Real People Investment Holdings Limited
Audited consolidated annual financial statements
For the year ended 31 March 2019

General information

Country of incorporation and domicile	South Africa
Company registration number	1999/020093/06
Nature of business and principal activities	Home finance, debt acquisition and management services, long term insurance products
Registered office	160 Jan Smuts Avenue North Tower, Upper Ground Rosebank Johannesburg
Postal address	PO Box 19610 Tecoma East London 5214
Group head office contact details	Telephone: +27 (0) 10 245 8000/1 E-mail: corporate@realpeople.co.za
Website	Corporate website: www.realpeoplegroup.co.za Consumer website: www.realpeople.co.za
Auditors	Deloitte & Touche Chartered Accountants (SA) Registered Auditors
Level of assurance	The audited consolidated financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
Preparer	The audited consolidated financial statements were internally compiled by: MT Laube, CA(SA), Group: Head of Finance
Issued	20 June 2019

Contents

Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act 71 of 2008 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 regular reports from the Group Information Technology function on the adequacy and effectiveness of the group's information system controls. The board also received regular reports from the business unit 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). In making this assessment, the directors have taken into consideration continued progress from the group's re-entry into the debt capital market post re-structure, through its securitisation programmes as well as the successful historic performance track record of these funding vehicles. The group targets and stress scenario analysis give the directors sufficient assurance to justify the going concern basis.

The external auditors are responsible for independently auditing and reporting on the group's consolidated financial statements. The consolidated financial statements have been examined by the group's external auditors and their report is presented on pages 14 to 18.

The audited consolidated annual financial statements set out on pages 19 to 59, which have been prepared on the going concern basis, were approved by the board on 20 June 2019 and were signed on their behalf by:

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

Johannesburg

20 June 2019

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

Johannesburg
20 June 2019

Audit Committee Report

Overview

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

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

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

Composition and governance

The RPIH AC has four members, all of whom are independent non-executive directors. The committee met 5 times during the period including the meeting to approve the financial statements.

Name	Audit Committee attendance
KT Hopkins - Chairman	5/5
PG de Beyer	5/5
DTV Msibi	5/5
N Thomson	5/5

The chair of the committee reports to the board on its activities and the matters discussed at each meeting, highlighting any key items where action is required and provides recommendations for their resolution.

The Group Chief Executive Officer (CEO), the Group Chief Financial Officer (CFO), the Chief Executive Officer of DMC[1], the Chief Executive Officer of Home Finance[1], the Internal Audit Partner of KPMG, and representatives of the external auditors are invited to attend all RPIH AC meetings. Other members of management are invited to attend certain meetings in order to provide the committee with greater insight into specific issues or areas of the group.

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

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

The performance of the committee is assessed annually as part of the effectiveness review of the board and all its committees. The 2019 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, and for considering the major findings of any internal investigations into control weaknesses, fraud or misconduct, and management's response thereto.

The RPIH AC receives regular reports from internal audit as part of the planned internal audit programme, which assists in evaluating the group's internal controls. Internal audit places emphasis on accountability, responsibility, independence, reporting, communication and transparency, both internally and in respect of all RPIH key external stakeholders. 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

[1] DMC and Home Finance are divisions of the group. Refer to note 31 of the financial statements for a summary of the four divisions.

Audit Committee Report

- identifying and recommending corrections to weaknesses in systems and internal controls.

The RPIH AC receives regular reports from the Group Information Technology function on the adequacy and effectiveness of the group's information system controls. It also receives regular reports from the business unit Credit and Pricing Committee Members regarding the adequacy and effectiveness of the credit monitoring processes and systems.

The RPIH AC receives regular reports regarding the group's key issues control log 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 effect the required improvements.

Having considered, analysed, reviewed and debated information provided by management, internal audit and the external auditors, the RPIH AC has recommended to the RPIH board that internal controls and mitigating actions by management where control processes require improvement provide the AC with sufficient assurance that controls are in place or subject to a programme of improvement. Due to the complexity of many of the matters the board is required to exercise judgement over; the board and management have and continue to make use of external independent advisors to inform these judgements. In this regard, it should be noted that the board obtained independent expert advice and considered this in terms of the application of complex accounting standards applicable to the group’s advances portfolios when IFRS 9 was implemented in 2018.

Financial reporting process

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

The RPIH AC 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. The RPIH AC also reviewed and approved the related group policies.

The RPIH AC assessed and confirmed the appropriateness of the going-concern assumption used in the annual financial statements after reviewing management budgets and forecasts, as well as the funding forecast and forecast liquidity position. In making this assessment, the directors have taken into consideration continued progress from the group’s re-entry into the debt capital market post re-structure, through its securitisation programmes as well as the successful historic performance track record of these funding vehicles.

The assessment of going concern was based on the group’s forecasts, covering the period 2020 to 2022 as well as an appropriate stress scenario for assessment of going concern risk over the 12 months to 30 June 2020.

The RPIH AC also:

- received a summary of the key technical accounting matters from the Group CFO for consideration as well as a summary of critical accounting judgements and estimates made during the financial reporting period;
- received feedback where there has been 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.

Audit Committee Report

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

Area of judgement	Judgements Applied	RPIH AC Assessment and Conclusion
Credit risk provisioning	*Determination of expected losses* Consideration was given to exposure, the probability of default (PD), loss given default (LGD) and the exposure at default. *Assessment of significant deterioration in credit quality* IFRS 9 includes a rebuttable presumption that there has been an initial significant deterioration in credit quality when loans are 30 days in arrears (moving from stage 1 to stage 2) and then at 90 days (moving from stage 2 to stage 3). This classification determines the inputs into the credit impairment modelling and specifically whether a 12 month or lifetime PD is applied (move from stage 1 to stage 2). *Macro-economic factors* The group has performed and considered a detailed regression analysis on macro-economic factors including: CPI, Prime rate, petrol price, unemployment rate, GDP and unsecured credit supply.	RPIH AC relied on the appropriate level of input from internal and external experts to provide assurance that the model, its inputs and the disclosures relating to the financial instruments, and the key judgements and estimates applied in the determination thereof, to be appropriate and in accordance with the underlying accounting standards.
Credit impaired assets	All books purchased are assumed to originate in stage 3 as Purchased Originated Credit Impaired 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 RPIH AC relied on the appropriate level of input from internal and external experts to provide assurance on the work performed by credit modelling specialists. RPIH AC concluded the model, its inputs and the disclosures relating to the financial instruments, and the key judgements and estimates applied in the determination thereof, to be appropriate and in accordance with the underlying accounting standards.
Valuation of complex financial instruments	Valuation of certain financial instruments, such as derivatives, requires greater judgement and involves estimations to determine the appropriate valuation techniques to apply and to source relevant and reliable inputs. Fair value measures of financial instruments significantly affect profit or loss and disclosure of financial risks in the financial statements. Fair value calculations are dependent on various sources of external and internal data and on sophisticated modeling techniques which are evolving as markets become more sophisticated.	RPIH AC relied on the appropriate level of input from internal and external experts to provide assurance that the valuation models, their inputs and the disclosures relating to these financial instruments, and the key judgements and estimates applied in the determination thereof, to be appropriate and in accordance with the underlying accounting standards.

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Complexity in application of hedge accounting	The group is exposed to financial risk through its diverse funding structures spanning multiple geographic locations. Hedge accounting is applied on certain funding transactions to manage these financial risks. The valuation of the underlying hedged items and hedge instruments, along with the calculation of hedge effectiveness and hedge reserve balances can involve complex quantitative models and significant judgements associated with assumptions and hedge accounting methodologies that increase the risk of potential errors. Furthermore, the accounting treatments may result in significant balances for the group.	The RPIH AC considered the appropriateness and consistent application of the accounting policies with the requirements of the board. RPIH AC relied on the appropriate level of input from internal and external experts to provide assurance that the hedge accounting methodologies applied were applied in terms of the requirements of IFRS taking guidance where necessary. RPIH AC concluded the model, its inputs and the disclosures relating to the financial instruments, and the key judgements and estimates applied in the determination thereof, to be appropriate and in accordance with the underlying accounting standards.
Deferred tax asset recognition	The group has estimated and assessed tax losses within certain statutory entities which have not been recognised in the Statement of Financial Position as the group policy states that deferred tax assets will not be recognised until recoverability is probable. The amount of deferred tax assets is based on estimates and assumptions. Management has assessed the recoverability of the deferred tax assets taking account the expected and forecast future taxable income of the entities, including appropriate taxation planning strategies.	The deferred tax recognition policy of the group remained unchanged. Due to the group having a history of recent losses, it will only recognise the deferred tax asset from those losses if there is convincing evidence that there will be sufficient taxable profit against which those losses may be utilised.
Uncertain tax positions	The nature of certain group financial products gives rise to uncertainty relating to the tax treatment and tax allowances. Appropriate research is conducted and expert opinions obtained to minimise the risk of tax misstatements. With this in mind the group is considered to have adequately provided for its tax liabilities. To the extent that the group's tax methodologies and positions require consultation with relevant experts, this is done after appropriate research and development to mitigate the risk of tax misstatements. In so doing, the group ensures that it meets its tax compliance requirements with the required governance and oversight to support its obligations.	The RPIH AC focused efforts on understanding the nature of uncertain tax positions. With the assistance of independent tax experts, assessed the nature and extent of tax exposures and the reasonableness of management's and external expert's conclusions on whether exposures are probable, contingent or remote. Where exposures are considered probable, the RPIH AC evaluated whether provisions with respect to those exposures were required and assessed the probabilities of the uncertain tax position materialising based on management's discussions and communications with relevant tax authorities and external opinions received.

External audit findings

The external auditors have prepared their audit report including key audit matters. They have actively engaged with the RPIH AC in this regard. The audit report aims to provide information that allows users of the financial statements to understand how the external auditors have considered and evaluated the significant matters identified during the course of their audit.

The RPIH AC considered the significant audit issues that formed the basis of the auditors' opinion, which are presented on pages 14 to 18 in the auditor's report.

