Real People Investment Holdings Limited
Audited consolidated annual financial statements
For the year ended 31 March 2018

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
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	18 June 2018

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 the Companies Act 71 of 2008 and are based upon appropriate accounting policies consistently applied, except for the adoption of International Financial Reporting Standard 9 Financial Instruments, 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 Committees 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 early successes from the group's re-entry into the debt capital market post re-structure, through its securitization 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 successfully raised R105 million in funding after 31 March 2018 with a pipeline of further 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 2019 to 2021 as well as an extreme stress scenario for assessment of going concern risk over the 12 months to 30 June 2019.

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 4 to 13, 19 to 64 which have been prepared on the going concern basis, were approved by the board on 18 June 2018 and were signed on their behalf by:

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

Johannesburg

18 June 2018

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, in my capacity as company secretary of Real People Investment Holdings Limited, 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
18 June 2018

Audit committee report

Overview

The Real People Investment Holdings Limited Group Audit Committee (RPIH AC) has placed significant emphasis on providing oversight and direction to the group in what has been an intense group restructure during the financial year. By supporting the stature of external assurance providers, RPIH AC has led a base of continued 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

Ken Hopkins became the Chairman of the RPIH AC on 1 January 2018. The RPIH AC has four members, all of whom are independent non-executive directors. The committee met **11** times during the year.

Name	Audit Committee attendance
PG de Beyer	11/11
DTV Msibi	11/11
KT Hopkins	11/11
N Thomson	11/11

In addition to Audit Committee attendance the non-executive directors met in sub-committee a further 18 times during the course of the financial year much of which pertained to attendance in a formal Restructure Committee.

The chair of the committee reports to the board on its activities and the matters discussed at each meeting, highlighting any key items that the committee required action on 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 Auditor 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 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.

Ongoing training is required of committee members on a range of financial, regulatory and other topical compliance matters. During the period under review, members received training on International Financial Reporting Standards 9: Financial Instruments and IFRS 4: Insurance Contracts.

The performance of the committee is assessed annually as part of the effectiveness review of the board and all its committees. The 2018 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 for 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,

[1] DMC and Home Finance are divisions of the group. Refer to note 32 of the financial statements for a summary of the four divisions.

Audit committee report

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
- 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 Committees 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 program 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.

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; taking into account the outcome of the capital and funding restructure process, management budgets and forecasts, as well as the funding forecast and the liquidity profiles. In making this assessment, the Directors have taken into consideration early successes from the group's re-entry into the debt capital market post re-structure, through its securitization programs 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 successfully raised R105 million in funding after 31 March 2018 with a pipeline of further 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 2019 to 2021 as well as an extreme stress scenario for assessment of going concern risk over the 12 months to 30 June 2019.

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.

During the second quarter of the financial year, the group engaged with Deloitte for an audit of the group's accounting policies and methodologies related to the early adoption of IFRS 9. This resulted in policy and methodology changes and financial adjustments being implemented prior to the financial year close. The finance team continued to remain under pressure in the current financial year due to the recapitalisation of the group in terms of the restructure initiatives, multiple tight deadlines on reporting (including the early adoption of IFRS 9 and various related forecasting exercises) and continued application of the creditor standstill agreement that imposed liquidity restriction and additional reporting requirements. The team supported appropriate outcomes in all aspects despite the difficult circumstances, acting with a higher 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. These items include the use of estimates, some of which were changed during the current year in order to comply with IFRS 9 and best practice.

Area of judgement	Judgments Applied	RPIH AC Assessment and Conclusion
IFRS 9 financial instruments and credit risk provisioning	The following aspects of IFRS 9 were in aggregate considered to be areas where significant judgement was required due to the extent of judgement and/or estimation applied: • determination of expected losses; • assessment of significant deterioration in credit quality; and • relevance of macro-economic factors. In determining expected losses, consideration was given to exposure, the probability of default ('PD'), loss given default (LGD) and the exposure at default. 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). The group has performed 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.
IFRS 9 financial instruments and credit impaired assets	DMC, the principal collections business, purchases credit impaired assets for subsequent collection. These are classified as Purchased Originated Credit Impaired Assets under IFRS 9. All books purchased are assumed to originate in Stage 3. IFRS 9 requires that projected future cash flows include forward looking information with regard to expected, rather than just incurred, credit losses. Management re-calibrates the amortised cost model assumptions on an ongoing basis incorporating the most recent available collection data. This is considered a significant area of judgement due to the extent of judgement and/or estimation applied.	The RPIH AC combined interrogative assessment and reliance on the appropriate level of input from internal and external experts to provide assurance on the work performed by credit modelling specialists in light of IFRS 9 requirements. 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 and loss and disclosure of financial risks in the financial statements. Fair value calculations, specifically level 3 financial instruments are dependent on various sources of external and internal data and on sophisticated modeling techniques used to value financial	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.

Audit committee report

	instruments disclosed as level 3 in the financial statements, which are evolving as markets become more sophisticated.	
Complexity in application of hedge accounting	The group is exposed to financial risk through it diverse funding structures spanning multiple geographic locations. Hedge accounting is applied on certain funding transactions to manage these financial risks. This is considered an area of significance in the current year due to the complexities associated with the monitoring and application of hedge accounting. 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 IFRS9 financial instruments 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 sufficiently in accordance with the underlying accounting standards.
Deferred tax asset recognition	The group had previously recognised deferred tax assets. These assets arose on estimated and assessed tax losses within certain statutory entities and were impaired in the prior year. 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. Deferred tax assets will not be recognised until the group has established a history of sustainable profitability. 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 tax experts, assessed the nature and extent of tax exposures and the reasonableness of managements' 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.

In 2017 a disclaimer was issued as there were a number of significant adjustments and Deloitte were unable to determine whether those adjustments relate to the opening retained earnings or the loss for the year to 31 March 2017 reported in the statement of comprehensive income and to the net cash flows from operating activities reported in the statement of cash flows. The opinion on the current year's statement of comprehensive income, statement of changes in equity and statement of cash flows is qualified as a result of the comparability of those statements with that of the prior year. The statement of financial position at 31 March 2017 was presented fairly, so there is no such qualification on that statement in respect of comparability. 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 auditors' report).

Combined assurance

The group has introduced a combined risk assurance programme across the group 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 control effectiveness framework is in the process of being 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 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.

Update on key focus areas in 2018

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 period to 31 March 2018, 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

Audit committee report

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 services. The RPIH AC recommended that the shareholders reappoint Deloitte as the external auditors for 2019.

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.

Key focus areas for 2019

- Review and consideration of management's plans in respect of future changes to IFRS, most notably:
  - IFRS 9: Financial Instruments – Continued focus for 2019 will be on impairments and the development of models with a view to refining methodology as best practice evolves.
  - IFRS 15: Revenue Recognition – effective for the group for its reporting period ending 31 March 2019. This includes an assessment of impacts and implementation of the relevant changes.
  - Uncertain tax positions – Continued focus on ensuring that uncertain tax positions where the tax authorities may have indicated disagreement with the group's tax treatment are resolved.
  - 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.
  - Continued focus on ensuring that the group's combined assurance model is refined.

- Enterprise-wide Risk Management (ERM):
  - Management under the guidance of the Board's Risk Committee are implementing an ERM culture and process across the group under a newly approved Combined Risk Assurance Framework and Policy.
  - As part of this implementation process, Management is implementing strategic risk registers, operating risk registers, Divisional Risk and Audit Committees that will see division level embedded focus on risk and assurance activities as well as group and divisional risk capacity assessments accompanied by a group stress testing framework.

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 2018

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 2018.

The company annual financial statements of Real People Investment Holdings Limited are available separately from the audited consolidated annual financial statements, 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

Group capital restructure

The conclusion of the group restructure in December 2017 and the sale of the East African business on 29 March 2018 strengthened the group's capital position and reduced the debt level of the group. Refer to note 4 of the audited consolidated annual financial statements for further details.

International Financial Reporting Standard 9 Financial Instruments (IFRS 9)

The group has adopted IFRS 9 Financial Instruments with effect from 1 April 2017. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. Refer to note 1.4 of the audited consolidated annual financial statements.

The group has elected not to restate comparative numbers. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as an adjustment to opening equity. Accordingly, the information presented for the 2017 financial year does not reflect the requirements of IFRS 9 and is therefore not comparable to the information presented for the 2018 financial year under IFRS 9.

Basis of preparation

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, with the exception of the early adoption of IFRS 9 - Financial Instruments, as outlined in note 1.4 in the notes to the audited consolidated annual financial statements, have been applied consistently compared to the prior year.

