489)	(1,294,230)
Release of loss allowance on contracts written off	169,112	142,667
Movement between stages	(46,808)	(54,410)
Modification loss on contracts moved to stage 3	(56,035)	(163,650)
Forward looking overlay	13,493	3,134
Loss allowance closing balance	(1,286,727)	(1,366,489)

The changes in the gross carrying amount of non-performing loans are further explained below:

Non-performing loans gross carrying amount opening balance	1,529,242	1,448,681
Interest and similar income	108,442	118,571
Contracts written off	(168,232)	(136,036)
Receipting	(125,565)	(120,164)
Transfers to non-performing loans	72,281	218,190
Non-performing loans gross carrying amount closing balance	1,416,168	1,529,242

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

Opening balance	(173,138)	(234,771)
Change in estimate - shortening collection curve	(54,600)	-
Lifetime ECL	128,521	25,723
Transfer to trade and other receivables *	(6,987)	-
Forward looking overlay - reversal of unamortised balance remaining from prior year	6,423	71,572
Forward looking overlay - current year	3,185	(35,662)
Loss allowance closing balance	(96,596)	(173,138)

The changes in the gross carrying amount are further explained below:

Acquired debt gross carrying amount opening balance	723,203	764,592
Purchases	227,639	165,545
Interest and other income	277,084	252,029
Receipting	(532,061)	(458,963)
Transfer to trade and other receivables *	7,376	-
Acquired debt gross carrying amount closing balance	703,241	723,203

* Balances that were previously included in discontinued receivables but did not relate to acquired or originated debtors were reclassified to trade and other receivables during the year.

Fair value

Refer to note 31 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 2022 2021

4. Net advances (continued)

Evolution Finance coverage ratios

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

2022	***Stage 1 CD 0***	***Stage 2 CD 1***	***Stage 2 CD 2***	***Stage 2 CD 3***	***Stage 3***	***Total***
Gross advances	392,538	44,041	18,071	8,260	1,416,168	1,879,078
Impairment allowance	(41,777)	(15,797)	(7,866)	(4,537)	(1,286,727)	(1,356,704)
Carrying value	350,761	28,244	10,205	3,723	129,441	522,374
Coverage ratio	10.6 %	35.8 %	43.5 %	54.7 %	90.5 %	72.2 %

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 %

4.1. Forward-looking information

The group considers future economic conditions when determining expected credit losses (ECL).

(1) COVID-19 lockdown

The impact that the COVID-19 lockdown has had on actual collections has sufficiently been taken into account in the annual valuation model recalibration and no further adjustments to expected credit losses are required.

(2) Macro-economic conditions

Most industries have reopened since the COVID-19 lockdown and the employed population is almost back to pre-lockdown levels, however, given the current economic and political environment, the South African consumer is still facing a myriad of challenges which could impact their ability to service their debt. These include:

- The impact that the conflict in Ukraine will have on the fuel prices and food inflation;
- Proposed price increases by Eskom;
- Increasing interest rates; and
- A slow expected growth trajectory in the economy.

Shifts in consumer spending patterns post the lockdown period could further influence how consumers repay their debt.

(3) DebiCheck

The debit order payments platform has been fully migrated to DebiCheck as from 1 November 2021 and no further Non-Authenticated Early Debit Order (Naedo) deductions are allowed. The system has become relatively stable and no anticipated system failures are foreseen on the new DebiCheck platform.

On 1 November 2021 all existing Naedo mandates were transferred to the Migrated Naedo mechanism as part of the transition to DebiCheck. As Migrated Naedo mandates are suspended over time these will be replaced by either Authenticated DebiCheck (AC) or Registered Mandate Services (RMS) mandates. This will result in a higher proportion of the overall portfolio running debit orders on RMS mandates given the current low levels of authentication on payment arrangements.

RMS was implemented as a temporary measure to assist with the transition to DebiCheck. It has been proposed that this mechanism becomes a permanent solution after its current sunset date in June 2022. The proposal however sees RMS move to the second processing window which runs later in the day. This change could potentially influence customer payment behaviours relating to RMS.

4.1 Forward-looking information (continued)

The impact that the growing proportion of RMS mandates and the lower success rates of this mechanism can have on the overall debit order success rates has been considered in the forward-looking information (FLI) assessment.

Activation roll rate model

The risks identified above can result in higher levels of non-payment of collectable instalments. The impact on the collections expectations has been determined using an activations roll rate model. The key inputs to this model are the number of new receipt activations created per month, and the rate at which paying accounts fall off per month.

- 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 a 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.