Combined assurance

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

Audit Committee Report

in place for the combined assurance model are adequate and will achieve the objective of a more effective, integrated approach across the disciplines of risk management, compliance and audit. The journey of combined assurance will continuously evolve as the process matures within the organisation.

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 AC chair and an operational reporting line to the Group CFO.

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

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

External auditors

The RPIH AC is responsible for the appointment, compensation and oversight of the external auditors for the group. The RPIH AC has a well-established policy on auditor independence and audit effectiveness. During the financial year ended to 31 March 2019, the RPIH AC:

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

An annual review of the quality of the audit and performance of the external auditors was undertaken in 2018. This review included questionnaires completed by key finance staff, internal audit staff central to the assessment process and members of the RPIH AC.

As part of the assessment of the external auditors' independence, the committee reviewed and approved 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 18 to the annual financial statements. The RPIH AC is of the view that the group received an efficient, effective and independent audit service. The RPIH AC recommended that the shareholders reappoint Deloitte as the external auditors for 2020.

Accounting developments

Refer to note 2 of the financial statements.

Regulatory reporting processes

The RPIH AC reviewed the adequacy of the regulatory reporting processes, which includes evaluation of the quality of reporting and the adequacy of systems and processes, and consideration of any findings regarding the regulatory reports by the external auditors.

Update on key focus areas for 2019

- Changes to IFRS
  - IFRS 9: Financial Instruments – The group continued to refine the methodology used as best practice evolved and will continue to do so now that IFRS 9 is effective for all organisations.
  - IFRS 15: Revenue from Contracts with Customers – The majority of the revenue earned by the group is from financial instruments and insurance contracts which are governed by other standards. The impact on the residual income was not significant for the group.
  - Uncertain tax positions – A significant amount of work has been done, in consultation with external experts, to resolve outstanding tax matters where the tax authorities may have indicated disagreement with the group's tax treatment.

Audit Committee Report

- Internal controls
  - There have been improvements in the group's financial systems, processes and controls, however, this continues to be an area of focus to ensure that they are operating effectively, are consistent with the group's complexity and are responsive to changes in the environment and industry.
- Enterprise-wide Risk Management (ERM):
  - Management have implemented an ERM culture and process across the group under a newly approved Combined Risk Assurance Framework and Policy. Management have implemented registers for the top operational and strategic risks, as well as Divisional Risk and Audit Committees that see division level embedded focus on risk and assurance activities as well as group and divisional risk capacity assessments accompanied by group risk bearing capacity analysis.

Key focus areas for 2020

- Taxation
  - Ongoing focus on tax compliance and risk management.
- Internal controls
  - Continued focus on ensuring that the group's financial systems, processes and controls, are operating effectively, are consistent with the group's complexity and are responsive to changes in the environment and industry.
- Enterprise-wide Risk Management (ERM):
  - Enhancements to stress testing analysis in relation to risk bearing capacity and balance sheet structure.
  - Ongoing embedding of the risk management culture and leadership at both group and divisional levels.

Annual financial statements

- The RPIH AC reviewed and discussed the audited annual financial statements with the Group CFO, the Group CEO, internal audit and the external auditors. The RPIH AC assessed, and found the following to be effective and appropriate:
  - the financial reporting process and controls that led to the compilation of the annual financial statements;
  - the presentation and disclosure in the annual financial statements in accordance with the approved accounting policies, the requirements of IFRS and the Companies Act.
- The RPIH AC recommended to the board that the annual financial statements be approved. The board subsequently approved the annual financial statements, which will be open for discussion at the forthcoming annual general meeting.

Ken Hopkins
Audit Committee Chairman

Johannesburg
18 June 2019

Directors' Report

The directors submit their report on the audited consolidated annual financial statements of Real People Investment Holdings Limited and its subsidiaries, associates and joint venture ("the group") for the year ended 31 March 2019.

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

1. Nature of business

Real People Investment Holdings Limited comprises three principal divisions 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 71 of 2008. The accounting policies have been applied consistently compared to the prior year.

The group recorded a net profit after tax for the year ended 31 March 2019 of R65.0 million (2018: R73.8 million).

The DMC division establised a new securitisation vehicle, DMC Evolution (RF) Proprietary Limited. This entity has been set up as an evergreen funding structure which is able to enter into bi-lateral loan agreements and issue debt instruments on a private placement basis. The entity is fully consolidated in the group results.

There has been a delay in the transfer of insurance policies from Real People Assurance Company Limited to a cell captive. The intention remains for this transaction to be concluded before the end of the next financial year. The staff and other assets and liabilities will be transferred to another company in the group. The intention is for Real People Assurance Company Limited to be deregistered once the policies and operations have transferred. The cell captive arrangement between the third party and the group will be accounted for as an in-substance re-insurance contract in the financial statements of the group once the new structure is operational.

3. Events after the reporting period

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

4. Going concern

The directors consider it appropriate to adopt the going concern basis for preparing the consolidated annual financial statements, as the directors have no intention to liquidate the group or cease trading within the foreseeable future (twelve months from signature date). In making this assessment, the directors have taken into consideration continued progress from the group’s re-entry into the debt capital market post re-structure, through its securitisation programmes as well as the successful historic performance track record of these funding vehicles.

In addition to the cash balance per the Statement of Financial Position, to meet obligations over the next 12 months the group has a pipeline of R190 million undrawn credit approvals in place and the group’s strong cash generative business lines are producing receipting in excess of R100 million per month.

The assessment of going concern was based on the group’s forecasts, covering the period 2020 to 2022 as well as an appropriate stress scenario for assessment of going concern risk over the 12 months to 30 June 2020.

Directors' Report

5. Corporate governance

The company has a balanced unitary board comprising a majority of independent non-executive directors (the board). The independent non-executive chairman of the board is N Thomson.

The group has an overarching governance framework that incorporates principles of governance to facilitate effective and dynamic management and oversight of a group containing several regulated entities. This overarching governance structures is set out in the Group Approvals and Governance Framework (the Framework), which contains the internal operating framework and governance structure of the group. The company resolved to adhere to the Framework, noting that it is a governance framework for the promotion of efficiency and mitigation of risk, both in the interest of the company and the group, whilst maintaining the primacy of the fiduciary duties of the board. The board has chosen to adopt the principles of King IV over time in a process of governance enhancement.

- **Role of the board of directors**
  The board has a charter which defines its functions and responsibilities, and separates such from the role of management.

- **Performance and assessment of the board of directors**
  The board meets regularly, having met for six scheduled meetings during the 2019 financial year, including sessions specifically devoted to strategy and business planning. All independent non-executive directors are remunerated for their services to the board and committees.

- **Access to company resources**
  All directors have access to management, including the Company Secretary, and to such information as is needed to carry out their duties and responsibilities fully and effectively. The Company Secretary provides the board with support to ensure its effective functioning and the proper administration of board proceedings. The Company Secretary ensures that the independent non-executive directors are kept informed on latest developments regarding the company's business through a formal communication processes.

- **Chairman and Managing Director**
  The roles of the Chairman and the Chief Executive Officer are separate.

There are five subcommittees to assist the board in discharging its responsibilities. All board committees have formally delegated terms of reference and report to the board. The committees are chaired by independent non-executive directors, supported by the Company Secretary and are free to take independent professional advice as and when necessary.

6. Directorate

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

Directors	*Office*	*Designation*
N Thomson	Chairperson	Non-executive Independent
PG de Beyer		Non-executive Independent
K Hopkins		Non-executive Independent
DTV Msibi		Non-executive Independent
N Grobbelaar	Group chief executive officer	Executive
DJ Munro	Group chief financial officer	Executive

7. Company secretary

The company secretary is Ms C Wilkinson.

Postal address:	PO Box 19610 Tecoma East London 5214
Business address:	160 Jan Smuts Avenue North Tower, Upper Ground Rosebank Johannesburg 2196

Directors' Report

8. Auditors

Deloitte & Touche continued in office as auditors for the group for 2019.

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 Penny Binnie as the designated lead audit partner for the 2020 financial year.

9. Share capital

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

10. Dividends

No ordinary or preference dividends were declared for the year.

11. Borrowing powers

In terms of the Memorandum of Incorporation, the directors may exercise all the powers of the group to borrow money, as they consider appropriate. At 31 March 2019, the group's borrowings amounted to R1.5 billion (2018: R1.5 billion), refer to note 5 of the audited consolidated annual financial statements for further information relating to borrowings.

Real People Investment Holdings Limited has notes listed on the NASDAQ in Sweden.

12. Group structure

Details of material interests in subsidiaries and special purpose entities are presented in the audited consolidated annual financial statements in note 32. Associates and interest in joint venture is presented in note 8.

Deloitte.

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Real People Investment Holdings Limited (the Group) set out on pages 19 to 59, which comprise the consolidated statement of financial position as at 31 March 2019, 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 2019, 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.