Financial performance

The financial year ended on a positive note for the group post the restructure, recapitalisation and the early adoption of IFRS 9, delivering a profit after tax of R43.5 million (2017: Loss after tax of R614.2 million).

3. Events after the reporting period

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.

There is an intention for the insurance policies of Real People Assurance Company Limited to be transferred to a Cell Captive owned by a third party with effect from 1 April 2018. The staff and other assets and liabilities will be transferred to another company in the group. Once the insurance policies have been transferred, the intention is for Real People Assurance Company Limited to be deregistered. Real People Assurance Company Limited is therefore no longer considered a going concern. The Cell Captive will be treated as a reinsurance contract in the 2019 financial statements.

The DMC division is in the process of finalising a new securitization vehicle, which will result in approximately R100m of their net advances being sold from the existing entities to the new entity.

Directors' Report

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 early successes from the group's re-entry into the debt capital market post re-structure, through its securitization 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 successfully raised R105 million in funding after 31 March 2018 with a pipeline of further 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 2019 to 2021 as well as an extreme stress scenario for assessment of going concern risk over the 12 months to 30 June 2019.

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, who was appointed on 1 January 2018, is Mr NW Thomson.

The group has two overarching governance frameworks incorporating principles of governance to facilitate effective and dynamic management and oversight of a group containing several regulated entities. These overarching governance structures are set out in the Group Approvals Framework and the Group Governance Framework (the Frameworks) which contains the internal operating framework and governance structure of the group. The company resolved to adhere to the Frameworks, noting that they are governance frameworks 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 five scheduled meetings during the 2018 financial year, including sessions specifically devoted to strategy and business planning. A self-evaluation review was conducted in 2018. 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.

The Board has established five committees to assist it 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.

Directors' Report

6. Directorate

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

Directors	*Office*	*Designation*	*Changes*
N Thomson	Chairman	Independent non-executive	
PG de Beyer		Independent non-executive	
K Hopkins		Independent non-executive	
DTV Msibi		Independent non-executive	
N Grobbelaar	Group chief executive officer	Executive	
DJ Munro	Group chief financial officer	Executive	Appointed 14 February 2018
A Padachie	Former group chief financial officer	Executive	Resigned 14 February 2018
BA Schenk	Chief executive officer: DMC	Executive	Resigned 01 January 2018
MA Barnes		Non-executive	Resigned 16 August 2017
D Malik		Non-executive	Resigned 31 July 2017
HC van Heerden		Non-executive	Resigned 04 August 2017

7. Company secretary

The company secretary is C Wilkinson.

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

8. Auditors

Deloitte & Touche have been appointed as auditors for the current financial year in accordance with section 90 (6) of the Companies Act 71 of 2008. The audit partner for the group is Penny Binnie.

9. Share capital

Refer to note 4 of the audited consolidated annual financial statements for detail of the movement in authorised and issued share capital.

10. Dividends

No ordinary or preference dividends were declared for the financial year ended 31 March 2018. In the prior year preference dividends of R2.3 million and R27.2 million were raised on the compulsory convertible preference shares and cumulative redeemable preference shares respectively.

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 2018, the group's borrowings amounted to R1.5 billion (2017: R2.8 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 Norway.

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. Refer to note 9 for a listing of the group's associates and joint venture.

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

Qualified Opinion

We have audited the consolidated financial statements of Real People Investment Holdings Limited and its subsidiaries (the Group) set out on pages 19 to 64, which comprise the consolidated statement of financial position as at 31 March 2018, and the consolidated statement of profit or loss; the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects on the corresponding figures reported in the comparative consolidated statement of profit or loss, comparative consolidated statement of profit or loss and comprehensive income comparative consolidated statement of changes in equity and comparative consolidated statement of cash flows arising from the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2018, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Companies Act of South Africa.

Basis for Qualified Opinion

Comparatives presented in the consolidated statement of profit or loss; the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flow are those figures reported in the previous year's consolidated financial statements. As described in note 3 to these consolidated financial statements, the Group processed a number of adjustments to the impairment models in 2017 used to determine the impairment provisions required against loans and advances. In addition, in prior year the Group changed its view as to the basis for determining the fair values of the Education loan assets carried at fair value.

Further, the Group breached its financial covenants at 31 March 2017, with the contributing factors being the impairment charges processed in the prior year and poor trading performance. Because of both matters the Group elected to impair the deferred tax asset of R215 million in the prior year. The extent of these adjustments required in the comparative period was significant and had a material impact on the results for the year to 31 March 2017. A number of other adjustments were required in prior year to reduce the carrying value of assets carried at fair value to recoverable amounts. The quantum of these adjustments were material with some relating to prior years.

As we were unable to determine whether adjustments might be necessary to the opening retained earnings or the loss for the year to 31 March 2017 reported in the consolidated statement of comprehensive income and to the net cash flows from operating activities reported in the statement of cash flows, for the financial year ended 31 March 2017 we issued a disclaimer of opinion on those statements.

Our opinion on the current year's consolidated statement of profit or loss, consolidated statement of profit or loss and comprehensive income, consolidated statement changes in equity and statement of cash flows is qualified as a result of the comparability of the these statements with those of the prior year. As we were satisfied that the statement of financial position at 31 March 2017 was presented fairly, we issue no such qualification in the current year on that statement in respect of comparability.

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. In certain areas, the ultimate tax treatment is uncertain and 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. Any breach in these covenants results in liabilities to funders becoming payable immediately and therefore there is pressure on the Group to ensure that these will not be breached in 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 on a "business as usual basis" as well as a "no further funding" stress scenario. These assessments indicate that no breach is likely to happen in the next 12 months. Due to the significant judgment 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 2019 - 2021 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 2018 budget to the 2018 actual results. The results at 31 March 2018 of the Group outperformed the 2018 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 2019 budget and beyond. We have concluded that the disclosures on this matter are appropriate in the consolidated financial statements and that budgets and forecasts, prepared both on a business as usual

	basis and on a stress scenario, 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' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company'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 and the Company'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 has been the auditor of Real People Investment Holdings Limited for 2 years.

Deloitte & Touche
Registered Auditor
Per: Penny Binnie
Partner
22 June 2018

Consolidated Statement of Financial Position as at 31 March 2018

Figures in Rand thousand	Notes	2018	2017
Assets			
Equipment	6	15,247	28,275
Intangible assets	7	3,406	11,621
Deferred tax	8	5,241	3,211
Investments in associates and joint venture	9	24,676	19,281
Net advances	3	1,498,213	2,201,428
Other receivables	10	25,844	109,881
Inventories		-	24
Derivative financial assets	11	3,061	15,082
Current tax receivable		-	2,857
Cash and cash equivalents	12	344,569	462,138
Total assets		**1,920,257**	**2,853,798**
Equity and liabilities			
Equity			
Share capital and equity notes	4	1,308,857	556,324
Reserves		(6,576)	(7,888)
Accumulated loss		(951,369)	(657,273)
Total equity (deficit)		**350,912**	**(108,837)**
Liabilities			
Borrowings - non-current	5	976,116	639,331
Deferred tax	8	5,247	30,962
Provisions	13	30,177	17,371
Net insurance liability	14	-	-
Derivative financial liabilities	11	-	17,541
Borrowings - current	5	498,043	2,152,393
Current tax payable		12,371	-
Trade and other payables	15	47,391	105,037
Total liabilities		**1,569,345**	**2,962,635**
Total equity and liabilities		**1,920,257**	**2,853,798**

Consolidated Statement of Profit or Loss

Figures in Rand thousand	Notes	2018	2017 Restated*
Continuing operations			
Revenue	16	**883,039**	**815,547**
Gross yield from assets	16	785,647	716,815
Impairments	3.3	(92,761)	(122,218)
Net yield		**692,886**	**594,597**
Finance costs	17	(231,382)	(389,688)
Net margin		**461,504**	**204,909**
Net assurance income - funeral benefits		35,204	35,932
Outsourced collection income		42,271	27,434
Other income	3.3	9,138	4,986
Net operating income		**548,117**	**273,261**
Foreign exchange losses	18	(8,965)	(20,201)
Gain on purchase of financial liabilities	5	-	49,676
Income (loss) from equity accounted investments		5,396	(13,350)
Operating expenses	19	(515,720)	(595,253)
Gain on derecognition of financial liability	5	50,332	-
Profit (loss) before taxation		**79,160**	**(305,867)**
Income tax expense	20	(5,351)	(178,045)
Profit (loss) from continuing operations		**73,809**	**(483,912)**
Disposal group			
Loss from disposal group	25	(30,310)	(130,254)
Profit (loss) for the year		**43,499**	**(614,166)**

Attributable to:		
Owners of the parent:		
Profit (loss) for the year from continuing operations	73,809	(483,912)
Loss for the year from disposal group	(30,310)	(130,254)
Profit (loss) for the year	**43,499**	**(614,166)**

The group has elected not to restate comparative numbers on the adoption of IFRS 9 in the current year therefore the numbers disclosed in the Consolidated Statement of Profit or Loss for the 2017 financial year above are not comparable with the current year.