The collections expectations under the current valuation methodology have been used to determine the activations that are required to meet the collections under the valuation (the base valuation). Six-month historic averages have been used to calculate the value of non-debit order receipting. The actual March 2022 rates have been used to determine the debit order receipting as these are the most recent results reflecting the split between AC, RMS and Migrated Naedo deductions.

Activation roll rate methodology

- 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 roll rate model is utilised to determine collections for the period 1 April 2022 to 31 March 2024.
- The shortfall between the valuation expectation at March 2024 per the roll rate model will continue at the same rate until the end of the collections curve.
- The cash flow impact is calculated as the difference in cash flows between the roll rate model and the statistical and priced cash flows.

FLI assumptions

- Paying contract fall off rates impacted by increased RMS mandates: The roll rate model assumes a run-off of the current Migrated Naedo pool of accounts which will be replaced by either AC or RMS mandates. The ratio of new AC and RMS receipting has been based on the latest authentication rates.
- Paying contract fall of rates impacted by the macro-economic environment: Moderate correlation has been identified between the changes in the petrol price and the six month rolling fall of rates of regular payers. The forecasted changes in petrol price have therefore been used as a proxy to determine the impact that the increased cost of living will have on the paying account fall off rates used in the roll rate model.

The approach above had been used to calculate the FLI adjustment for the Acquired Debt and stage 2 and stage 3 Evolution Finance portfolios

Correlation was identified between the inflation rate and the rate that accounts roll from 0-1 in arrears over a rolling six-month basis for Evolution Finance Stage 1 accounts. The forecasted changes in the inflation have been used as a proxy to estimate the impact that the increases in the cost of living could have on the Stage 1 probabilities of default (PD).

Sensitivity to forward-looking information assumptions

The Acquired debt valuation models and Evolution Finance provision models were updated for historic collections experience during 2021, giving rise to updated Acquired debt valuation collection curves and revised Evolution 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

4.1 Forward-looking information (continued)

2022 ***Loss allowance***	***Acquired debt***	***Evolution Finance***	***Total***
Historical model, including change in estimate	(70,543)	(1,348,863)	(1,419,406)
DebiCheck RMS risk	(6,868)	(1,771)	(8,639)
Macro-economic risk	(19,185)	(6,071)	(25,256)
Forward-looking information (FLI) overlay	(26,053)	(7,842)	(33,895)
	(96,596)	(1,356,705)	(1,453,301)

2021 ***Loss allowance***	***Acquired debt***	***Evolution Finance***	***Total***
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)
FLI overlay	(35,661)	(33,345)	(69,006)
	(173,138)	(1,448,386)	(1,621,524)

Movement in loss allowance	***Acquired debt***	***Evolution Finance***	***Total***
Historical model	66,934	66,178	133,112
DebiCheck RMS risk	(6,868)	(1,771)	(8,639)
COVID-19	3,277	10,295	13,572
DebiCheck implementation risk	32,384	19,319	51,703
Macro-economic risk	(19,185)	(6,071)	(25,256)
Merchant store risk	-	3,731	3,731
FLI overlay	9,608	25,503	35,111
	76,542	91,681	168,223

Valuation sensitivity to parameter estimation error	***2022***	***2021***
FLI sensitivity, provision understatement risk		
Forecast error estimate on macro-economic parameters		
5% estimation error	(1,221)	-
Forecast error estimate on DebiCheck parameters		
5% estimation error	(3,962)	(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.

4.2. Loans and advances that received financial relief

COVID-19 relief

During the level 5 hard lockdown in prior periods the group rolled out debt relief measures for Evolution Finance customers. Customers were granted a one month payment relief where financial assistance was requested by customers as a result of the lockdown. 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 2022 2021

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

2022	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross advance	1,073	2,364	59,049	62,486
Impairment allowance	(351)	(857)	(50,476)	(51,684)
	722	1,507	8,573	10,802

2021	*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.

2022	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross advance	13,455	1,350	3,616	18,421
Impairment allowance	(4,164)	(785)	(2,972)	(7,921)
	9,291	565	644	10,500

2021	*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

5. Share capital and equity notes

Authorised share capital	2022	2021
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 **	2022	2021
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.

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Figures in Rand thousand	2022	2021

5. Share capital and equity notes (continued)

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 passu 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.