Key Audit Matter	How the matter was addressed in the audit
IFRS 9 "Financial Instruments" Loans and advances carried at amortised cost less loan provision	
Loans and advances carried at amortised cost less provision are disclosed in note 3 of the consolidated Financial Statements. The associated impairment provisions are significant in the context of the consolidated financial statements. The determination of credit losses is inherently uncertain and is subject to significant judgement by the directors. Models used to determine credit impairments are complex and certain inputs are not observable. These factors individually and collectively result in a significant audit risk that credit impairments may be misstated. The Home Finance business lends to individuals. These loans are generally low in value and are assessed collectively. This process relies on models to determine incurred losses across the portfolio. Given the combination of inherent uncertainty in the valuation, the material nature of the balance and the significant judgements made by directors we considered the valuation of loans and advances and determination of impairment provisions to be a key audit matter.	In the Home Finance portfolio impairment provisions are model-driven and we therefore focused on the data used to generate the impairment provisions, as well as the appropriateness of key models by: • Testing the historical accuracy of models by assessing the historical projections versus actual losses; • Focusing on the most significant model assumptions and inputs, including probability of default, loss given default, and roll rates. We performed detailed procedures on the completeness and accuracy of the information used, and also compared internal data and assumptions to those used more widely in the market; and • Using our internal credit specialists to assess the appropriateness of the models used for each significant product type, and to perform an independent recalculation of the impairment provision for selected portfolios using our challenger models. We found that the significant judgements applied in determining the impairment against loans and advances together with the related disclosures are appropriate.
Provisions for uncertain tax positions	
The Group is subject to a complex tax regime and is required to make significant judgements in determining tax provisions. We spent a significant amount of time on tax during the audit and focused on this area. The ultimate tax treatment is uncertain, is subject to final assessment by tax authorities and potentially associated legal processes. As a result this was determined a key audit matter. Refer to note 1.3 of the consolidated Financial Statements.	Our tax specialists examined correspondence between the directors, the relevant tax authorities and the Group's external advisors. Management completed a risk analysis considering the probable outcomes of these key judgements following advice from external advisors. This analysis supported the view that it is unlikely that significant unprovided tax liabilities arise. We examined the calculation, applied our knowledge of the law to assess the available evidence and the significant judgements made by the directors. We found that the Group has recognised appropriate provisions for potential tax exposures and the related disclosures are appropriate.

Going concern	
As described in note 1.2 to the consolidated financial statements and in the directors' report, following the Group recapitalisation in November 2017, the Group is subject to financial covenants. As a result there is pressure on the Group to ensure that these are not breached during the period and for the 12 months subsequent to the signing of these consolidated Financial Statements. The directors, in considering whether a breach is likely to happen in the next 12 months, considered their budgets and forecasts. This assessment indicate that no breach is likely to happen in the next 12 months. Due to the significant judgement required by the directors in making assumptions around the future profitability of the business and its budgets and forecasts this is considered to be a key audit matter.	We performed the following audit procedures: • Challenged the reasonability of the directors' budgets and forecasts for 2020 - 2022 financial years. • Obtained a detailed understanding of the key assumptions underpinning the budgets and forecasts and their reasonability in light of the actual performance described above. • Assessed the 2019 budget to the 2019 actual results. The results at 31 March 2019 of the Group outperformed the 2019 budget. • Considered the adequacy of the negotiated revised capital structure for the Group to continue to operate as a going concern. • Reviewed the restructure agreements and considered the impact of the restructure on the forecast results. • Considered the assumptions made by the directors and how these have been incorporated in the forecasts and budgets. • 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 2020 budget and beyond. We have concluded that the disclosures on this matter are appropriate in the consolidated financial statements and that budgets and forecasts support the view that the adoption of the going concern basis of accounting is appropriate.

Other Information

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

- 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, related safeguards.

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 Real People Investment Holdings Limited for 3 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Penny Binnie
Partner
21 June 2019

Consolidated Statement of Financial Position as at 31 March 2019

Figures in Rand thousand	Notes	2019	2018
Assets			
Equipment	6	13,485	15,247
Intangible assets		1,536	3,406
Deferred tax	7	14,932	5,241
Investments in associates and joint ventures	8	28,078	24,676
Net advances	3	1,468,503	1,498,213
Other receivables	9	26,821	25,844
Derivatives	10	11,891	3,061
Cash and cash equivalents	11	428,031	344,569
Total Assets		1,993,277	1,920,257
Equity and Liabilities			
Equity			
Share capital and equity notes	4	1,308,857	1,308,857
Reserves		475	(6,576)
Accumulated loss		(886,430)	(951,369)
Total equity		422,902	350,912
Liabilities			
Borrowings - Non-current	5	960,892	976,116
Deferred tax	7	84	5,247
Provisions	12	24,600	30,177
Insurance liability	13	-	-
Borrowings - Current	5	532,884	498,043
Current tax payable		9,417	12,371
Trade and other payables	14	42,498	47,391
Total Liabilities		1,570,375	1,569,345
Total Equity and Liabilities		1,993,277	1,920,257

Consolidated Statement of Profit or Loss

Figures in Rand thousand	Notes	2019	2018
Continuing operations			
Gross yield from assets	16	735,163	785,647
Impairments		(114,957)	(92,761)
Net yield		**620,206**	**692,886**
Net assurance income - funeral benefits	17	33,984	35,204
Outsourced collection income		51,146	42,271
Other income		14,406	9,138
Operating expenses		(464,910)	(515,720)
Operating profit	18	**254,832**	**263,779**
Finance costs	19	(197,150)	(231,382)
Income from equity accounted investments		10,377	5,396
Foreign exchange losses	20	(1,199)	(8,965)
Gain on derecognition of financial liability		-	50,332
Profit before taxation		**66,860**	**79,160**
Income tax expense	21	(1,921)	(5,351)
Profit from continuing operations		**64,939**	**73,809**
Disposal group			
Loss from disposal group	22	-	(30,310)
Profit for the year		**64,939**	**43,499**
Profit (loss) attributable to:			
Owners of the parent:			
From continuing operations		64,939	73,809
From disposal group		-	(30,310)
Profit for the year		**64,939**	**43,499**

Consolidated Statement of Comprehensive Income

Figures in Rand thousand	2019	2018
Profit for the year	**64,939**	**43,499**
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	-	7,888
Effects of cash flow hedges	7,051	(6,576)
Other comprehensive income for the year net of taxation	**7,051**	**1,312**
Total comprehensive income	**71,990**	**44,811**

Consolidated Statement of Changes in Equity

Figures in Rand thousand	Share capital and equity notes	Foreign currency translation reserve	Cash flow hedging reserve	Accumulated loss	Total equity
Opening balance as previously reported	556,324	(7,888)	-	(657,273)	(108,837)
Adjustments					
IFRS 9 transitional adjustments	-	-	-	(337,595)	(337,595)
Balance at 01 April 2017 as restated	**556,324**	**(7,888)**	**-**	**(994,868)**	**(446,432)**
Profit for the year	-	-	-	43,499	43,499
Other comprehensive income	-	7,888	(6,576)	-	1,312
Total comprehensive income	**-**	**7,888**	**(6,576)**	**43,499**	**44,811**
Conversion of ordinary shares into Convertible Preference Shares	(61,467)	-	-	-	(61,467)
Convertible Preference Shares converted into B Preference Shares	(115,707)	-	-	-	(115,707)
Issue of B Preference Shares	177,174	-	-	-	177,174
Issue of C Preference Shares	141,247	-	-	-	141,247
Issue of D Payment-In-Kind notes	102,766	-	-	-	102,766
Issue of D Payment-In-Kind notes	508,520	-	-	-	508,520
Balance at 01 April 2018	**1,308,857**	**-**	**(6,576)**	**(951,369)**	**350,912**
Profit for the year	-	-	-	64,939	64,939
Other comprehensive income	-	-	7,051	-	7,051
Total comprehensive income	**-**	**-**	**7,051**	**64,939**	**71,990**
Balance at 31 March 2019	**1,308,857**	**-**	**475**	**(886,430)**	**422,902**
Note	4				

Consolidated Statement of Cash Flows

Figures in Rand thousand	Notes	2019	2018
Cash flows from operating activities			
Cash generated from operations	23	277,559	505,297
Finance costs		(179,233)	(222,514)
Tax paid	24	(15,291)	(15,328)
Net cash generated from operating activities		**83,035**	**267,455**
Cash flows from investing activities			
Additions to equipment and intangible assets	6	(5,776)	(7,693)
Proceeds on disposal of equipment and intangible assets		298	1,776
Dividend received from associate		6,975	-
Net cash generated from (utilised by) investing activities		**1,497**	**(5,917)**
Cash flows from financing activities			
Proceeds on share issue		-	1
Proceeds from borrowings		509,000	58,862
Repayment of borrowings		(543,487)	(403,295)
Receipt on settlement of derivative		-	13,742
Reimbursement (settlement) of derivative collateral		33,417	(48,417)
Net cash utilised by financing activities		**(1,070)**	**(379,107)**
Total cash movement for the year		**83,462**	**(117,569)**
Cash and cash equivalents at the beginning of the year		344,569	462,138
Total cash and cash equivalents at end of the year	11	**428,031**	**344,569**

Accounting Policies

Corporate information

Real People Investment Holdings Limited is a public company incorporated and domiciled in South Africa.

Real People Investment Holdings Limited comprises of three principal divisions providing home finance through a network of reputable building retailers, debt acquisition and management services, and long term insurance products.

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

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 71 of 2008 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 Rands, which is the company's functional and presentation currency.

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

These accounting policies are consistent with the previous period, except for the adoption of IFRS 15: Revenue from Contracts with Customers (effective on 1 January 2018) set out in note 1.12.

1.2 Going concern and events after the reporting period

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). In making this assessment, the directors have taken into consideration continued progress from the group’s re-entry into the debt capital market post re-structure, through its securitisation programmes as well as the successful historic performance track record of these funding vehicles.

In addition to the cash balance per the Statement of Financial Position, to meet obligations over the next 12 months the group has a pipeline of R190 million undrawn credit approvals in place and the group’s strong cash generative business lines are producing receipting in excess of R100 million per month.

The assessment of going concern was based on the group’s forecasts, covering the period 2020 to 2022 as well as an appropriate stress scenario for assessment of going concern risk over the 12 months to 30 June 2020.

The directors are not aware of any matter or circumstance arising since the end of the financial year and up to the date of signing these audited consolidated annual financial statements that warrants adjustment.

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.

Accounting Policies

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 Real People Investment Holdings Limited and subsidiaries has been suspended. The deferred tax assets in prior financial years were impaired until a proven historical taxable income run rate has been established. This has resulted in a distortion of the group's effective tax rate.

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.

The deferred tax asset relates to Umuzi Finance (RF) Limited, a Home Finance special purpose entity and recovery is considered likely.

The group has estimated tax losses of R1 041.4 million (2018: R915.0 million) that are available indefinitely for offsetting against future taxable profits. These losses have not been recognised on the group statement of financial position.