* The comparatives have been adjusted between the line items for the effects of transferring the results of the East African operations to the disposal group.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Figures in Rand thousand	Note	2018	2017
Profit (loss) for the year		**43,499**	**(614,166)**
Other comprehensive income (loss):			
Items that are reclassified to profit or loss:			
Exchange differences on translating foreign operations		7,888	(28,271)
Effects of cash flow hedges		(6,576)	(22,615)
Taxation related to components of other comprehensive income		-	6,738
Other comprehensive income (loss) for the year net of taxation		**1,312**	**(44,148)**
Total comprehensive income (loss) for the year		**44,811**	**(658,314)**

Total comprehensive income (loss) is attributable to owners of the parent.

Consolidated Statement of Changes in Equity

Figures in Rand thousand	Share capital and share premium	Foreign currency translation reserve	Hedging reserve	Total reserves	Accumulated loss	Total attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 01 April 2016	**541,183**	**20,383**	**15,877**	**36,260**	**(27,302)**	**550,141**	**(13,537)**	**536,604**
Loss for the year	-	-	-	-	(614,166)	(614,166)	-	(614,166)
Other comprehensive loss	-	(28,271)	(15,877)	(44,148)	-	(44,148)	-	(44,148)
Total comprehensive loss	**-**	**(28,271)**	**(15,877)**	**(44,148)**	**(614,166)**	**(658,314)**	**-**	**(658,314)**
Transfer of non-controlling interest	-	-	-	-	(13,537)	(13,537)	13,537	-
Scrip dividends	15,141	-	-	-	-	15,141	-	15,141
Preference dividends	-	-	-	-	(2,268)	(2,268)	-	(2,268)
Opening balance as previously reported	556,324	(7,888)	-	(7,888)	(657,273)	(108,837)	-	(108,837)
Adjustments								
IFRS 9 transitional adjustments	-	-	-	-	(337,595)	(337,595)	-	(337,595)
Balance at 01 April 2017 as restated	**556,324**	**(7,888)**	**-**	**(7,888)**	**(994,868)**	**(446,432)**	**-**	**(446,432)**
Profit for the year	-	-	-	-	43,499	43,499	-	43,499
Other comprehensive income	-	7,888	(6,576)	1,312	-	1,312	-	1,312
Total comprehensive income (loss)	**-**	**7,888**	**(6,576)**	**1,312**	**43,499**	**44,811**	**-**	**44,811**
Conversion of ordinary shares into Convertible Preference Shares	(61,467)	-	-	-	-	(61,467)	-	(61,467)
Convertible Preference Shares converted into B Preference Shares	(115,707)	-	-	-	-	(115,707)	-	(115,707)
Issue of B Preference Shares	177,174	-	-	-	-	177,174	-	177,174
Issue of C Preference Shares	141,247	-	-	-	-	141,247	-	141,247
Issue of D Payment-In-Kind notes	102,766	-	-	-	-	102,766	-	102,766
Issue of E Payment-In-Kind notes	508,521	-	-	-	-	508,521	-	508,521
Balance at 31 March 2018	**1,308,857**	**-**	**(6,576)**	**(6,576)**	**(951,369)**	**350,912**	**-**	**350,912**
Notes	4							

Consolidated Statement of Cash Flows

Figures in Rand thousand	Notes	2018	2017
Cash flows from operating activities			
Cash generated from operations	21	505,297	542,198
Finance costs		(222,514)	(426,788)
Tax (paid) refunded	22	(15,328)	792
Net cash generated from operating activities		**267,455**	**116,202**
Cash flows from investing activities			
Additions to property and equipment and intangible assets		(7,693)	(10,502)
Proceeds on disposal of property and equipment and intangible assets		1,776	5,266
Net cash utilised by investing activities		**(5,917)**	**(5,236)**
Cash flows from financing activities			
Proceeds on share issue	23	1	-
Proceeds from borrowings		58,862	338,133
Repayment of borrowings		(403,295)	(584,968)
Settlement of derivative collateral		(48,417)	-
Receipt on settlement of derivative		13,742	-
Net cash utilised by financing activities		**(379,107)**	**(246,835)**
Total cash movement for the year		**(117,569)**	**(135,869)**
Cash and cash equivalents at the beginning of the year		462,138	608,392
Effect of exchange rate movement on cash balances		-	(10,385)
Total cash and cash equivalents at end of the year	12	**344,569**	**462,138**

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 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 separately from the audited consolidated annual financial statements, 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, 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, except for the measurement of certain financial instruments at fair value and policy liabilities under insurance contracts that are valued in terms of the financial soundness basis, and incorporate the principal accounting policies set out below. They are presented in South African Rands ("R"), which is the group'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 early adoption of IFRS 9 Financial Instruments with effect from 1 April 2017. The changes are set out in note 1.4.

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 early successes from the group's re-entry into the debt capital market post re-structure, through its securitization 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 successfully raised R105 million in funding after 31 March 2018 with a pipeline of further 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 2019 to 2021 as well as an extreme stress scenario for assessment of going concern risk over the 12 months to 30 June 2019.

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.

There is an intention for the insurance policies of Real People Assurance Company Limited to be transferred to a Cell Captive owned by a third party with effect from 1 April 2018. The staff and other assets and liabilities will be transferred to another company in the group. Once the insurance policies have been transferred, the intention is for Real People Assurance Company Limited to be deregistered. Real People Assurance Company Limited is therefore no longer considered a going concern. The Cell Captive agreement 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 in the 2019 financial year.

The DMC division is in the process of finalising a new securitization vehicle, which will result in approximately R100m of their net advances being sold from the existing entities to the new entity.

1.3 Accounting estimates and judgements

The preparation of the 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.

Judgements and estimates are principally made in the following areas:

Impairment of advances

The group assesses its advances portfolio for impairment on a monthly basis and conducts at least an annual evaluation of assumptions used and judgements applied during the year. As a result of the uncertainties inherent in the business activities, impairment allowances cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. Management has used judgement, taking into consideration the micro-finance industry, in the development of the impairment practices in line with IFRS 9.

Refer to note 1.4 for the application of the change in accounting policy and note 3 for the net advances detail and credit risk management.

Recognition of deferred tax assets

The recognition of additional deferred tax assets on taxable losses in Real People Investment Holdings Limited and subsidiaries has been suspended. The deferred tax asset in the prior financial year was impaired by R189.5 million resulting from a decision to impair the assets 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 R915.0 million (2017: R909.5 million) that is available indefinitely for offsetting against future taxable profits. These losses have not been recognised on the group statement of financial position.

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.

The group is in the process of refining its tax revenue recognition methodologies and considers its current tax provisions to be appropriate.

1.4 Financial instruments

The group has adopted IFRS 9 Financial Instruments with effect from 1 April 2017.

Accounting policies

1.4 Financial instruments (continued)

The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. As permitted by IFRS 9, the group has elected to apply the hedge accounting requirements. The key changes to the group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

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 (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not classified as fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification and measurement

Financial assets are classified into the following categories:
- Amortised cost; and
- Fair value through profit or loss.

Financial liabilities are classified into the following categories:
- Amortised cost; and
- Fair value through profit or loss.

A financial assets is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:
- The asset is held within a business model whose objective is to hold the financial assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are classified as measured at fair value through profit or loss.

Principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (for example, liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the group considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the group's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

The group classifies its financial liabilities as measured at amortised cost, with the exception of derivative liabilities which are measured at fair value through profit or loss. There were no changes to the measurement of financial liabilities on transition from IAS 39 to IFRS 9.

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

1.4 Financial instruments (continued)

Business model assessment

The group assesses the business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes
- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated, for example whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and;
- The frequency, volume and timing of origination and acquisitions in prior periods, the reasons for such origination and acquisitions and the expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the group’s stated objective for managing the financial assets is achieved and how cash flows are realised.