6. Borrowings

	2022	2021
Held at amortised cost		
Secured loans	875,330	915,510
Unsecured loans	178,780	325,050
	1,054,110	1,240,560

	2022	2021
Split between non-current and current portions		
Non-current liabilities	676,945	928,118
Current liabilities	377,165	312,442
	1,054,110	1,240,560

The group is required to maintain the following financial covenants at each measurement date (31 March, 30 June, 30 September and 31 December):
- Cost to income ratio: Maximum ratio of 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
- Permanent equity to total assets ratio (excluding ring-fenced special purpose entities): 25% from June 2021
- Cash covenant ratio: Minimum cash and cash equivalents balance of R20.0 million will be required on-balance sheet (excluding ring-fenced special purpose entity balances)

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.

The Evolution Credit Limited loan repayments are due each quarter until 30 September 2025. The average effective interest rate on the borrowings is 11.7% (2021: 11.0%).

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 R187.4 million (2021: R113.6 million). Fair value measurements are categorised as level 3 on the fair value hierarchy as the valuation includes unobservable outputs.

Refer to note 27 Changes in liabilities arising from financing activities for details of the movement in the borrowings during the reporting period and note 31 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:

	2022	2021
Net advances	931,422	793,334
Cash and cash equivalents	252,939	335,526
	1,184,361	1,128,860

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2022	2021

7. Equipment

	2022			2021		
	Cost	***Accumulated depreciation / impairment***	***Carrying value***	***Cost***	***Accumulated depreciation / impairment***	***Carrying value***
Property	295	(100)	195	295	(100)	195
Furniture and fittings	716	(439)	277	784	(470)	314
Motor vehicles	5,342	(1,651)	3,691	4,389	(3,418)	971
Office equipment	514	(384)	130	514	(315)	199
Computer equipment	47,762	(35,710)	12,052	44,866	(28,751)	16,115
Leasehold improvements	832	(795)	37	832	(764)	68
	55,461	(39,079)	16,382	51,680	(33,818)	17,862

Reconciliation of equipment - 2022

	Opening balance	***Additions***	***Disposals***	***Depreciation***	***Closing balance***
Property	195	-	-	-	195
Furniture and fittings	314	42	(7)	(72)	277
Motor vehicles	971	4,263	(621)	(922)	3,691
Office equipment	199	-	-	(69)	130
Computer equipment	16,115	3,211	(35)	(7,239)	12,052
Leasehold improvements	68	-	-	(31)	37
	17,862	7,516	(663)	(8,333)	16,382

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

8. Leases

Net carrying amounts of right-of-use assets

The group is expecting to occupy the office space for the remaining lease term and therefore the recoverable amount is expected to be the carrying value as follows:

Buildings	3,660	5,633

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Figures in Rand thousand	2022	2021

8. Leases (continued)

Other disclosures

Depreciation recognised on right-of-use assets	2,063	3,110
Interest expense on lease liabilities	504	648
Expenses on short-term leases included in operating expenses	22	5,151
Leases of low value assets included in operating expenses	-	26
Total cash outflow from leases *	22	5,177

* The lease liability is settled monthly by way of repayment of a loan account to RP Views Proprietary Limited and Dorreal Properties Proprietary Limited (disclosed in note 11). There is therefore no cash outflow on settlement of the liability in the current year.

Lease liabilities

The maturity analysis of lease liabilities is as follows:

Within one year	2,465	2,292
Two to five years	1,928	4,308
	4,393	6,600
Less finance charges component	(390)	(883)
	4,003	5,717

9. Amount receivable in terms of Cell Captive arrangement

The group's insurance business is housed within a Cell Captive Arrangement with Old Mutual Alternative Risk Transfer (OMART) which was launched in the prior year on 1 July 2020.

The group holds preference shares in the OMART Evolution Life 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 Evolution Life Cell Captive preference shares	1,000	1,000
OMART Evolution Life Cell Captive reserves	13,529	8,914
	14,529	9,914

Figures in Rand thousand 2022 2021

9. Amount receivable in terms of Cell Captive arrangement (continued)

Summarised financial information

Summarised statement of financial performance	***OMART Cell Captive 2022***	***2021***
Net premium income	78,108	63,748
Net claims paid	(17,885)	(14,405)
Net insurance income	60,223	49,343
Investment income and expenses	(53,813)	(36,962)
Profit before tax	6,410	12,381
Tax expense	(1,795)	(3,467)
Total comprehensive income	4,615	8,914

Summarised statement of financial position	***2022***	***2021***
Assets		
Net outstanding premiums, accrued investment income and other debtors	9	77
Cash and cash equivalents	24,982	21,107
Total assets	24,991	21,184
Liabilities		
Gross liabilities in respect of contracts with policyholders *	3,756	4,502
Other payables	6,706	6,768
Total liabilities	10,462	11,270
Total net assets	14,529	9,914

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

Incurred-But-Not-Reported (IBNR) liability	3,478	4,169
Margins	278	333
	3,756	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 Evolution Life Cell Captive had a SCR cover ratio of 1.43 at 31 March 2022 (2021: 1.27).