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 past history, existing market conditions in the micro-finance industry as well as forward looking estimates at the end of each reporting period. The details of the key assumptions and inputs used for net advances are disclosed in note 3.

Uncertain tax positions

The nature of certain group financial products gives rise to uncertainty relating to the tax treatment and tax allowances. Appropriate research is conducted and expert opinions obtained to minimise the risk of tax misstatements. With this in mind the group is considered to have adequately provided for its tax liabilities. To the extent that the group's tax methodologies and positions require consultation with relevant experts, this is done after appropriate research and development to mitigate the risk of tax misstatements. In so doing, the group ensures that it meets its tax compliance requirements with the required governance and oversight to support its obligations.

Where the final outcome of tax assessments are different from the amounts that were initially recorded in the accounts, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made.

1.4 Financial instruments

Financial instruments held by the group are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Initial recognition

The group initially recognises loans and advances, trade receivables, cash and cash equivalents 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.

Financial instruments (continued)

Classification and measurement

Financial assets are classified into the following categories:

- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or
- Fair value through profit or loss. (This classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income.)

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

Financial liabilities are classified into the following categories:

- Amortised cost; or
- Fair value through profit or loss.

Note 30 Financial instruments and risk management presents the financial instruments held by the company based on their specific classifications.

Securitisations

The group has established specific criteria for financial assets that are originated or acquired for the purpose of securitisation in a subsequent period. If, at origination or acquisition, based on these established criteria the financial asset is expected to be securitised as part of a portfolio that qualifies for de-recognition, the business objective of holding the financial asset to collect contractual cash flows is not met and the financial assets are measured at fair value through profit or loss in the accounts of the company who originated or acquired the asset from a third party. If the financial asset does not qualify for de-recognition, the group has elected to determine the business model based on the accounting result of the securitisation which is a held-to-collect business model.

Financial assets at amortised cost

Impairment

The group recognises a loss allowance for expected credit losses 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 (ECL) are a probability-weighted estimate of credit losses. For financial assets that are not credit-impaired at the reporting date the ECL is measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive). For financial assets that are credit-impaired at the reporting date the ECL is measured as the difference between the gross carrying amount and the present value of estimated future cash flows.

Write off policy

The group writes off a loan (either partially or in full) when there is no realistic prospect of recovery. This is generally the case 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

Financial assets

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.

Financial liabilities

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

Financial assets

The company 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

Financial liabilities are not reclassified.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1.5 Hedge accounting

The group designated derivatives entered into for the purpose of hedging foreign currency risk and interest rate 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. Furthermore, 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 of 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.

Accounting Policies

Hedge accounting (continued)

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 company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

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

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

1.6 Consolidation

Basis of consolidation

The audited consolidated annual financial statements incorporate the financial statements of the company and all investees which 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 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 who are the originators of the loans. The subsidiaries do not retain any rights and obligations in the assets of the special purpose entities, nor do they retain any obligation to the creditors of the special purpose entity in the event of liquidation. The issuer's activities are restricted to those of the securitisation programme and fall within the ambit of the National Credit Act.

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

An associate is an entity over which the group has significant influence and which is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Refer to note 8 for details of associates.

A joint venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Refer to note 8 for details of the joint venture.

1.7 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	3 years

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

Accounting Policies

1.8 Leases

Operating leases – lessee

Operating lease payments are recognised as an expense over the lease term. Most of the group's leases are inflation linked and therefore straight-lining of the expense is not applicable.

1.9 Share capital and equity

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

If the group reacquires its own equity instruments, the consideration paid is deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments. Consideration paid or received shall be recognised directly in equity.

1.10 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 considered to be not material. The group has bonus and incentive provisions.

Employees in non-managerial roles are eligible for consideration of an annual discretionary bonus linked to individual and departmental performance while 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, divisional and individual performance, including financial, non-financial and risk management elements.

1.11 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

1.12 Revenue

The group's revenue is from the following major sources:
- Interest and similar income, recognised in terms of IFRS 9 Financial Instruments;
- Insurance income, recognised in terms of IFRS 4 Insurance Contracts;
- Fee income; and
- Outsourced collection income.

In the current year the group has applied IFRS 15 Revenue from Contracts with Customers.

IFRS 15 replaces all existing revenue recognition requirements in IFRS and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of the standards on financial instruments, insurance contracts and leases. The core principle of IFRS 15 is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

There has been no material change in revenue recognition for the group.

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 1.13 for the types of insurance contracts provided to customers

Revenue from contracts with customers

Fee income

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

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

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

Outsourced collection income

The group enters into service level agreements with outsourced clients, the customers, in order 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.

1.13 Insurance contracts

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

Recognition and measurement

Insurance liabilities are calculated by projecting (on a policy by policy basis) the liability outgo and expected future premiums and discounting the cashflows to the valuation date based on the valuation interest rate. These are referred to as discounted liabilities. In addition to the discounted liabilities, an Incurred But Not Reported (IBNR) reserve is held. The majority of the discounted liabilities are negative. Company policy is to eliminate negative liabilities on these policies after the addition of the IBNR.

The IBNR reserves are mostly determined using the Bornhuetter-Ferguson Method.

Accounting Policies

1.13 Insurance contracts (continued)

The basis for the projections is a "best estimate" basis. In addition, compulsory margins are added to allow for risk and uncertainty based on the relevant local Standard of Actuarial Practice (SAP104). The compulsory margins are as follows:

Assumption	*Margin*
Investment return	0.25% increase
Mortality	7.5% increase
Expenses	10.0% increase
Expenses inflation	10.0% increase
Lapses	25%

Reinsurance contracts held

Contracts entered into by the group with reinsurers under which the group is compensated for a portion of the losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. The benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. Reinsurance profit share comprises negotiated profit shares with reinsurers. Income is recognised on an accrual basis as profits arise.

Notes to the Audited Consolidated Annual Financial Statements

2. New Standards

2.1 Standards effective and adopted in the current year

In the current year, the group has adopted IFRS 15 Revenue from Contracts with Customers that is effective for the current financial year and that is relevant to its operations. Refer to note 1.12.

2.2 Standards 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 2019 or later periods. All the new standards and interpretations have been considered. Those expected to have an impact on the group are as follows:

Standard:	*Effective date: Years beginning on or after*	*Expected impact:*
• IFRS 17 Insurance Contracts	01 January 2021	The impact is being assessed but early indications are that there will be no further obligations for the Cell Captive.
• IFRS 16 Leases	01 January 2019	The new standard requires that the group recognises a 'right-of-use' asset for operating leases it has for business premises. The group leases office premises and the additional asset raised will adversely impact the group's covenanted ratios however, they are still expected to meet the minimum requirements. The equity to asset ratio is expected to decrease by an estimated 1.33% in the 2020 financial year based on the group's targets for the year. The cost to income ratio is expected to deteriorate by an estimated 0.22%. The debt service ratio will include finance costs on the lease liability and deteriorate by an estimated 0.02.

Figures in Rand thousand	2019	2018

3. Net advances

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

	2019	2018
Home Finance	778,587	722,629
DMC	689,916	775,584
	1,468,503	1,498,213

Exposure to credit risk

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

Credit loss allowances

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

2019

Division	*Basis of loss allowance*	*Gross carrying amount*	*Loss allowance*	*Amortised cost*
Home Finance				
Performing loans - stage 1	12 month ECL	544,586	(50,358)	494,228
Performing loans - stage 2	Lifetime ECL (not credit impaired)	141,846	(41,096)	100,750
Non-performing loans - stage 3	Lifetime ECL (credit impaired)	1,562,664	(1,379,055)	183,609
DMC	Lifetime ECL (credit impaired)	749,077	(59,161)	689,916
		2,998,173	(1,529,670)	1,468,503

2018

Division	*Basis of loss allowance*	*Gross carrying amount*	*Loss allowance*	*Amortised cost*
Home Finance				
Performing loans - stage 1	12 month ECL	495,879	(51,979)	443,900
Performing loans - stage 2	Lifetime ECL (not credit impaired)	130,834	(45,633)	85,201
Non-performing loans - stage 3	Lifetime ECL (credit impaired)	1,732,646	(1,539,118)	193,528
DMC	Lifetime ECL (credit impaired)	819,328	(43,744)	775,584
		3,178,687	(1,680,474)	1,498,213

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2019	2018

3. Net advances (continued)

Reconciliation of loss allowances

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

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

Opening balance in accordance with IAS 39 Financial Instruments: Recognition and Measurement	-	28,196
Adjustments upon application of IFRS 9	-	30,242
Opening balance in accordance with IFRS 9	51,979	58,438
New contracts originated	37,315	33,791
Movement within stage	(41,888)	(38,231)
Significant increase in credit risk	2,952	(2,019)
Closing balance	50,358	51,979

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

Opening balance in accordance with IAS 39 Financial Instruments: Recognition and Measurement	-	50,480
Adjustments upon application of IFRS 9	-	8,997
Opening balance in accordance with IFRS 9	45,633	59,477
Changes due to investments recognised at the beginning of the reporting period:		
Transfer to lifetime expected credit losses (credit impaired)	(78,848)	(80,628)
New contracts originated	8,295	6,891
Movement within stage	66,016	59,893
Closing balance	41,096	45,633

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

Opening balance in accordance with IAS 39 Financial Instruments: Recognition and Measurement	-	313,789
Adjustments upon application of IFRS 9	-	1,231,693
Opening balance in accordance with IFRS 9	1,539,118	1,545,482
Release of loss allowance on contracts written off	(264,910)	-
Movement within stage	(2,518)	(120,247)
Modification loss on contracts moved to stage 3	107,365	113,883
Closing balance	1,379,055	1,539,118

DMC: Loss allowance measured at lifetime ECL (purchased or originated credit impaired):

Opening balance in accordance with IAS 39 Financial Instruments: Recognition and Measurement	-	5,550
Adjustments upon application of IFRS 9	-	38,585
Opening balance in accordance with IFRS 9	43,744	44,135
Lifetime expeced credit loss	15,417	(391)
Closing balance	59,161	43,744

Figures in Rand thousand 2019 2018

3. Net advances (continued)

Fair value

Refer to note 30 Financial instruments and risk management for the fair value of net advances.