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.

Impairment of financial assets

The most significant change for the group is the change in the impairment model. IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model. Under IFRS 9, credit losses are recognised earlier than under IAS 39 due to the credit losses being recognised on an expected basis rather than on an incurred basis.

The group recognises loss allowances for expected credit losses on the following financial instruments that are not measured at fair value through profit or loss:
- financial assets that are loans and advances; and
- loan commitments issued.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:
- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or past due event;
- the restructuring of a loan or advance by the group on terms that the group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Expected credit losses are a probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: 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); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and expected credit losses are measured as follows:
- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

1.4 **Financial instruments (continued)**

- If the expected restructuring will result in derecognition of the existing asset, then 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.

Loans and debt securities are written off (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. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the group's procedures for recovery of amounts due.

Modifications of financial assets

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.

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 are derecognised when the contractual rights to the cash flows from the financial asset expire, or have been transferred and the group has transferred substantially all of the risks and rewards of ownership. On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognised in profit and loss.

Financial liabilities are derecognised when its contractual obligations are discharged, cancelled or expires.

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.

Hedging activities

The group utilises derivatives, consisting of exchange contracts and interest swaps, to reduce foreign currency risk and interest rate risk.

The group designated derivatives entered into for the purpose of hedging a particular risk associated with a recognised asset or liability as cash flow hedges (hedges to the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction).

At the inception of the transaction, the group documents the relationship between the hedging instrument and the hedged item, along with their risk management objectives and strategies.

At the inception of the hedge and at each reporting date, the group assesses whether the derivative used in the hedging transaction is highly effective in offsetting changes in cash flows of the hedged item.

The hedge relationship is effective when the following requirements are met:

- 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 entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

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 is transferred to profit or loss on the same period that the cash flows of hedged items affect profit or loss.

Accounting policies

1.4 Financial instruments (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 group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again (rebalancing).

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.

Transition

The group has elected not to restate comparative numbers on the transition to IFRS 9. A full restatement of comparatives was considered impracticable due to a lack of data and the prior years also included businesses which were disposed of during the course of the prior financial years.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as an adjustment to opening equity.

Accordingly, the information presented for the 2017 financial year do not reflect the requirements of IFRS 9 and is therefore not comparable to the information presented for the 2018 financial year under IFRS 9.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9.

	IAS 39 categorisation	*IFRS 9 categorisation*	*Opening balance IAS 39*	*IFRS 9 initial application*	*Opening balance IFRS 9*
Net advances					
Home Finance	Loans and receivables at amortised cost	Amortised cost	841,434	(78,972)	762,462
DMC Acquired debt	Fair value through profit or loss	Amortised cost	918,425	(205,808)	712,617
DMC Education asset	Fair value through profit or loss	Amortised cost	79,620	(11,160)	68,460
DMC Discontinued receivables	Loans and receivables at amortised cost	Amortised cost	201,538	(27,583)	173,955
Business Finance	Loans and receivables at amortised cost	Amortised cost	160,411	(20,015)	140,396
Net advances			2,201,428	(343,538)	1,857,890
Derivative financial assets	Fair value through profit or loss	Fair value through profit or loss	15,082	-	15,082
Other receivables	Loans and receivables at amortised cost	Amortised cost	104,781	-	104,781
Cash and cash equivalents	Loans and receivables at amortised cost	Amortised cost	462,138	-	462,138
Other assets			70,369	-	70,369
Borrowings	Financial liabilities measured at amortised cost	Amortised cost	(2,791,724)	-	(2,791,724)
Trade and other payables	Financial liabilities measured at amortised cost	Amortised cost	(64,381)	-	(64,381)
Derivative financial liabilities	Fair value through profit or loss	Fair value through profit or loss	(17,541)	-	(17,541)
Deferred tax	Not applicable	Not applicable	(22,165)	5,943	(16,222)
Other liabilities	Not applicable	Not applicable	(66,824)	-	(66,824)
Equity	Not applicable	Not applicable	108,837	337,595	446,432
			-	-	-

1.5 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 of its power over the entity.

Securitisations form an integral part of the group's funding strategy. The issuer, which is a bankruptcy remote special purpose entity, issues notes to fund the purchase of eligible loans from subsidiaries of the group 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 9 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 9 for details of the joint venture.

1.6 Disposal groups

Disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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 is reviewed at the end of each reporting period.

Accounting policies

1.8 Intangible assets

Intangible assets are initially recognised at cost and subsequently carried at cost less any accumulated amortisation and any impairment losses.

Research expenditure and costs associated with maintaining computer software programmes are recognised as an expense when it is incurred. However, costs that are clearly associated with an identifiable system, which will be controlled by the group and has a probable benefit exceeding the cost beyond one year, are recognised as an asset.

Capitalisation is further limited to development costs where the group is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to measure costs relating to the development reliably.

The internally generated computer software is amortised on a straight-line basis over an estimated useful life of three to five years.

As the internally generated computer software is specific to the group's operations, no residual value is estimated.

1.9 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.

1.10 Share capital and equity

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

Mandatory redeemable preference shares are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as part of finance costs.

If the group reacquires its own equity instruments, the consideration paid on those treasury shares 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 group’s own equity instruments. The consideration paid or received shall be recognised directly in equity.

1.11 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. In the current year 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.

1.12 Revenue recognition

Interest and similar income

The group has changed its practice of accounting for service fees as they are charged to the customer's account. In terms of IFRS 9, service fees are deemed to be an integral part of the yield of the asset. This is due to the quantum of the fee charged to the customer account being significantly higher that the commensurate and incremental costs incurred to service the customer's account.

Interest income is recognised in profit or loss using the effective interest method.

1.12 Revenue recognition (continued)

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.

For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

The DMC advances are considered credit-impaired on initial recognition. For these assets, 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.

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.

Other fee income is recognised as the related services are performed.

Insurance income

Premiums on insurance contracts are recognised gross of commission when due. Refer to note 1.16 for the types of insurance contracts provided to customers.

1.13 Outsourced collection income

Outsourced collection income is a commission earned on third party collections and is recognised when the collections have been received.

1.14 Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities have been calculated at undiscounted amounts based on current salary rates.

A liability for employee benefits in the form of a bonus plan is recognised as a provision, refer to note 13.

Defined contribution plans

The group contributes to a defined contribution scheme. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current or prior periods.

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

1.15 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.

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%

In addition to the discounted liabilities, an Incurred But Not Reported (IBNR) reserve is held. The IBNR reserves are mostly determined using the Bornhuetter-Ferguson Method.

The majority of the discounted liabilities are negative. Group policy is to eliminate negative liabilities on these policies after the addition of the IBNR.

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.

1.16 Investment contracts

Contracts under which the transfer of insurance risk to the company from the policyholder is not significant are classified as investment contracts. The liability for these contracts is set equal to the account balances held. All investment contracts matured over the financial year.

Notes to the Audited Consolidated Annual Financial Statements

2. New Standards and Interpretations

2.1 Standard effective and adopted in the current year

In the current year, the group has adopted the following standard that is effective for the current financial year and that is relevant to its operations. None of the amendments are considered to be material to the group. However, the amendment to IAS 7 has resulted in more disclosure than would have previously been provided in the audited consolidated annual financial statements.

Amendments to IAS 7: Disclosure initiative

The amendment to IAS 7 introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities, refer to note 24.

2.2 Standards and Interpretations early adopted

The company has chosen to early adopt the following standards:

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties.

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

The decision on whether or not to provide for uncertain tax positions is set out in note 1.3.

IFRS 9 Financial Instruments

The group has elected to adopt IFRS 9 with effect from 1 April 2017. The changes are set out in note 1.4.

2.3 Standards not yet effective

The company has chosen not to early adopt the following standards, which have been published and are mandatory for the company's accounting periods beginning on or after 01 April 2018 or later periods. All the new standards and interpretations have been considered. Those expected to impact 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 currently 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 1.2% in the 2019 financial year.
• IFRS 15 Revenue from Contracts with Customers	01 January 2018	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 for which this standard will be applicable is not expected to be significant.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand

3. Net advances

2018 *Loans and receivables at amortised cost*	*Home Finance*	*DMC*	*Business Finance*	*Total*
Gross advances	2,359,359	819,328	-	3,178,687
Impairment of advances	(1,636,730)	(43,744)	-	(1,680,474)
	722,629	**775,584**	**-**	**1,498,213**
Fair value	**919,343**	**870,667**	**-**	**1,790,010**

The impact of IFRS 9 on the opening balance of R2 201.4 million below was R343.5 million, refer to note 1.4.