Figures in Rand thousand 2022 2021

10. Investment in associate

Name of company	*Ownership interest 2022*	*Ownership interest 2021*	*Carrying amount 2022*	*Carrying amount 2021*
EFS Holdings Proprietary Limited	49.00 %	49.00 %	-	-

During the year an agreement was concluded for the sale of the shares and claims for a consideration of R15.0 million paid in 10 instalments. The repayment is attributable the claims first, with shareholding transferring on settlement of the last remaining instalment in June 2022. The loans were fully provided so settlement of the outstanding balance results in an impairment reversal which is recorded in profit or loss. The agreement states that should there be any breach in the contract the purchaser has no right to restitution.

Summarised financial information

	2022	2021
Revenue	25,997	15,419
Other income and expenses	(18,986)	(14,814)
Profit before tax	7,011	605
Total comprehensive income	7,011	605

Assets

	2022	2021
Non-current	*10,434*	*8,283*
Current		
Cash and cash equivalents	6,760	4,823
Other current assets	4,279	286
Total current assets	11,039	5,109

Liabilities

	2022	2021
Non-current		
Non-current financial liabilities	43,735	47,357
Current		
Other current liabilities	10,400	5,708
Total net assets	(32,662)	(39,673)

Reconciliation of net assets to investment

	2022	2021
Interest in joint venture at percentage ownership	(16,004)	(19,440)
Share of profit for the current year not recognised due to prior unrecognised losses	(3,436)	-
Loans invested	23,854	34,354
Impairment	(4,414)	(14,914)
Carrying value	-	-

	2022	2021
Investment at beginning of period	-	-
Cash received	(10,500)	-
Impairment reversal recognised in profit or loss	10,500	-
Investment at end of period	-	-

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2022	2021

11. Other receivables

Financial instruments:		
Sundry receivables	10,313	11,256
Staff loans and advances	269	366
Loan receivables	8,266	10,411
Non-financial instruments:		
Prepayments and deposits	5,448	4,228
	24,296	26,261

Loan receivables include loans to RP Views Proprietary Limited, Dorreal Properties Proprietary Limited and Aspire Academic Holdings Proprietary Limited arising from the sale of investments in a joint venture and associate in the prior year. The closing balance of the loans are R2.6 million (2021: R3.7 million), R0.9 million (2021: R1.9 million) and R3.0 million (2021: 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:

At amortised cost	18,848	22,033
Non-financial instruments	5,448	4,228
	24,296	26,261

12. Derivatives

Hedging derivatives		
Cross currency swaps	12,183	18,847
	12,183	18,847

The cross currency swaps 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. The group is able to set this off against the swap liability in terms of the contract. The amounts offset are as follows:

Offsetting financial assets and financial liabilities		
Gross amount of cross currency swap (liability)	(2,817)	3,847
Cash collateral asset	15,000	15,000
	12,183	18,847

Reconciliation of financial assets and liabilities classified as level 3		
Opening balance	18,847	28,700
Recognised in other comprehensive income	(6,664)	(9,853)
	12,183	18,847

13. Cash and cash equivalents

Bank balances	59,215	52,175
Investments in money market funds	298,061	374,570
Cash on hand	32	48
	357,308	426,793

Figures in Rand thousand	2022	2021

13. Cash and cash equivalents (continued)

Cash and cash equivalents with a carrying value of R253.0 million (2021: R355.5 million) in special purpose entities are not available for use by the group.

The average return earned on cash and cash equivalents was 4.3% (2021: 4.5%).

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 can be assessed by reference to external credit ratings.

Credit rating	2022	2021
AA+ *	5,132	4,333
Aa1.za **	59,215	52,175
AA *	-	264,031
AA- *	292,929	106,206
	357,276	426,745

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

14. Provisions

Reconciliation of provisions - 2022

	Opening balance	Additions	Utilised during the year	Interest	Total
Short term incentive provision	13,469	28,494	(8,523)	125	33,565
Long term incentive provision	-	23,554	-	-	23,554
	13,469	52,048	(8,523)	125	57,119

Reconciliation of provisions - 2021

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

In the current year the group launched a long term incentive scheme with the objective to bring alignment between shareholder value creation and employee wealth creation.