The fair value was calculated using expected recovery curves. Fair value measurements are categorised as level 3 on the fair value hierarchy as the valuation includes unobservable outputs.

Home Finance coverage ratios

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

2019	*Stage 1 CD 0*	*Stage 2 CD 1*	*Stage 2 CD 2*	*Stage 2 CD 3*	*Stage 3*	*Total*
Gross advances	544,586	95,919	32,685	13,242	1,562,664	2,249,096
Impairment allowance	(50,358)	(21,093)	(12,948)	(7,055)	(1,379,055)	(1,470,509)
Carrying value	494,228	74,826	19,737	6,187	183,609	778,587
Coverage ratio	9.2 %	22.0 %	39.6 %	53.3 %	88.3 %	65.4 %

2018	*Stage 1 CD 0*	*Stage 2 CD 1*	*Stage 2 CD 2*	*Stage 2 CD 3*	*Stage 3*	*Total*
Gross advances	495,879	88,987	29,578	12,269	1,732,646	2,359,359
Impairment allowance	(51,979)	(25,068)	(13,625)	(6,940)	(1,539,118)	(1,636,730)
Carrying value	443,900	63,919	15,953	5,329	193,528	722,629
Coverage ratio	10.5 %	28.2 %	46.1 %	56.6 %	89.9 %	69.4 %

3.1. Home Finance

Business model and market segment

Home Finance provides unsecured developmental home improvement loans to the lower LSM (living standards measure) segments of the market through a network of buildware merchants. Loans are made to individuals in South Africa.

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 combination with the requirements of the National Credit Act No. 34 of 2005 prior to the granting of loans.

Credit risk is mitigated through the granting of loans to individuals where repayment is made through debit order deductions. 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

Customers that are classified as performing have a cumulative arrears ratio of three or less, i.e. three or less cumulative contractual instalments in arrears. These 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 are 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.

3.1. Home 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 Home Finance portfolio is assessed on a semi-annual basis to identify if any part of this portfolio shows signs of a significant increase in credit risk. A population, which represents the relative size of such portfolio, is identified and a lifetime loss on this population in line with stage 2 requirements is calculated.

Contractual delinquency 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 a 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. The modification loss due to debt review for the year is R20.0 million (2018: 14.5 million). These loans are classified as stage 3 loans as they are credit impaired.

Non-performing loans

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

Contracts moving into stage 3 are treated as modified. The gross carrying value of the contract is assessed on default and a modification loss will be 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 in order 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 would not be the group’s intention, in any event, 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. Should management not find any relationship as described above, it would consider a general view of economic factors and apply an appropriate management overlay.

3.2. DMC

Acquired Debt

DMC applies the credit impaired amortised cost valuation methodology 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 DMC.

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

The effective interest rate is determined as the rate that exactly discounts the expected cash flows at date of acquisition to the purchase price. Certain direct costs that are directly attributable to the cash flows are netted from the expected cash flows and regarded as part of the effective interest rate and not as costs.

During month 0 to 11 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 acquired debt portfolios on book for 12 or more months, the cash flow estimates are forecast using three statistical models that fit statistical functions through actual cumulative receipts on a portfolio level. The expected cash flows are calculated separately on each debt portfolio acquired in the last 10 years. It is assumed that a portfolio will yield cash flows from collection activities for a maximum period of 10 years (120 months).

Due to the fact that 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.

DMC performs a statistical analysis to assess the correlation between macro-economic factors and receipting performance. The macro-economic factors included the petrol price, consumer price index, prime rate, unemployment levels, gross domestic product and unsecured credit supply as these are considered to have the most significant impact on over indebted clients. No significant correlation was found and therefore these indicators have not been used to determine expected credit loss trends for the DMC financial assets.

Discontinued general purpose lending and cellular receivables

DMC continues to collect and manage the assets from discontinued activities from within the group. The portfolio is considered credit impaired as the original contracts are out of term and the asset 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.

Education receivables

DMC applies the credit impaired amortised cost valuation methodology to the education receivables. The portfolio is consider credit impaired as is in arrears, it was acquired at a deep discount due to the high level of default and cancellation inherent in the asset and the purchasing arrangement with the original seller has ceased.

The effective interest rate is determined as the rate that exactly discounts the expected cash flows to the fair value. Certain direct costs that are directly attributable to the cash flows are netted from the expected cash flows and regarded as part of the effective interest rate and not as costs.

Cash flows are forecast based on back tested run-off triangle techniques.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2019	2018

4. Share capital and equity notes

Authorised share capital		
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		
102,166,387 ordinary shares	-	-
18,029,362 A ordinary shares	-	-
68,080 B preference shares	155,909	155,909
34,626 C1 preference shares	53,567	53,567
9,045 C2 preference shares	74,967	74,967
D PIK notes*	96,600	96,600
E PIK notes*	493,265	493,265
Share premium	434,549	434,549
	1,308,857	1,308,857

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

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

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

Financial covenants

The group is required to maintain the following financial covenants:
- Cost to income ratio: Minimum ratio of 68%
- Debt service cover ratio: Minimum of 1.05 times
- Permanent equity to total assets ratio (excluding ring-fenced special purpose entities): Minimum ratio of 20% on 30 June 2018, 22.5% on 30 June 2019 and 25% on 30 June 2020.

5. Borrowings

Held at amortised cost		
Secured		
Loans	910,194	808,660
Unsecured		
Loans	583,582	665,499
	1,493,776	1,474,159

Split between non-current and current portions

Non-current liabilities	960,892	976,116
Current liabilities	532,884	498,043
	1,493,776	1,474,159

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2019	2018

5. Borrowings (continued)

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

Loan repayments are due each quarter until 30 September 2025. The average effective interest rate on the borrowings is 13.2% (2018: 14.1%). 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 R167.5 million (2018: R244.9 million). Fair value measurements are categorised as level 3 on the fair value hierarchy as the valuation includes unobservable outputs.

Refer to note 25 Changes in liabilities arising from financing activities for details of the movement in the borrowings during the reporting period and note 30 Financial instruments and financial risk management for the fair value of borrowings.

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

Net advances	779,890	794,362
Cash and cash equivalents	303,581	172,076
Motor vehicles	1,187	1,750
	1,084,658	968,188

Exposure to liquidity risk

Refer to note 30 Financial instruments and financial risk management for details of liquidity risk exposure and management.

Exposure to currency risk

The group’s foreign currency risk management policy requires that the currency exposure arising from foreign currency debt is hedged via the execution of cross currency hedging instruments with suitably rated swap counterparts. The business rationale of hedging the foreign exchange risk is to manage:

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

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 borrowings, are denominated in the currencies below. The amounts have been presented in Rand by converting the foreign currency amount at the closing rate at the reporting date.

Rand amount		
Rand	1,272,572	1,186,336
Norwegian Krona	73,248	94,354
Swedish Krona	87,495	113,656
Botswana Pula	60,461	79,813
	1,493,776	1,474,159

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

Foreign currency amount		
Norwegian Krona (NOK'000)	43,538	62,365
Swedish Krona (SEK'000)	55,937	80,109
Botswana Pula (BWP'000)	44,862	64,249

Figures in Rand thousand 2019 2018

5. Borrowings (continued)

The following closing exchange rates were applied at reporting date:

	2019	2018
Rand per unit of foreign currency:		
Norwegian Krona	0.594	0.661
Swedish Krona	0.693	0.705
Botswana Pula	0.742	0.805

The sensitivity of the derivatives, designated as hedging instruments, to foreign exchange rate movements was calculated using the average balance since inception of the swaps. If the Rand strengthens by 1% to the three loan currencies the swap values will decrease by R3.6 million (2018: R3.5 million).

6. Equipment

	2019			2018		
	Cost	*Accumulated depreciation*	*Carrying value*	*Cost*	*Accumulated depreciation*	*Carrying value*
Property	295	-	295	295	-	295
Furniture and fittings	5,105	(4,625)	480	5,140	(4,168)	972
Motor vehicles	9,571	(4,423)	5,148	9,631	(2,844)	6,787
Office equipment	2,581	(2,283)	298	4,928	(4,293)	635
Computer equipment	55,104	(48,002)	7,102	60,156	(53,744)	6,412
Leasehold improvements	832	(670)	162	1,068	(922)	146
	73,488	(60,003)	13,485	81,218	(65,971)	15,247

Reconciliation of equipment - 2019

	Opening balance	*Additions*	*Disposals*	*Depreciation*	*Total*
Property	295	-	-	-	295
Furniture and fittings	972	10	-	(502)	480
Motor vehicles	6,787	105	-	(1,744)	5,148
Office equipment	635	205	(282)	(260)	298
Computer equipment	6,412	5,399	(68)	(4,641)	7,102
Leasehold improvements	146	57	-	(41)	162
	15,247	5,776	(350)	(7,188)	13,485

Reconciliation of equipment - 2018

	Opening balance	*Additions*	*Disposals*	*Transferred to disposal group*	*Depreciation*	*Total*
Property	295	-	-	-	-	295
Furniture and fittings	7,712	7	(498)	(5,608)	(641)	972
Motor vehicles	6,133	3,376	(774)	(294)	(1,654)	6,787
Office equipment	2,370	75	(25)	(1,260)	(525)	635
Computer equipment	11,288	4,193	(197)	(4,324)	(4,548)	6,412
Leasehold improvements	477	42	(199)	-	(174)	146
	28,275	7,693	(1,693)	(11,486)	(7,542)	15,247

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2019	2018

7. Deferred tax

	2019	2018
Deferred tax asset	14,932	5,241
Deferred tax liability	(84)	(5,247)
	14,848	(6)
Deferred tax is attributable to the following:		
Advances	15,529	346
Deferred expenses	(2,419)	(433)
Tax losses available for set off against future taxable income	1,738	81
	14,848	(6)