The Business Finance division was sold effective 29 March 2018 (refer to note 25).

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.

2017 *Loans and receivables at amortised cost*	*Home Finance*	*DMC*	*Business Finance*	*Total*
Gross advances	1,109,455	19,401	236,515	1,365,371
Impairment of advances	(392,465)	(14,948)	(91,130)	(498,543)
Present value of estimated cash flows on written off advances	124,444	197,085	15,026	336,555
	841,434	201,538	160,411	1,203,383
Fair value through profit or loss - Designated				
Acquired debt	-	918,425	-	918,425
Education asset	-	79,620	-	79,620
	841,434	**1,199,583**	**160,411**	**2,201,428**
Fair value	**841,434**	**1,199,583**	**160,411**	**2,201,428**

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.

3.1. Home Finance (continued)

- Stage 2: loans have an arrears ratio which is greater than one and less than or equal to three months in arrears, or have an arrears ratio of nil, but have signs of a significant increase in credit risk. The impairment provision for these loans is calculated using lifetime expected credit losses.

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

Home Finance measures contractual delinquency using a mathematical rounding definition, hence, an account that reaches 30 days past due is categorised as contractual delinquency equal to one (CD1). 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.

Customers are contacted via SMS or the call centre when payments are missed. The customer is urged to make up the missed instalment to avoid going into arrears and their credit bureau profile being updated negatively.

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 the statement of financial performance as the gross carrying value of the loan is amended to reflect the revised arrangement.

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.

Home Finance treats contracts moving into stage 3 as modified. The gross carrying value of the contract is assessed on default and a modification loss will be recognised in profit or loss.

Home Finance derecognises a loan 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.

Home Finance assess its 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, Home Finance will take the likely forward looking scenarios into account when determining the expected credit loss adjustments. Should Home Finance not find any relationship as described above, it would consider a general view of economic factors and apply an appropriate management overlay.

Figures in Rand thousand

3.1. Home Finance (continued)

Home Finance opening balance	*Gross advances*	*Impairment provision*	*Written off*	*Total*
Opening balance - IAS 39	1,109,455	(392,465)	124,444	841,434
Transition to IFRS 9				
IFRS 9 transition adjustment	(171,380)	92,408	-	(78,972)
Reclassification of written off loans	1,487,784	(1,363,340)	(124,444)	-
Opening balance - IFRS 9	**2,425,859**	**(1,663,397)**	**-**	**762,462**

Impairment provision reconciliation	*Stage 1 Performing loans*	*Stage 2 Performing loans*	*Non-performing loans*	*Total*
Opening balance - IFRS 9	58,438	59,477	1,545,482	1,663,397
New contracts originated	34,239	6,443	-	40,682
Movement within stage	(38,231)	59,893	(120,247)	(98,585)
Movement on significant increase in credit risk	(2,019)	-	-	(2,019)
Release of provision on contracts moved to stage 3	-	(80,628)	-	(80,628)
Modification loss on contracts moved to stage 3	-	-	113,883	113,883
	52,427	**45,185**	**1,539,118**	**1,636,730**

Impairment expense in profit or loss	*2018*
New contracts originated	(40,682)
Movement within stages 1 and 2	(20,147)
Movement on significant increase in credit risk	2,019
Release of provision on contracts moved to stage 3	80,628
Modification loss on contracts moved to stage 3	(113,883)
	(92,065)

Coverage ratios	*CD 0*	*CD 1*	*CD 2*	*CD 3*	*Stage 3*	*Total*
Gross advances	495,879	88,987	29,578	12,269	1,732,646	2,359,359
Impairment provision	(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 %

No comparatives have been provided for the above tables as the impairment methodology under IFRS 9 is significantly different under that of IAS 39 and therefore the tables would not be comparable.

3.2. DMC

Acquired Debt

On consolidation, DMC applies the credit impaired amortised cost valuation methodology to acquired debt which is a change from the previous classification of fair value through profit or loss.

The purchase price paid for these portfolios have 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.

Figures in Rand thousand

3.2 DMC (continued)

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

Reconciliation of the fair value of acquired debt	***2018***	***2017***
At beginning of the year	918,425	978,229
Fair value yield on acquired debt	-	381,444
Purchases	-	84,257
Receipts	-	(525,505)
Reclassification to amortised cost under IFRS 9	(918,425)	-
	-	**918,425**

Discontinued general purpose lending and cellular receivables

DMC continues to collect and manage the assets from discontinued activities from within the group. All the contracts in the discontinued receivables asset class are deemed to be in default at the date of transition to IFRS 9 as the original contracts are out of term and the asset is in run off. The entire portfolio is therefore considered credit impaired. 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 which is a change from the previous classification of fair value through profit or loss. The portfolio is consider credit impaired as 90% of the portfolio was in arrears on the date of transition to IFRS 9, the portfolio 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 making this a discontinued receivable.

The effective interest rate is determined as the rate that exactly discounts the expected cash flows to the fair value at 1 April. 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. Interest income recognised on Education receivables during the year using the effective interest rate is R16.4 million.

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

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand

3.3. Impairment expense

	2018	*2017*
Home Finance	92,065	118,418
DMC	658	3,564
Other receivables	38	236
	92,761	**122,218**

4. Share capital and equity notes

The group capital restructure was completed on 5 December 2017 whereby the holders of debt capitalised the group. The following transactions took place:

- 55% of subordinated debt at 31 March 2017 was converted into senior debt.
- The balance of the 45% subordinated debt was exchanged for D Payment-In-Kind Notes.
- 41% of the senior debt (together with 55% of converted subordinated debt) at 31 March 2017 was exchanged for E Payment-In-Kind Notes.
- The convertible preference shares at 31 March 2017 were exchanged for B Preference Shares.
- The redeemable preference shares at 31 March 2017 were revalued which resulted in a modification gain in profit or loss and then exchanged for C preference shares.
- Debt holders contributed part of their interest to a special purpose vehicle to create a formal management incentive trust.

As a result of the restructure, revised financial covenants have been put in place. These are:

- Cost to income ratio: Minimum ratio of 68% from 30 June 2018.
- 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.
- Debt service cover ratio: Minimum of 1.05 times from 30 June 2018.

Authorised share capital	*2018*	*2017*
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 no par value B preference shares	-	-
100 000 no par value C1 preference shares	-	-
100 000 no par value C2 preference shares	-	-
	-	**-**

Issued share capital and Payment-in-Kind notes **		
102 166 387 (2017: 216,347) ordinary shares	-	2
0 (2017: 68 060) no par value compulsory convertible preference shares	-	115,708
0 (2017: 34 626) no par value cumulative redeemable A preference shares *	-	-
0 (2017: 8 329) no par value cumulative redeemable B preference shares *	-	-
18 029 362 A ordinary shares	-	-
34 626 C1 preference shares	53,567	-
9 045 C2 preference shares	74,967	-
68 060 B preference shares	155,909	-
Share premium	434,549	440,614
D Payment-In-Kind notes**	96,600	-
E Payment-In-Kind notes**	493,265	-
	1,308,857	**556,324**

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

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 Payment-In-Kind notes, E Payment-In-Kind notes and the C preference shares.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand

4. Share capital and equity notes (continued)

The C preference shares rank in priority in all respects to all other classes of shares, but rank behind the D Payment-In-Kind notes and the E Payment-In-Kind notes.

In lieu of the payment of preference dividends in the prior year, the group issued scrip dividends in settlement thereof at a premium of 20%. The amount of the scrip dividend was R15.1 million.

* The redeemable preference shares were classified as a financial liability in terms of IFRS.
** The Payment-In-Kind notes are classified as equity in terms of IFRS.

5. Borrowings - non-current and current

Held at amortised cost	***2018***	***2017***
Loans	1,474,159	1,505,987
Bonds - South Africa	-	933,024
Bonds - Kenya	-	161,427
Preference shares	-	191,286
	1,474,159	**2,791,724**

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

Non-current liabilities		
At amortised cost	976,116	639,331
Current liabilities		
At amortised cost	498,043	2,152,393
	1,474,159	**2,791,724**

In addition to the cash reported in the Statement of Financial Position, to meet obligations over the next 12 months the group has successfully raised R105 million in funding after 31 March 2018 with a pipeline of further undrawn credit approvals in place and the group’s strong cash generative business lines are producing receipting in excess of R100 million per month.