15. Deferred tax

Deferred tax for recognised assets or liabilities is attributable to the following:	2022	2021
Advances	(5,861)	(9,273)
Provisions	193	1,341
Tax losses available for set off against future taxable income	2,474	7,583
Deferred finance costs and prepayments	(867)	-
Derivative liability timing difference	3,246	-
	(815)	(349)

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2022	2021

15. Deferred tax (continued)

Reconciliation of deferred tax for recognised assets or liabilities

At beginning of year	(349)	-
Advances	3,412	(9,273)
Provisions	(1,148)	1,341
Decrease in tax loss available for set off against future taxable income	(5,109)	(3,679)
Deferred finance costs and prepayments	(867)	-
Deferred tax asset not recognised previously now utilised	-	11,262
Derivative liability timing differences	3,246	-
	(815)	(349)

At beginning of year	(349)	-
Tax charged to profit or loss	(466)	(349)
	(815)	(349)

The policy of the group 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 158.2 million (2021: R1 198.4 million) that are available indefinitely for offsetting against future taxable profits. These losses have not been recognised on the group statement of financial position.

16. Trade and other payables

Financial instruments:		
Trade payables	8,022	6,394
Accrued leave pay	9,180	8,947
Accrued expenses	23,736	17,777
Non-financial instruments:		
VAT	3,369	4,353
	44,307	37,471

17. Revenue

Revenue from contracts with customers		
Outsourced collection income	51,144	45,556
Revenue other than from contracts with customers		
Interest and similar income	498,561	539,905
Net insurance premiums (refer to note 19)	78,103	88,655
	576,664	628,560
	627,808	674,116

18. Gross yield from assets

Interest and similar income	498,561	539,905
Net assurance income - credit life	34,838	44,170
	533,399	584,075

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2022	2021

19. Net insurance income

Credit life	34,838	44,170
Funeral benefits	26,126	23,518
	60,964	67,688
Net insurance premiums		
Premiums received	80,007	90,466
Premiums paid to reinsurers	(1,904)	(1,811)
	78,103	88,655
Net insurance benefits		
Insurance benefits	(19,962)	(21,437)
Insurance benefits recovered from reinsurers	2,823	470
	(17,139)	(20,967)
	60,964	67,688

20. Other income

Administration fees received	6,995	6,902
Gain on derecognition of right-of-use asset	-	1,558
Profit on sale of equipment	1,094	587
Profit on sale of investments	-	11,442
Reversal of impairment loss on trade and other receivables	-	1,024
Reversal of impairment loss on investment in associate	10,500	-
Other income	4,307	977
	22,896	22,490

21. Operating profit

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

Auditor's remuneration - external		
Audit fees	7,103	5,100
Adjustment for previous year	-	2,238
Other consultation services	2	97
Expenses	-	3
	7,105	7,438

Employee costs

Remuneration	249,156	203,784
Retirement benefit plans: defined contribution expense	6,562	4,292
Termination benefits	1,281	14,271
	256,999	222,347

Depreciation and amortisation		
Depreciation of equipment	8,331	9,076
Depreciation of right-of-use assets	2,063	3,110
Amortisation of intangible assets	-	348
	10,394	12,534

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2022	2021

22. Finance costs

Borrowings	114,791	141,591
Lease liabilities	504	648
Tax authorities	9	17
	115,304	142,256

23. Foreign exchange (loss) gain

Loss on derivatives	(5,962)	(5,103)
Gain on restatement of borrowings	4,704	6,523
	(1,258)	1,420

24. Income tax expense

Major components of the tax expense

Current		
Income tax - current period	3,174	7,025
Income tax - recognised in current tax for prior periods	(1,982)	(7,145)
Income tax - OMART Cell Captive	1,795	3,467
	2,987	3,347
Deferred		
Originating and reversing temporary differences	466	349
	3,453	3,696

Reconciliation of the tax expense

Applicable tax rate	28.00 %	28.00 %
Tax losses not raised as deferred tax assets	1.91 %	9.20 %
Deferred tax asset not recognised previously now utilised	(23.83)%	(30.67)%
Exempt income	(1.68)%	(5.25)%
Legal and consulting fees not deductible	0.18 %	0.29 %
Income subject to capital gains tax	(5.94)%	- %
Other expenses not deductible for tax purposes	2.46 %	0.38 %
Expenditure not incurred in the production of income from trade	2.17 %	1.50 %
Prior year adjustments	(0.43)%	(0.16)%
Average effective tax rate	2.84 %	3.29 %