Reconciliation of deferred tax

	2019	2018
At beginning of year	(6)	(27,751)
Advances	15,183	13,728
Increase (decrease) in tax loss available for set off against future taxable income	1,657	(1,433)
Deferred expenses	(1,986)	521
Tax on IFRS 9 transitional adjustments	-	5,943
Prior year adjustments	-	8,986
	14,848	(6)
At beginning of year	(6)	(27,751)
Tax charge on IFRS 9 transitional adjustments	-	5,943
Tax charged to profit or loss	14,854	21,802
	14,848	(6)

Refer to note 1.3 for management's judgements. The group has estimated tax losses of R1 041.4 million (2018: R915.0 million) that is available indefinitely for offsetting against future taxable profits. These losses have not been recognised on the group statement of financial position.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2019	2018

8. Investment in associates and joint venture

The following table lists all of the associates and joint ventures in the group:

Name of company	*Nature of investment*	*% ownership interest*	*% ownership interest*	*Carrying amount*	*Carrying amount*
		2019	*2018*	*2019*	*2018*
Dorreal Properties Proprietary Limited ("Dorreal Properties")	Joint venture	50.00 %	50.00 %	27,128	21,269
Empower Financial Services Proprietary Limited ("EFS")	Associate	49.10 %	49.10 %	-	-
Imfundo Finance (RF) Limited ("Imfundo Finance")	Associate	45.00 %	45.00 %	950	3,407
				28,078	24,676

Dorreal Properties Proprietary Limited is a private property company in South Africa which owns one of the primary buildings from which the group operates. There is no quoted market price available for the company's shares. The valuation of the investment property in Dorreal Properties Proprietary Limited is based on judgements including market-related rates for the office space and parking bay rental; the annual rental escalation rate; the discount rate at which future rental payments are present valued; and the market capitalisation rate, which is the assumed growth rate for the perpetuity value.

Empower Financial Services Proprietary Limited is a private company in South Africa that provides rehabilitative loans and financial rehabilitation solutions to overindebted employees of state owned entities. The investment has been impaired to Rnil as the company's liabilities exceed its assets. The original investment was R37.8 million. The group does not have any further obligation for losses of the associate. The group's unrecognised share of losses relating to the current financial year amounted to R0.6 million (2018: R1.8 million) and cumulatively to R8.3 million (2018: R7.7 million).

Imfundo Finance (RF) Limited is a private company special purpose funding vehicle that finances educational products and services to individuals. The company has its main principal place of business in South Africa. There is no quoted market price available for its shares.

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

Figures in Rand thousand 2019 2018

8. Investment in associates and joint venture (continued)

Summarised financial information of associates and joint venture

2019

Summarised statement of comprehensive income	*Revenue*	*Other income and expenses*	*Tax expense*	*Profit (loss) after tax*	*Total comprehensive income*
Dorreal Properties	10,968	(2,206)	(1,917)	6,845	6,845
EFS	7,462	(8,692)	-	(1,230)	(1,230)
Imfundo Finance	6,269	(2,549)	(814)	2,906	2,906
	24,699	(13,447)	(2,731)	8,521	8,521

Summarised statement of financial position

Assets	*Non-current assets*	*Cash and cash equivalents*	*Other current assets*	*Total current assets*	*Total assets*
Dorreal Properties	85,510	2	66	68	85,578
EFS	321	496	1,672	2,168	2,489
Imfundo Finance	-	24,272	41,501	65,773	65,773
	85,831	24,770	43,239	68,009	153,840

Liabilities	*Non-current financial liabilities*	*Other non-current liabilities*	*Total non-current liabilities*	*Other current liabilities*	*Total current liabilities*	*Total liabilities*
Dorreal Properties	8,756	17,138	25,894	313	313	26,207
EFS	50,663	-	50,663	1,721	1,721	52,384
Imfundo Finance	61,273	-	61,273	2,390	2,390	63,663
	120,692	17,138	137,830	4,424	4,424	142,254

Reconciliation of net assets to equity accounted investments	*Total net assets*	*Interest in joint venture at % ownership*	*Additional investment in preference shares*	*Impairment of investment*	*Loan to associate*	*Investment at end of 2019*
Dorreal Properties	59,371	29,686	14,287	(16,845)	-	27,128
EFS	(49,895)	(24,498)	-	(9,856)	34,354	-
Imfundo Finance	2,110	950	-	-	-	950
	11,586	6,138	14,287	(26,701)	34,354	28,078

Reconciliation of movement in investments	*Investment at beginning of 2019*	*Dividends received*	*Share of profit*	*Investment at end of 2019*
Dorreal Properties	21,269	-	5,859	27,128
Imfundo Finance	3,407	(6,975)	4,518	950
	24,676	(6,975)	10,377	28,078

Notes to the Audited Consolidated Annual Financial Statements

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8. Investment in associates and joint venture (continued)

2018

Summarised statement of comprehensive income	*Revenue*	*Other income and expenses*	*Tax expense*	*Profit (loss) after tax*	*Total comprehensive income*
Dorreal Properties	10,238	(4,142)	(1,707)	4,389	4,389
EFS	245	(3,971)	-	(3,726)	(3,726)
Imfundo Finance	20,605	(11,372)	(2,609)	6,624	6,624
	31,088	(19,485)	(4,316)	7,287	7,287

Summarised statement of financial position

Assets	*Non-current assets*	*Cash and cash equivalents*	*Other current assets*	*Total current assets*	*Total assets*
Dorreal Properties	83,710	3	68	71	83,781
EFS	212	1	665	666	878
Imfundo Finance	-	19,770	44,715	64,485	64,485
	83,922	19,774	45,448	65,222	149,144

Liabilities	*Non-current financial liabilities*	*Other non-current liabilities*	*Total non-current liabilities*	*Current financial liabilities*	*Total liabilities*
Dorreal Properties	15,392	15,736	31,128	677	31,805
EFS	49,212	-	49,212	2,122	51,334
Imfundo Finance	54,935	15	54,950	1,965	56,915
	119,539	15,751	135,290	4,764	140,054

Reconciliation of net assets to equity accounted investments	*Total net assets*	*Interest at % ownership*	*Additional investment in preference shares*	*Impairment of investment*	*Loan to associate*	*Investment at end of 2018*
Dorreal Properties	51,976	25,988	15,325	(20,044)	-	21,269
EFS	(50,456)	(24,774)	-	(9,580)	34,354	-
Imfundo Finance	7,570	3,407	-	-	-	3,407
	9,090	4,621	15,325	(29,624)	34,354	24,676

Reconciliation of movement in investments	*Investment at beginning of 2018*	*Share of profit*	*Investment at end of 2018*
Dorreal Properties	18,854	2,415	21,269
Imfundo Finance	426	2,981	3,407
	19,280	5,396	24,676

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2019	2018

9. Other receivables

Financial instruments:		
Sundry receivables	15,557	13,509
Staff loans and advances	589	693
Loan receivables	7,643	8,401
Non-financial instruments:		
Prepayments and deposits	3,032	3,241
	26,821	25,844

There are no material balances within other receivables which are past due but not impaired.

Categorisation of trade and other receivables

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

At amortised cost	23,789	22,603
Non-financial instruments	3,032	3,241
	26,821	25,844

Fair value of trade and other receivables

The fair value of other receivables approximates their carrying amounts.

10. Derivatives

Hedging derivatives		
Cross currency swap	11,891	3,061

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

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

The company has made cash collateral payments to the swap counterparty to compensate the counterparty for credit risk in terms of the contract. In terms of the contract the group is able to set this off against the swap liability. The following table presents the recognised financial instruments that are offset:

Offsetting financial assets and financial liabilities		
Gross amount of cross currency swap (liability)	(3,109)	(45,356)
Cash collateral asset	15,000	48,417
	11,891	3,061

Reconciliation of financial assets and liabilities classified as level 3		
Cash flow hedge		
Opening balance	3,061	-
Recognised in other comprehensive income	42,247	(45,356)
Collateral	(33,417)	48,417
	11,891	3,061

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2019	2018

10. Derivatives (continued)

Other derivatives classified as fair value through profit or loss		
Opening balance	-	(2,459)
Gains or losses in profit or loss	-	16,201
Settlements	-	(13,742)
	-	-

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	427,940	344,502
Cash on hand	91	67
	428,031	344,569

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, investments in money market investment funds and cash at bank.

The cash and cash equivalents with a carrying value of R336.8 million (2018: R203.9 million) in certain special purpose entities and Real People Assurance Company Limited are not available for use by the group as these assets are ringfenced, refer to note 32.

Credit quality of cash at bank and short term deposits, excluding cash on hand

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 the big five banking groups.

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

Credit rating		
AA+ ***	45,688	-
AA ***	276,665	153,511
AA- *	-	44,314
BB *	3,668	3,972
Baa3 **	101,919	142,705
	427,940	344,502

Source:
* Standard & Poor's
** Moodys
*** Global Credit Rating

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2019	2018

12. Provisions

Reconciliation of provisions - 2019

	Opening balance	*Additions*	*Utilised during the year*	*Interest*	*Total*
Bonus provision	1,906	8,561	(8,480)	-	1,987
Incentive provision	28,271	10,993	(16,971)	320	22,613
	30,177	19,554	(25,451)	320	24,600

Reconciliation of provisions - 2018

	Opening balance	*Additions*	*Utilised during the year*	*Interest*	*Total*
Restructuring provision	442	-	(442)	-	-
Bonus provision	1,890	7,705	(7,689)	-	1,906
Incentive provision	15,039	23,333	(10,536)	435	28,271
	17,371	31,038	(18,667)	435	30,177

13. Insurance liability

The group policy is to eliminate negative liabilities after the addition of the IBNR. The insurance liabilities are therefore limited to zero.