Fair value of the financial liabilities carried at amortised cost	1,467,341	2,791,773

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. Fair value measurements are categorised as level 3 on the fair value hierarchy as the valuation includes unobservable outputs.

Nature of borrowings

Secured	665,499	1,099,537
Subordinated	-	228,207
Unsecured	808,660	1,463,980
	1,474,159	**2,791,724**
Floating rates	1,229,307	2,532,283
Fixed rates	244,852	259,441
	1,474,159	**2,791,724**
Average effective interest rate	14.1 %	13.7 %

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand

5. Borrowings - non-current and current (continued)

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

	2018	*2017*
Net advances	794,362	1,331,926
Cash and cash equivalents	172,076	330,924
Equipment - motor vehicles	1,750	2,313
	968,188	**1,665,163**

The redeemable preference shares were initially purchased at a discounted price by the holder. The value on the statement of financial position was the nominal value. As part of the restructure, these redeemable preference share values were reduced to the purchase price resulting in a modification gain in profit or loss in the current year.

In the prior year, as funds became available, the group bought back notes that were trading at a discount which generated a profit of R49.7 million. This was part of a buy back proposal which envisaged retiring debt at holding company level and replacing this with bespoke funding within the divisions.

Gains in profit or loss		
Gain on derecognition of financial liability	50,332	-
Gain on purchase of financial liabilities	-	49,676
	50,332	**49,676**

6. Equipment

	2018			2017		
	Cost	*Accumulated depreciation*	*Carrying value*	*Cost*	*Accumulated depreciation*	*Carrying value*
Property	295	-	295	295	-	295
Furniture and fittings	5,140	(4,168)	972	18,840	(11,128)	7,712
Motor vehicles	9,631	(2,844)	6,787	10,102	(3,969)	6,133
Office equipment	4,928	(4,293)	635	10,367	(7,997)	2,370
Computer equipment	60,156	(53,744)	6,412	76,841	(65,553)	11,288
Leasehold improvements	1,068	(922)	146	2,621	(2,144)	477
	81,218	**(65,971)**	**15,247**	**119,066**	**(90,791)**	**28,275**

Reconciliation of equipment - 2018

	Opening balance	*Additions*	*Disposals*	*Transferred to disposal group*	*Depreciation*	*Closing balance*
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**

Figures in Rand thousand	2018	2017

6. **Equipment (continued)**

Reconciliation of equipment - 2017

	Opening balance	Additions	Disposals	Reclassifi-cations	Foreign exchange movements	Depreciation	Closing balance
Property	295	-	-	-	-	-	295
Furniture and fittings	12,635	41	(371)	(1,537)	(653)	(2,403)	7,712
Motor vehicles	4,250	5,895	(1,963)	-	62	(2,111)	6,133
Office equipment	3,643	118	(19)	261	(264)	(1,369)	2,370
Computer equipment	14,964	2,626	(402)	1,537	705	(8,142)	11,288
Leasehold improvements	2,812	-	(1,355)	(261)	-	(719)	477
	38,599	**8,680**	**(4,110)**	**-**	**(150)**	**(14,744)**	**28,275**

7. **Intangible assets**

	2018	2017
Computer software, internally generated		
Cost	13,761	18,311
Accumulated amortisation / impairment	(10,355)	(6,690)
	3,406	**11,621**

	2018	2017
Reconciliation of internally generated computer software		
Opening balance	11,621	22,972
Transferred to disposal group	(4,875)	-
Additions - internal development	2,327	4,600
Amortisation	(5,951)	(5,582)
Change in estimate	-	(5,529)
Impairment loss	-	(4,133)
Other	284	(707)
	3,406	**11,621**

8. **Deferred tax**

	2018	2017
Deferred tax asset	5,241	3,211
Deferred tax liability	(5,247)	(30,962)
	(6)	**(27,751)**

Deferred tax is attributable to the following:

	2018	2017
Advances	346	(29,920)
Deferred expenses	(433)	(281)
Tax losses available for set off against future taxable income	81	2,450
	(6)	**(27,751)**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2018	2017

8. Deferred tax (continued)

Reconciliation of deferred tax

	2018	2017
At beginning of the year	(27,751)	166,281
Advances	13,728	(2,480)
Deferred expenses	521	1,428
Tax on IFRS 9 transitional adjustments	5,943	-
Decrease in tax loss available for set off against future taxable income	(1,433)	(3,498)
Prior year adjustments	8,986	-
Impairment of deferred tax asset	-	(189,482)
	(6)	**(27,751)**

	2018	2017
Opening balance	(27,751)	166,281
Tax charge on IFRS 9 transitional adjustments (refer note 1.4)	5,943	-
Tax charged to income statement (refer note 20)	21,802	(191,072)
Tax charge relating to components of other comprehensive income	-	6,738
Foreign exchange movements	-	(9,698)
	(6)	**(27,751)**

Refer to note 1.3 for management's judgements.

9. Investment in associates and joint venture

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

Name of company	*Nature of investment*	*% ownership interest*	*% ownership interest*	*Carrying amount*	*Carrying amount*
		2018	***2017***	***2018***	***2017***
Dorreal Properties Proprietary Limited	Joint venture	50.00 %	50.00 %	21,269	18,855
Empower Financial Services Proprietary Limited	Associate	49.10 %	49.10 %	-	-
Imfundo Finance (RF) Limited	Associate	45.00 %	45.00 %	3,407	426
				24,676	19,281

Dorreal Properties Proprietary Limited is a private company which has its main principal place of business in South Africa. The company is a property company which owns one of the primary buildings from which the group operates in South Africa. The investment is classified as an investment in a joint venture. There is no quoted market price available for its shares. The investment property in Dorreal Properties Proprietary Limited was impaired during the prior year as the valuation was dependent on a number of significant judgements that changed during the prior year. The judgements included 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 provides rehabilitative loans and financial rehabilitation solutions to over-indebted employees of state owned entities in South Africa. The company is a private company which has its main principal place of business in South Africa. The investment has been impaired to Rnil in a previous financial year 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 R1.8 million (2017: R1.9 million) and cumulatively to R7.7 million (2017: R5.9 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.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2018	2017

9. Investment in associates and joint venture (continued)

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

	2018	2017
Reconciliation of investment in associates and joint venture		
Opening balance	19,281	32,631
Income (loss) from equity accounted investments		
Dorreal Properties Proprietary Limited	2,414	(13,776)
Imfundo Finance (RF) Limited	2,981	426
	24,676	**19,281**

Figures in Rand thousand

9. Investment in associates and joint venture (continued)

Summarised financial information of material associates and joint venture

2018

Summarised statement of comprehensive income	***Revenue***	***Depreciation and amortisation***	***Other income and expenses***	***Finance income***	***Finance cost***	***Tax expense***	***Profit / (loss) from operations***	***Preference dividends***	***Total comprehen-sive income***
Dorreal Properties Proprietary Limited	10,238	(250)	(2,547)	367	(1,712)	(1,707)	4,389	(3,250)	1,139
Empower Financial Services Proprietary	245	(75)	(3,887)	-	(9)	-	(3,726)	-	(3,726)
Imfundo Finance (RF) Limited	20,605	-	(18,755)	13,994	(6,611)	(2,609)	6,624	-	6,624
	31,088	**(325)**	**(25,189)**	**14,361**	**(8,332)**	**(4,316)**	**7,287**	**(3,250)**	**4,037**

Summarised statement of financial position

Assets	***Non-current assets***	***Cash and cash equivalents***	***Current assets***	***Total current assets***	***Total assets***
Dorreal Properties Proprietary Limited	83,710	3	68	71	83,781
Empower Financial Services Proprietary	212	1	665	666	878
Imfundo Finance (RF) Limited	-	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***	***Other current liabilities***	***Total current liabilities***	***Total liabilities***
Dorreal Properties Proprietary Limited	15,392	15,736	31,128	677	677	31,805
Empower Financial Services Proprietary	49,212	-	49,212	2,122	2,122	51,334
Imfundo Finance (RF) Limited	54,935	15	54,950	1,965	1,965	56,915
	119,539	**15,751**	**135,290**	**4,764**	**4,764**	**140,054**

Figures in Rand thousand

9. Investment in associates and joint venture (continued)

Reconciliation of net assets to equity accounted investments in joint ventures	*Total net assets*	*Interest at % ownership*	*Additional investment in preference shares*	*Impairment of investment*	*Loan to associates and joint venture*	*Investment in associates and joint venture*
Dorreal Properties Proprietary Limited	51,976	25,988	15,325	(20,044)	-	21,269
Empower Financial Services Proprietary	(50,456)	(24,774)	-	(9,580)	34,354	-
Imfundo Finance (RF) Limited	7,571	3,407	-	-	-	3,407
	9,091	**4,621**	**15,325**	**(29,624)**	**34,354**	**24,676**