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2022	2021

25. Cash generated from operations

	2022	2021
Profit before taxation	121,732	112,327
Adjustments for:		
Depreciation and amortisation	10,396	12,534
Gains on disposal of equipment	(1,094)	(587)
Loss on plant and equipment written off	-	1,114
Losses (gains) on foreign exchange	1,258	(1,420)
Income from equity accounted investments	-	(2)
Finance costs	115,304	142,256
Gain on sale of investment	-	(11,442)
Impairment loss (reversal) on trade and other receivables	561	(1,024)
Gain on lease modification	-	(1,558)
Movements in provisions	43,650	5,551
Interest and fees charged to customers	(481,447)	(583,203)
Impairment gain on net advances	(62,061)	(3,080)
Impairment reversal on investment in associate	(10,500)	-
Profit before tax from OMART Cell Captive (refer to note 9)	(6,410)	(12,381)
Changes in working capital:		
Other receivables	(905)	3,227
Trade and other payables	6,702	3,641
Origination of advances	(362,481)	(146,554)
Purchase of advances	(227,639)	(165,545)
Receipts from advances	1,070,963	1,146,609
	218,029	500,463

26. Tax paid

	2022	2021
Opening balance	2,248	(5,232)
Current tax for the year recognised in profit or loss	(2,987)	(3,347)
OMART Cell Captive tax charge	1,795	3,467
Interest	-	(10)
Closing balance	3,335	(2,248)
	4,391	(7,370)

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.

27. Changes in liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities - 2022

	Opening balance	*Interest accrual*	*Fair value changes*	*Other non-cash movements*	*Total non-cash movements*	*Cash flows*	*Closing balance*
Borrowings	1,240,560	-	(4,469)	-	(4,469)	(181,981)	1,054,110
Lease liabilities	5,717	504	-	(2,218)	(1,714)	-	4,003
	1,246,277	504	(4,469)	(2,218)	(6,183)	(181,981)	1,058,113

Figures in Rand thousand 2022 2021

Notes to the Audited Consolidated Annual Financial Statements

27. Changes in liabilities arising from financing activities (continued)

Reconciliation of liabilities arising from financing activities - 2021

	Opening balance	*Lease derecognition*	*Interest accrual*	*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

28. Contingencies

African Frontier Capital (Proprietary) Limited (AFC) provided treasury services to the group 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 group has a concomitant claim against AFC.

29. Related parties

Relationships

Shareholders with 5% or more voting rights	Ninety One SA 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 33
Associate	Refer to note 10

Related party balances

Borrowings owing to shareholders with voting rights of 5% or greater	2022	2021
Ninety One SA Proprietary Limited	60,069	105,948
Norwegian Investment Fund for Developing Countries	16,525	29,147
BIFM Capital Investment Fund No.1 Proprietary Limited	17,992	33,362
	94,586	168,457

Amounts included in trade receivables regarding related parties	2022	2021
Stratcap Funding Proprietary Limited*	-	3,424
IQ Academy Proprietary Limited*	247	415
Aspire Academic Holdings Proprietary Limited*	3,027	4,397

Figures in Rand thousand	2022	2021

29. Related parties (continued)

Related party transactions

	2022	2021
Interest accrued to related parties		
Ninety One SA Proprietary Limited	8,823	14,095
Norwegian Investment Fund for Developing Countries	2,427	3,878
BIFM Capital Investment Fund No.1 Proprietary Limited	2,755	4,796
	14,005	22,769
Services to related parties		
Administrative fees received from IQ Academy Proprietary Limited*	4,006	3,726
Administrative fees received from Imfundo Finance (RF) Limited*	2,974	3,159
Sale to related party		
Sale of shares and junior loan in Imfundo Finance (RF) Limited to Aspire Academic Holdings Proprietary Limited*	-	6,472

* related party as there is a common director

30. Directors' emoluments

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

Executive

2022

	Salaries	*Incentive bonus*	*Other benefits*	*Total*
N Grobbelaar	3,596	1,167	152	4,915
DJ Munro	2,418	405	105	2,928
	6,014	1,572	257	7,843

2021

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

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. Other benefits include provident fund contributions.

Service contracts

All executive directors are subject to written employment agreements.