	2019	2018
Gross insurance liability	-	-
Reinsurance asset	-	-
	-	-
Split between discounted and undiscounted liabilities		
Discounted liabilities	(5,072)	(4,590)
Undiscounted liabilities	5,072	4,590
	-	-
Reconciliation of discounted liabilities		
Opening balance	(4,590)	(6,884)
Expected interest	(1,701)	(2,521)
Expected premiums	74,196	84,382
Expected claims	(22,487)	(25,277)
Expected expenses, commission and charges	(17,221)	(19,309)
Expected unwinding of margins	(7,471)	(8,322)
Experience variations	(8,753)	(12,267)
Changes in valuation basis	1,663	1,916
New business	(6,095)	(9,424)
Change in discretionary margins	(12,613)	(6,884)
	(5,072)	(4,590)
Reconciliation of undiscounted liabilities		
Opening balance	4,590	6,884
Movement in IBNR	482	(2,294)
	5,072	4,590

Figures in Rand thousand	2019	2018

14. Trade and other payables

Financial instruments:		
Trade payables	5,268	8,465
Accrued leave pay	8,383	8,392
Accrued expenses	26,575	26,215
Non-financial instruments:		
VAT	2,272	4,319
	42,498	47,391

15. Revenue

Revenue from contracts with customers		
Outsourced collection income	51,146	42,271
Revenue other than from contracts with customers		
Interest and similar income	679,821	723,119
Net insurance premiums (refer to note 17)	108,122	117,649
	787,943	840,768
	839,089	883,039

16. Gross yield from assets

Interest and similar income	679,821	723,119
Net assurance income - credit life	55,342	62,528
	735,163	785,647

17. Net insurance income

Credit life	55,342	62,528
Funeral benefits	33,984	35,204
	89,326	97,732
Net insurance premiums		
Premiums received	110,268	119,582
Premiums paid to reinsurers	(2,146)	(1,933)
	108,122	117,649
Net insurance benefits		
Insurance benefits	(18,956)	(21,038)
Insurance benefits recovered from reinsurers	160	1,121
	(18,796)	(19,917)
	89,326	97,732

Extended credit life benefits are paid due to the historical high profitability of credit life, and in order to preserve important strategic relationships with the lending entities within the group, who are the main source of credit life premium income.

The Assurance company pays death benefit claims on credit life policies with an extended scope of including policies that may have lapsed at the time of death. This practice is informed largely by the ongoing financial stability and profitability of the company, prior to the paying of such claims, which the company is not obliged to do. The obligation to pay these claims is dependent on uncertain future events including deaths associated with lapsed credit life policyholders and whether there is scope to pay claims based on the financial stability and profitability of the company.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2019	2018

18. Operating profit (loss)

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

	2019	2018
Auditor's remuneration - external		
Audit fees	6,838	6,702
Adjustment for previous year	2,584	-
Other consultation services	25	3,837
	9,447	10,539
Auditor's remuneration - internal	2,929	2,532
Consulting and legal fees		
Consulting fees	20,356	14,930
Legal fees	1,869	1,061
Consulting and legal fees attributable to group restructure	-	40,423
	22,225	56,414
Employee costs		
Remuneration	239,677	239,866
Retirement benefit plans: defined contribution expense	10,937	10,403
Termination benefits	332	852
Total employee costs	250,946	251,121
Leases		
Operating lease charges		
Premises	9,868	11,433
Depreciation and amortisation		
Depreciation of equipment	7,188	7,542
Amortisation of intangible assets	1,974	5,951
Total depreciation and amortisation	9,162	13,493

19. Finance costs

	2019	2018
Borrowings	197,150	228,282
Tax authorities	-	3,100
	197,150	231,382

20. Foreign exchange losses

	2019	2018
Gain (loss) on derivatives	28,363	(14,808)
(Loss) gain on restatement of borrowings	(29,562)	6,834
Loss on restatement of loan to Real People Kenya Limited	-	(991)
	(1,199)	(8,965)

Figures in Rand thousand	2019	2018

21. Income tax expense

Major components of the tax expense

Current		
Income tax	16,775	10,084
Income tax recognised in current tax for prior periods	-	17,069
	16,775	27,153
Deferred		
Originating and reversing temporary differences	(14,321)	(12,816)
Arising from prior period	(533)	(8,986)
	(14,854)	(21,802)
	1,921	5,351

Reconciliation of the tax expense

Applicable tax rate	28.00 %	28.00 %
Benefit from tax losses not raised as deferred tax asset in prior years	(21.27)%	(13.65)%
Gain on derecognition of financial liability	- %	(17.80)%
Other exempt income	(4.59)%	(0.18)%
Capital income (loss) not allowed	- %	1.26 %
Legal and consulting fees not deductible	1.71 %	0.78 %
Interest and penalties (reversed) accrued on tax liabilities	(1.85)%	1.64 %
Donations	0.01 %	0.05 %
Prior year adjustments	0.88 %	6.66 %
Average effective tax rate	2.89 %	6.76 %

22. Disposal group

In the prior year the group sold its investment in its East African subsidiaries which housed the Business Finance segment.

Profit or loss

Revenue	-	73,881
Expenses	-	(119,663)
Net loss before tax	-	(45,782)
Tax	-	3,075
Net profit after tax	-	(42,707)
Profit on sale	-	12,397
	-	(30,310)

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2019	2018

23. Cash generated from operations

	2019	2018
Profit before taxation	66,860	79,160
Loss from operations classified as a disposal group	-	(30,310)
Adjustments for:		
Depreciation and amortisation	9,161	13,493
Gains on disposal of property and equipment	53	(441)
Losses on foreign exchange	1,199	8,965
Income from equity accounted investments	(10,377)	(5,396)
Finance costs on borrowings	197,150	228,282
Gain on derecognition of financial liability	-	(50,332)
Impairment losses	136	4,079
Accrual of interest on tax liabilities	-	3,100
Reversal of interest on tax liabilities included in other income	(4,438)	-
Movements in provisions	(5,577)	12,806
Interest and fees charged to debtors	(759,830)	(822,258)
Impairment of net advances	114,957	92,761
Changes in working capital:		
Inventories	-	24
Other receivables	(1,018)	75,289
Disposal group working capital	-	23,167
Trade and other payables	(5,297)	(55,851)
Origination of advances	(534,527)	(456,025)
Purchase of advances	(118,833)	(81,681)
Receipts from advances	1,327,940	1,466,465
	277,559	505,297

24. Tax paid

	2019	2018
Opening balance	(12,371)	2,857
Current tax for the year recognised in profit or loss	(16,775)	(27,153)
Transfer to disposal group	-	(303)
Reversal (accrual) of interest	4,438	(3,100)
Closing balance	9,417	12,371
	(15,291)	(15,328)

25. Changes in liabilities arising from financing activities

	2019	2018
Opening balance	1,474,159	2,791,724
Non-cash movement		
Conversion into D Payment-In-Kind notes	-	(102,766)
Conversion into E Payment-In-Kind notes	-	(508,521)
Gain on derecognition of liability	-	(50,332)
Conversion of redeemable preference shares to C preference shares	-	(141,247)
Fair value changes	54,104	(8,839)
Transfer to disposal group	-	(161,427)
Closing balance	(1,493,776)	(1,474,159)
	34,487	344,433

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2019	2018

26. Commitments

Operating leases commitments

	2019	2018
Minimum lease payments due		
- within one year	15,307	16,269
- in second to fifth year inclusive	27,916	46,519
	43,223	62,788

Operating lease payments represent rentals payable by the company for certain of its office properties. Leases are negotiated for an average term of eight years and rentals are fixed for an average of three years. No contingent rent is payable.

27. Contingencies

African Frontier Capital Proprietary Limited provides treasury services to the group. This company 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 R4.1 million for which the group has a concomitant claim against African Frontier Capital Proprietary Limited.

There is uncertainty relating to the tax treatment and tax allowances. Refer to note 1.2.

The group has no further contingent assets or liabilities that require disclosure.

28. Related parties

Relationships

Shareholders with 5% or more voting rights	Investec Asset Management Proprietary Limited The Real People Incentive Trust Norwegian Investment Fund for Developing Countries Izabelo SEK B.V Izabelo NOK B.V BIFM Capital Investment Fund No.1 Proprietary Limited National Housing Finance Corporation (SOC) Limited Blockbuster Trading 3 Proprietary Limited
Directors	N Grobbelaar DJ Munro N Thomson PG de Beyer K Hopkins DTV Msibi
Subsidiaries and special purpose entities	Refer to note 32
Joint venture and associate	Refer to note 8

Related party balances

	2019	2018
Borrowings owing to shareholders with voting rights of 5% or greater		
Investec Asset Management Proprietary Limited	190,761	273,192
Norwegian Investment Fund for Developing Countries	52,479	75,156
BIFM Capital Investment Fund No.1 Proprietary Limited	60,461	79,812
	303,701	428,160

Figures in Rand thousand	2019	2018

28. Related parties (continued)

	2019	2018
Amounts included in trade receivables regarding related parties		
Imfundo Finance (RF) Limited	5,909	6,290
Stratcap Funding Proprietary Limited	3,424	3,884
IQ Academy Proprietary Limited	363	660

Related party transactions

	2019	2018
Interest accrued to related parties		
Investec Asset Management Proprietary Limited	30,083	34,150
Norwegian Investment Fund for Developing Countries	8,276	9,395
BIFM Capital Investment Fund No.1 Proprietary Limited	7,021	6,655
	45,380	50,200

	2019	2018
Other related party transactions		
Rent paid to related parties	(9,432)	(9,208)
Administrative service fees received from IQ Academy Proprietary Limited	3,799	3,955
Administrative service fees received from Imfundo Finance (RF) Limited	5,187	3,936

29. Directors' emoluments

Executive

2019

	Salaries	*Incentive bonus - 2018 **	*Incentive bonus 2017 and prior **	*Other benefits*	*Total*
N Grobbelaar	3,490	1,339	979	231	6,039
DJ Munro	2,471	-	-	165	2,636
	5,961	1,339	979	396	8,675

2018

	Salaries	*Incentive bonus - 2017 **	*Incentive bonus 2016 and prior **	*Other benefits*	*Termination benefits*	*Total*
N Grobbelaar	3,350	-	1,285	195	-	4,830
DJ Munro (from 1 February 2018)	414	-	-	459	-	873
A Padachie (up till 31 January 2018)	2,008	-	510	131	850	3,499
BA Schenk (up till 31 December 2017)	2,220	-	755	135	-	3,110
	7,992	-	2,550	920	850	12,312

* 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 and sign on benefits.