2017

Summarised statement of comprehensive income	*Revenue*	*Depreciation and amortisation*	*Other income and expenses*	*Finance income*	*Finance cost*	*Tax expense*	*Profit / (loss) from operations*	*Preference dividends*	*Total comprehensive income*
Dorreal Properties Proprietary Limited	9,828	(17)	(2,718)	437	(2,236)	(1,482)	3,812	(3,067)	745
Empower Financial Services Proprietary	60	(117)	(3,788)	-	(10)	-	(3,855)	-	(3,855)
Imfundo Finance (RF) Limited	3,458	-	(937)	453	(1,659)	(368)	947	-	947
	13,346	**(134)**	**(7,443)**	**890**	**(3,905)**	**(1,850)**	**904**	**(3,067)**	**(2,163)**

Summarised statement of financial position *Assets*	*Non-current assets*	*Cash and cash equivalents*	*Current assets*	*Total current assets*	*Total assets*
Dorreal Properties Proprietary Limited	83,571	5	202	207	83,778
Empower Financial Services Proprietary	166	73	550	623	789
Imfundo Finance (RF) Limited	-	12,046	25,325	37,371	37,371
	83,737	**12,124**	**26,077**	**38,201**	**121,938**

Figures in Rand thousand

9. Investment in associates and joint venture (continued)

Liabilities	*Non-current financial liabilities**	*Other non-current liabilities*	*Total non-current liabilities*	*Current financial liabilities**	*Other current liabilities*	*Total current liabilities*	*Total liabilities*
Dorreal Properties Proprietary Limited	19,692	15,736	35,428	-	763	763	36,191
Empower Financial Services Proprietary	46,357	95	46,452	205	753	958	47,410
Imfundo Finance (RF) Limited	35,000	237	35,237	-	1,188	1,188	36,425
	101,049	**16,068**	**117,117**	**205**	**2,704**	**2,909**	**120,026**

*Current and non-current financial liabilities are expressed in the table above, excluding trade and other payables and provisions. Trade and other payables and provisions are included in other non-current liabilities and other current liabilities.

Reconciliation of net assets to equity accounted investments in joint ventures	*Total net assets*	*Interest at % ownership*	*Additional investment in preference shares*	*Impairment of investment*	*Loan to associates and joint venture*	*Investment in associates and joint venture*
Dorreal Properties Proprietary Limited	47,587	23,794	15,105	(20,044)	-	18,855
Empower Financial Services Proprietary	(46,621)	(22,891)	-	(11,463)	34,354	-
Imfundo Finance (RF) Limited	946	426	-	-	-	426
	1,912	**1,329**	**15,105**	**(31,507)**	**34,354**	**19,281**

Figures in Rand thousand	2018	2017

10. Other receivables

	2018	2017
Sundry receivables	13,509	25,285
Prepaid expenses and deposits	3,241	5,100
Staff loans and advances	693	3,457
Loan receivables	8,401	12,326
Assurance investment loans	-	63,713
	25,844	**109,881**

For short term receivables, the carrying value approximates fair value.

Sundry receivables

Sundry receivables includes the purchase price owing by Stratcap Funding Proprietary Limited for the purchase of the Aspire Group Proprietary Limited. The amount recognised is the present value amount of R3.9 million (2017: R6.7 million). This amount is interest free and is payable in instalments as and when the company sold derives any benefit from the deferred tax asset on the statement of financial position. The group expects to receive the proceeds over a five year period.

Loan receivables

These loans bear interest at 3 month JIBAR plus between 10% and 11% and are repayable on demand.

Assurance investment loans

The investment loans were settled in the current year. In the prior year the loans accrued interest at a weighted average rate of 13.5%.

Impairment allowances

The creation and release of the allowance for impaired receivables have been included in operating expenses in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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

11. Derivative financial assets and liabilities

	2018	2017
Derivatives used for hedging		
Cross currency swaps - Cash flow hedge	3,061	-
Financial assets - At fair value through profit or loss		
Cross currency swaps	-	15,082
Financial liabilities - At fair value through profit or loss		
Cross currency swaps	-	(17,541)
	3,061	**(2,459)**

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 group 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:

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2018	2017

11. Derivative financial assets and liabilities (continued)

Offsetting financial assets and financial liabilities

	2018	2017
Gross amount of cross currency swap (liability)	(45,356)	-
Cash collateral asset	48,417	-
	3,061	**-**

Reconciliation of financial assets and liabilities classified as level 3 - 2018

	Opening balance	*Gains or losses in profit or loss*	*Settlements*	*Recognised in other comprehensive income*	*Collateral*	*Total*
Cash flow hedge	-	-	-	(45,356)	48,417	3,061
Financial assets at fair value through profit or loss	15,082	-	(15,082)	-	-	-
Financial liabilities at fair value through profit or loss	(17,541)	16,201	1,340	-	-	-
	(2,459)	**16,201**	**(13,742)**	**(45,356)**	**48,417**	**3,061**

Reconciliation of financial assets classified as level 3 - 2017

	Opening balance	*Reclassification*	*Gains or losses in profit or loss*	*Impairment*	*Total*
Cash flow hedge	84,210	(84,210)	-	-	-
Fair value hedge	42,496	(42,496)	-	-	-
Financial assets at fair value through profit or loss	-	42,496	(9,743)	(17,671)	15,082
Financial liabilities at fair value through profit or loss	-	84,210	(101,751)	-	(17,541)
	126,706	**-**	**(111,494)**	**(17,671)**	**(2,459)**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018	2017
Bank balances	344,502	461,381
Cash on hand	67	757
	344,569	**462,138**

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

The cash and cash equivalents with a carrying value of R203.9 million (2017: R353.8 million) in certain special purpose entities and Real People Assurance Company Limited are not available for use by the group as these assets are ring-fenced, refer to note 32.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2018	2017

12. Cash and cash equivalents (continued)

Credit quality of cash at bank

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 can be assessed by reference to the latest available external credit ratings:

Credit rating	2018	2017
zaAA- *	44,314	-
zaA *	-	185,258
B *	153,511	5,537
BB *	3,972	-
BB+ *	-	1,190
Ba1 **	-	231,652
Baa3 **	142,705	-
Not rated	-	37,744
	344,502	**461,381**

* Source: Standard & Poor's
** Source: Moodys's

13. Provisions

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**

Reconciliation of provisions - 2017

	Opening balance	*Additions*	*Utilised during the year*	*Reversed during the year*	*Interest*	*Total*
Restructuring provision	2,008	442	(1,783)	(225)	-	442
Bonus provision	2,393	7,782	(8,024)	(261)	-	1,890
Incentive provision	24,388	4,038	(13,753)	(72)	438	15,039
	28,789	**12,262**	**(23,560)**	**(558)**	**438**	**17,371**

14. Net insurance liability

	2018	2017
Net insurance liability	-	-

The net insurance liability comprises the following:	2018	2017
Gross insurance liability	-	-
Reinsurance asset	-	-
	-	**-**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2018	2017

14. Net insurance liability (continued)

Split between discounted and undiscounted liabilities		
Discounted liabilities	(4,590)	(6,884)
Undiscounted liabilities	4,590	6,884
	-	-

Reconciliation of movement in insurance liabilities

Discounted liabilities		
Opening balance	(6,884)	(14,207)
Expected interest on insurance liabilities	(2,521)	(1,904)
Expected premiums on insurance liabilities	84,382	96,193
Expected unwinding of margins	(8,322)	(6,540)
Expected claims, maturities and surrenders	(25,277)	(31,294)
Expected expenses, commission and charges	(19,309)	(29,237)
Experience variations	(12,267)	(325)
Extension of term	-	(14,920)
Changes in valuation basis	1,916	7,044
New business added during the year	(9,424)	(22,646)
Change in discretionary margins	(6,884)	10,952
	(4,590)	**(6,884)**

Undiscounted liabilities		
Opening balance	6,884	14,616
Changes in valuation basis	-	(4,983)
Movement in IBNR	(2,294)	(2,749)
	4,590	**6,884**

15. Trade and other payables

Trade payables	8,465	12,098
VAT	4,319	3,347
Insurance contract liabilities	-	52,283
Accrued leave pay	8,392	9,470
Accrued expenses	26,215	27,839
	47,391	**105,037**

The carrying amount approximates fair value.