Notes to the Audited Consolidated Annual Financial Statements

30. Directors' emoluments (continued)

Non-executive

2022

	Directors' fees	*Committee fees*	*Directors' fees for services as directors of subsidiaries*	*Total*
NW Thomson	659	262	-	921
PG de Beyer	329	257	-	586
DTV Msibi	329	124	-	453
RR Buddle	329	290	20	639
	1,646	933	20	2,599

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

31. Financial instruments and risk management

Categories of financial instruments

2022

R'000	Notes	*Fair value through profit or loss*	*Amortised cost*	*Total*	*Fair value*
Net advances	4	-	1,129,019	1,129,019	1,425,671
Derivatives	12	12,183	-	12,183	15,000
Other receivables	11	-	18,848	18,848	18,848
Cash and cash equivalents	13	-	357,311	357,311	357,311
Borrowings	6	-	(1,054,110)	(1,054,110)	(1,055,904)
Trade and other payables	16	-	(40,916)	(40,916)	(40,916)
		12,183	410,152	422,335	720,010

2021

R'000	Notes	*Fair value through profit or loss*	*Amortised cost*	*Total*	*Fair value*
Net advances	4	-	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	6	-	(1,240,560)	(1,240,560)	(1,243,973)
Trade and other payables	16	-	(33,117)	(33,117)	(33,117)
		18,847	241,503	260,350	602,284

Figures in Rand thousand

31. Financial instruments and risk management (continued)

Capital risk management

The group's objective when managing capital is to safeguard the group'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.

- Permanent Capital means total equity less reserves for cash flow hedges, equity in non-recourse funding special purpose vehicles, any impairment on junior loans 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, and any intangible asset but includes the net value of junior investments in non-recourse funding special purpose vehicles.

The ratio is 73.8% at 31 March 2022 (2021: 51.3%) which is above the minimum requirement of 25.0% 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 group 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:

		2022			2021		
	Notes	***Gross carrying amount***	***Credit loss allowance***	***Amortised cost / fair value***	***Gross carrying amount***	***Credit loss allowance***	***Amortised cost / fair value***
Net advances	4	2,582,319	(1,453,300)	1,129,019	2,687,878	(1,621,524)	1,066,354
Other receivables	11	18,848	-	18,848	22,033	-	22,033
Derivatives	12	12,183	-	12,183	18,847	-	18,847
Cash and cash equivalents	13	357,311	-	357,311	426,793	-	426,793
		2,970,661	(1,453,300)	1,517,361	3,155,551	(1,621,524)	1,534,027

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

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 take 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.

Figures in Rand thousand

31. Financial instruments and risk management (continued)

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 cash balance as outlined in note 7.

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.

2022

	1 to 3 months	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets	600,823	633,712	1,551,154	76,698	2,862,387
Liabilities	(125,086)	(334,888)	(731,974)	-	(1,191,948)
	475,737	298,824	819,180	76,698	1,670,439

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

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.

Foreign currency risk

The group 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 or losses.
- 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.

Figures in Rand thousand	2022	2021

31. Financial instruments and risk management (continued)

Norwegian Krona	22,866	41,847
Swedish Krona	27,534	52,593
Botswana Pula	17,992	33,362
	68,392	127,802

Exposure in foreign currency amounts

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

Norwegian Krona (NOK'000)	13,714	24,188
Swedish Krona (SEK'000)	17,622	31,079
Botswana Pula (BWP'000)	14,130	24,921

Exchange rates

The following closing exchange rates were applied at reporting date:

Rand per unit of foreign currency:		
Norwegian Krona	0.600	0.578
Swedish Krona	0.640	0.591
Botswana Pula	0.785	0.747

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 R1.1 million (2021: R3.3 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 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 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.

Figures in Rand thousand

31. Financial instruments and risk management (continued)

2022	*3 months*	*6 months*	*12 months*	*24 months*
Cumulative profit (loss): 50 basis points increase				
Evolution Finance - Performing loans	617	1,234	2,468	4,936
Cash and cash equivalents	447	893	1,787	3,573
Evolution Finance - Non-performing loans	(292)	(292)	(292)	(292)
Additional interest income on assets	772	1,835	3,963	8,217
Additional interest expense on liabilities	(567)	(1,662)	(3,862)	(8,448)
	205	173	101	(231)

2021	*3 months*	*6 months*	*12 months*	*24 months*
Cumulative profit (loss): 50 basis points increase				
Evolution Finance - Performing loans	582	1,163	2,327	4,653
Cash and cash equivalents	533	1,067	2,134	4,268
Evolution 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)

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

2022	*0-3 months*	*4-6 months*	*7-12 months*	*13-24 months*
Cash flow impact for the period: 50 basis points increase				
Evolution Finance - Performing loans	-	-	-	-
Cash and cash equivalents	447	446	893	1,787
Fixed rate assets	-	-	-	-
Borrowings	(36)	(1,064)	(2,177)	(4,494)
	411	(618)	(1,284)	(2,707)

2021	*0-3 months*	*4-6 months*	*7-12 months*	*13-24 months*
Cash flow impact for the period: 50 basis points increase				
Evolution Finance - Performing loans	-	-	-	-
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)

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.