Service contracts

All executive directors are subject to written employment agreements.

29. Directors' emoluments (continued)

Non-executive

2019

	Directors' fees	*Committees fees*	*Directors' fees for services as directors' of subsidiaries*	*Total*
N Thomson	674	265	-	939
PG de Beyer	337	265	-	602
K Hopkins	337	297	-	634
DTV Msibi	337	127	81	545
	1,685	954	81	2,720

2018

	Directors' fees	*Committees fees*	*Directors' fees for services as directors' of subsidiaries*	*Total*
N Thomson	421	510	-	931
PG de Beyer	562	326	-	888
K Hopkins	337	349	-	686
DTV Msibi	337	405	108	850
MA Barnes - resigned 16 August 2017	127	-	-	127
HC van Heerden - resigned 4 August 2017	169	-	-	169
D Malik- resigned 31 July 2017	169	-	-	169
	2,122	1,590	108	3,820

30. Financial instruments and risk management

Categories of financial instruments

2019

	Notes	*Fair value through profit or loss - Hedging*	*Amortised cost*	*Total*	*Fair value*
Net advances	3	-	1,468,503	1,468,503	1,675,530
Other receivables	9	-	23,789	23,789	23,789
Derivatives	10	11,891	-	11,891	11,891
Cash and cash equivalents	11	-	428,031	428,031	428,031
Borrowings	5	-	(1,493,776)	(1,493,776)	(1,495,976)
Trade and other payables	14	-	(41,240)	(41,240)	(41,240)
		11,891	385,307	397,198	602,025

30. Financial instruments and risk management (continued)

2018

	Notes	*Fair value through profit or loss - Hedging*	*Amortised cost*	*Total*	*Fair value*
Net advances	3	-	1,498,213	1,498,213	1,790,010
Other receivables	9	-	22,603	22,603	22,603
Derivatives	10	3,061	-	3,061	3,061
Cash and cash equivalents	11	-	344,569	344,569	344,569
Borrowings	5	-	(1,474,159)	(1,474,159)	(1,467,341)
Trade and other payables	14	-	(43,072)	(43,072)	(43,072)
		3,061	348,154	351,215	649,830

Capital risk management

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

The group is required to maintain a Permanent Capital to Total Adjusted Assets ratio as outlined in note 4.

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

The ratio is 32.2% at 31 March 2019 (2018: 30.38%) which is above the minimum requirement of 20.0% 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 DMC and Home Finance Credit Committees are responsible for the management of credit risk for net advances.

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

Credit risk

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

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

Notes to the Audited Consolidated Annual Financial Statements

30. Financial instruments and risk management (continued)

		2019			2018		
		Gross carrying amount	*Credit loss allowance*	*Amortised cost / fair value*	*Gross carrying amount*	*Credit loss allowance*	*Amortised cost / fair value*
Net advances	3	2,998,173	(1,529,670)	1,468,503	3,178,687	(1,680,474)	1,498,213
Other receivables	9	23,789	-	23,789	22,603	-	22,603
Derivatives	10	11,891	-	11,891	3,061	-	3,061
Cash and cash equivalents	11	428,031	-	428,031	344,569	-	344,569
		3,461,884	(1,529,670)	1,932,214	3,548,920	(1,680,474)	1,868,446

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 takes the form of cash flow projections for the next week and next month as well as long term cash flow forecasting and an ongoing review of future commitments and credit facilities taking into account restrictions on cash flows between individual companies.

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

The group is required to maintain a minimum debt service cover ratio of 1.05. The debt service cover ratio is the ratio of free cash flow to debt service in respect of 12 months measured retrospectively every quarter. The ratio at 31 March 2019 is 1.19 (2018: 5.05).

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

2019

	1 to 3 months	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets	713,756	859,722	2,004,566	98,062	3,676,106
Liabilities	(133,057)	(506,729)	(1,151,597)	(70,472)	(1,861,855)
	580,699	352,993	852,969	27,590	1,814,251

2018

	1 to 3 months	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets	659,060	866,689	1,896,322	216,107	3,638,178
Liabilities	(315,445)	(362,564)	(1,079,480)	(167,173)	(1,924,662)
	343,615	504,125	816,842	48,934	1,713,516

30. Financial instruments and risk management (continued)

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 company is exposed to foreign currency risk as a result of borrowings which are denominated in foreign currencies. Details of foreign currency risk exposure are contained in note 5.

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

The table below illustrates the sensitivity of profit before tax for a year 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.

Current rates + 50 basis points	*2019*	*2018*
Additional interest income on assets	5,438	5,029
Additional interest expense on liabilities	(5,636)	(5,063)
	(198)	(34)

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

Cash flow impact for 7 to 12 months of a 50 basis points increase		
Net advances - Performing loans	-	-
Cash and cash equivalents	1,070	1,723
Net advances - Fixed rate assets	-	-
Borrowings	(3,257)	(4,425)
	(2,187)	(2,702)

30. Financial instruments and risk management (continued)

Insurance risk

The group 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.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the group faces under its insurance contracts is that the actual claims and benefit payments plus ongoing expenses exceed the carrying amount of the insurance liabilities. This could occur if the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

The group uses appropriate base tables of standard mortality according to the type of contract being written. Where limited historic experience is available, statistical methods based on market experience are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future. As no historical evidence of selective termination behaviour is available, statistical methods based on market experience are used to determine appropriate termination rates.

Specific allowance has been made in the valuation of the policy liabilities for the financial effect of AIDS by using mortality tables that allows appropriately for the expected impact of AIDS on mortality. In addition to this, the premium rates for all new products have been determined by loading the mortality assumptions to take account of the deterioration in mortality and morbidity experience due to AIDS and HIV infection. The tables used are the most recent ASSA 2008 tables as published by the Actuarial Society of South Africa.

The Insurance Act, 2017 became effective 1 July 2018 and introduced a significantly more regulatory requirements than the Long-Term Insurance Act it replaced. The risk to comply with all the requirements subsequently also increased.

31. Segmental information

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

Reportable Segment	*Products and services*
Home Finance	Provides credit and related financial services (credit life cover) to customers of building supply merchants
DMC	Purchases non-performing loan portfolios and provides debt collection solutions to credit providers. Owns and collects the discontinued receivables of the group.
Assurance	Provides a variety of funeral, disability and loss of income benefits to customers
Group Central Services	Houses the centralised functions which operate across the group

Segmental revenue and results

2019

	Net yield	*Other income*	*Total income after impairments*	*Profit before tax*	*Interest expense*	*Taxation*	*Profit after tax*
Home Finance	308,401	4,726	313,127	64,204	(106,076)	(4,645)	59,559
DMC	307,064	70,656	377,720	27,138	(84,982)	4,995	32,133
Assurance	750	34,010	34,760	8,326	-	(2,271)	6,055
Group Central Services	3,991	521	4,512	(32,808)	(6,092)	-	(32,808)
	620,206	109,913	730,119	66,860	(197,150)	(1,921)	64,939

31. Segmental information (continued)

2018

	Net yield	*Other income*	*Total income after impairments*	*Profit before tax*	*Interest expense*	*Taxation*	*Profit after tax*
Home Finance	333,460	-	333,460	82,721	(113,329)	(13,546)	69,175
DMC	354,049	56,902	410,951	28,833	(114,766)	11,231	40,064
Assurance	938	35,204	36,142	9,978	-	(2,799)	7,179
Group Central Services	4,439	50,235	54,674	(42,372)	(3,287)	(237)	(42,609)
	692,886	142,341	835,227	79,160	(231,382)	(5,351)	73,809

Segment assets and liabilities

2019

	Total assets	*Total liabilities*
Home Finance	1,056,415	878,755
DMC	872,809	536,139
Assurance	33,152	18,440
Group Central Services	30,901	137,041
	1,993,277	1,570,375

2018

	Total assets	*Total liabilities*
Home Finance	902,284	784,166
DMC	973,863	668,886
Assurance	32,499	4,472
Group Central Services	11,611	111,821
	1,920,257	1,569,345

32. Group structure

The audited consolidated annual financial statements include the results of Real People Investment Holdings Limited and all of its subsidiaries and special purpose entities as well as its equity accounted investments as disclosed in note 8. The country of incorporation and principal place of business for all the entities below is South Africa.

The principal operating subsidiaries are as follows:

Name of subsidiary	*Division*	*% holding 2019*	*% holding 2018*
DMC Debt Management Consultants Proprietary Limited	DMC	100.00 %	100.00 %
Real People Home Finance Proprietary Limited	Home Finance	100.00 %	100.00 %
Real People Assurance Company Limited	Long term insurance	100.00 %	100.00 %
DMC Acquired Debts 4 Proprietary Limited	DMC	100.00 %	100.00 %

Real People Assurance Company Limited is subject to capital requirements in accordance with the Insurance Act, 2017. The Solvency Capital Requirement (SCR) is the additional amount required, over and above the actuarial liabilities, to enable the company to meet material deviations in the main parameters affecting the life assurer's business. The SCR cover at 31 March 2019 is 113%. These capital requirements restrict the ability of the company to remit dividends to its holding company.

32. Group structure (continued)

Special purpose entities

The entities listed below are special purpose entities controlled by the group.

Name of special purpose entity	*Division*
Umuzi Finance (RF) Limited	Home Finance
Real People Home Improvement Finance (RF) Proprietary Limited	Home Finance
DMC Evolution (RF) Proprietary Limited	DMC

Imonti Future Flow Securities (RF) Limited, Evolution Future Flow Securities (RF) Limited and Evolution Future Flow Securities 2 (RF) Limited have come to the end of their term and are in the process of winding down.