Figures in Rand thousand

32. Segmental information

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

Reportable segment	***Products and services***
Evolution Finance (formerly Home Finance)	Provides credit and related financial services (credit life cover) to customers of building supply merchants.
Acquired Debt	Purchases and collects non-performing loan portfolios. Owns and collects the discontinued receivables of the group.
Outsourced Collections	Collects outstanding debt on the behalf of corporate outsourced clients.
Evolution Life (formerly Real People Life)	Operating from a cell captive structure, this channel provides a variety of funeral, disability and loss of income benefits to customers.

Although the Outsourced collections and Evolution Life channels do not meet the quantitative thresholds required by IFRS 8 it is closely monitored by Core Exco as a potential growth area and is expected to materially contribute to group revenue in future.

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. The measure excludes the effects of income tax expense as this is managed by the central team for each legal entity within the group.

2022

	Net yield	*Other income*	*Total income after impairments*	*Profit (loss) before tax*	*Finance costs*
Evolution Finance	222,149	20	222,169	132,753	(52,251)
Acquired Debt	367,311	-	367,311	180,680	(62,178)
Outsourced Collections	-	51,072	51,072	13,071	-
Evolution Life	906	26,126	27,032	(93)	-
Channel total	590,366	77,218	667,584	326,411	(114,429)
Reconciling items					
Central cost centres and head office functions				(204,679)	
Profit before tax				121,732	

2021

	Net yield	*Other income*	*Total income after impairments*	*Profit (loss) before tax*	*Finance costs*
Evolution 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	-
Evolution 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

32. Segmental information (continued)

Segment assets and liabilities

2022

	Total assets	*Total liabilities*
Evolution Finance	643,889	(491,992)
Acquired Debt	740,074	(503,787)
Outsourced collections	5,077	(5,488)
Evolution Life	18,324	(16,552)
Channel total	1,407,364	(1,017,819)
Reconciling items		
Central cost centres and head office functions	150,013	(145,870)
Total as per consolidated statement of financial position	1,557,377	(1,163,689)

2021

	Total assets	*Total liabilities*
Evolution Finance	676,514	(645,801)
Acquired Debt	841,856	(884,017)
Evolution 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)

33. Group structure

The audited consolidated annual financial statements include the results of Evolution Credit Limited and all its subsidiaries and special purpose entities. The country of incorporation and principal place of business for all the entities within the group is South Africa.

The subsidiaries of the group are:
- Opco 365 Proprietary Limited
- Evolution Life Holdings Proprietary Limited (formerly Real People South African Holdings Proprietary Limited)

Real People Assurance Company Limited has been deregistered. DMC Debt Management Holdings Proprietary Limited is no longer trading and is in the process of being deregistered.

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.

34. Going concern

The audited consolidated annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. The assessment of going concern is based on the group's annual forecast which assumes an outcome that is more likely than not. Based on the group's annual forecast the group is able to meet its financial covenants and has sufficient financial resources to meet its obligations as they fall due within the foreseeable future (twelve months from signature date).

Notes to the Audited Consolidated Annual Financial Statements

34. Going concern (continued)

The directors considered the following:

- The group currently has a high and growing capital ratio with significant headroom over the forecast period.
- Receipting haircuts have been included in the calculation of expected credit losses to cater for weakening macro-economic conditions and lower overall debit order success rates, which is included in the annual forecast.
- The annual forecast can absorb a further 4.74% receipting haircut before either the cost to income ratio or minimum cash balance covenants are breached. This is equivalent to a 2.8 times error over and above the year end adjustment for forward looking indicators as outlined in note 3.1
- Inflation would have to more than double before increased costs result in a breach in the cost to income ratio. An increase to this extent is not anticipated.
- The group can withstand a significant funding stress over the next 12 months and still be able to meet its obligations as they fall due.
- The special purpose funding entities have significant buffers in their covenants with low risk of being breached.

The directors are not aware of any new material changes that may adversely impact the group. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the group.

35. Events after the reporting period

Umuzi Finance (RF) Ltd has been engaging lenders to restructure the entity with the goal of improving the credit rating of the entity, reducing funder risk and enhancing returns. The changes include increased minimum capital levels, updated portfolio covenants, updates to junior note terms and an updated servicer fee structure.

The directors are not aware of any 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.