Reconciliation of insurance contract liabilities		
Opening balance	52,283	62,796
Interest earned	3,513	8,138
Management fee	(175)	(407)
Redemptions	(55,621)	(18,244)
	-	**52,283**

16. Revenue

Gross yield from assets		
Interest and similar income	711,462	250,277
Fee income	9,938	28,772
Fair value yield	-	381,444
Net assurance income - credit life	62,528	56,141
Other non-interest income	1,719	181
	785,647	**716,815**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2018	2017

16. Revenue (continued)

Other revenue		
Net assurance income - funeral benefits	35,204	35,932
Outsourced collection income	42,271	27,434
Adjustments for		
Insurance benefits	19,917	35,366
	883,039	**815,547**

Revenue from financial assets in the prior year is calculated based on IAS 39 whereas revenue in the current year is calculated based on IFRS 9. Refer to note 3 above for the change in accounting policy.

In addition, the effective interest rate under IFRS 9 includes collection costs for the Acquired Debt Portfolio and Education asset and service fees for the Home Finance portfolio.

The income from insurance products is as follows:

Net insurance premiums		
Premiums received	119,582	129,817
Premiums paid to reinsurers	(1,933)	(2,378)
	117,649	127,439
Net insurance benefits		
Insurance benefits	(21,038)	(37,273)
Insurance benefits recovered from reinsurers	1,121	1,907
	(19,917)	(35,366)
	97,732	**92,073**

Net assurance income		
Credit life	62,528	56,141
Funeral benefits	35,204	35,932
	97,732	**92,073**

Ex gratia 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 parties within the group, who are the main source of credit life premium income.

The Assurance company has a policy in determining which ex gratia claims to process. The main factors considered in terms of the policy are the duration of time between lapse and incident date, the level of premiums generated and overall profitability of the relevant portfolio for the company. The overarching consideration is the company's solvency and capital adequacy before processing such claims.

17. Finance costs

Borrowings	228,282	362,316
Preference dividends	-	27,212
Tax authorities	3,100	160
	231,382	**389,688**

18. Foreign exchange gains / (losses)

Loss on derivative financial instruments	(14,808)	(95,002)
Gain on restatement of borrowings	6,834	74,801
Loss on restatement of loan to Real People Kenya Limited	(991)	-
	(8,965)	**(20,201)**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2018	2017

19. Operating expenses

Operating expenses for the continuing operations as follows:

Advertising	2,691	3,234
Auditors remuneration - services as auditors	6,702	5,755
Auditors remuneration - other services	3,837	1,116
Bank charges	3,302	4,204
Collection costs and commissions *	73,505	144,440
Computer expenses	11,276	13,242
Consulting and legal fees attributable to group restructure	40,423	-
Consulting fees	17,462	22,155
Legal fees	1,061	1,780
Postage, printing and stationery	6,312	7,126
Telephone	10,827	13,725
Amortisation of intangible assets	5,951	9,337
Impairment of intangible assets	-	4,133
VAT receivable impairment	-	20,817
VAT expense	26,912	28,011
Staff related costs		
Remuneration	239,866	241,268
Post-employment benefits - Defined contribution plan	10,403	10,994
Termination benefits	852	2,885
Subsistence and travel	2,796	3,411
Training and other staff costs	5,666	6,637
Property and equipment related costs		
Depreciation on property and equipment	7,542	9,403
Other property and equipment expenses	11,252	12,444
Operating lease rentals		
Premises and equipment	11,433	16,821
Other expenses	15,649	12,315
	515,720	**595,253**

* In the current year collection costs are included in the effective interest rate under IFRS 9 whereas these were disclosed as part of operating expenses in the prior year.

20. Income tax expense

Major components of the tax expense

Current		
Income tax	10,084	14,982
Income tax recognised in current tax for prior periods	17,069	-
Foreign withholding tax	-	3,782
	27,153	**18,764**
Deferred		
Originating and reversing temporary differences	(12,816)	153,954
Arising from prior period	(8,986)	5,327
	(21,802)	**159,281**
	5,351	**178,045**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2018	2017

20. Income tax expense (continued)

Reconciliation of the tax expense

	2018	2017
Applicable tax rate	28.00 %	28.00 %
Deferred tax asset not raised	(13.65)%	(73.11)%
Gain on derecognition of financial liability	(17.80)%	- %
Other exempt income	(0.18)%	0.05 %
Capital income (loss) not allowed	1.26 %	(2.96)%
Legal and consulting fees not deductible	0.78 %	- %
Interest and penalties paid to tax authorities	1.64 %	- %
Other disallowable charges	- %	(6.29)%
Preference dividend	- %	(2.49)%
Donations	0.05 %	- %
Foreign withholding taxes	- %	(1.28)%
Prior year adjustments	6.66 %	(0.13)%
Average effective tax rate	**6.76 %**	**(55.72)%**

Refer to note 1.3 for management's judgements.

21. Cash generated from operations

	2018	2017
Profit / (loss) before taxation	79,160	(305,867)
Loss from operations classified as a disposal group	(30,310)	(98,463)
Adjustments for:		
Depreciation and amortisation	13,493	25,855
Gains on disposal of property and equipment	(441)	(1,160)
Loss / (income) from equity accounted investments	(5,396)	13,350
Finance costs	231,382	426,788
Gain on purchase of financial liabilities	-	(53,505)
Impairment losses	4,079	27,578
Movements in insurance liability	-	(409)
Foreign exchange losses	8,965	27,261
Gain on derecognition of financial liability	(50,332)	-
Movements in provisions	12,806	(11,418)
Interest and fees charged to debtors	(822,258)	(508,146)
Fair value yield	-	(381,444)
Impairment of net advances	92,761	223,022
Changes in working capital:		
Origination of advances	(456,025)	(743,391)
Purchase of advances	(81,681)	(84,257)
Receipts from advances	1,466,465	2,041,431
Inventories	24	162
Other receivables	75,289	27,024
Trade and other payables	(55,851)	(82,213)
Disposal group working capital	23,167	-
	505,297	**542,198**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2018	2017

22. Tax paid

Opening balance	2,857	23,676
Current tax for the year recognised in profit or loss	(27,153)	(18,764)
Withholding tax	-	817
Foreign exchange movement	-	(2,047)
Interest paid	(3,100)	(33)
Transfer to disposal group	(303)	-
Closing balance	12,371	(2,857)
	(15,328)	**792**

23. Changes in share capital arising from financing activities

Opening balance	556,324	541,183
Non-cash movement		
Scrip dividends	-	15,141
Conversion of ordinary shares into Convertible Preference shares	(61,467)	-
Convertible preference shares converted into B preference shares	(115,707)	-
Issue of B preference shares	177,174	-
Issue of C preference shares	141,247	-
Issue of D Payment-In-Kind notes	102,766	-
Issue of E Payment-In-Kind notes	508,521	-
Closing balance	(1,308,857)	(556,324)
	1	**-**

24. Changes in liabilities arising from financing activities

Opening balance	2,791,724	3,208,211
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)	-
Gain on purchase of financial liabilities	-	(53,505)
Foreign exchange movements	-	(26,024)
Fair value changes	(8,839)	(91,929)
New leases	-	2,778
Transfer to disposal group	(161,427)	-
Other non-cash movements	-	(972)
Closing balance	(1,474,159)	(2,791,724)
	344,433	**246,835**

25. Disposal group

The East African subsidiaries, housing the Business Finance segment, were sold to a third party on 29 March 2018. Prior to the sale, the board was committed to a plan to sell the operations as a single sale transaction and the division was classified as a discontinued operation. The statement of financial performance has been restated for the prior period to reflect the income and expenses for the East African subsidiaries separately from continuing operations.

In the prior year there was an adjustment of R7.5 million to the original selling price for the sale of shares Aspire Group Proprietary Limited. This adjustment was the result of changes in the agreement.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2018	2017

25. Disposal group (continued)

Profit or loss

Revenue	73,881	137,669
Expenses	(119,663)	(228,592)
Purchase price adjustment	-	(7,540)
Net loss before tax	(45,782)	(98,463)
Tax	3,075	(31,791)
Net loss after tax	(42,707)	(130,254)
Profit on sale	12,397	-
	(30,310)	**(130,254)**

Cash flows

Cash flows from operating activities	22,600	137,314
Cash flows from investing activities	1,034	2,021
Cash flows from financing activities	(19,902)	(169,280)
	3,732	**(29,945)**

26. Commitments

Operating leases commitments

Minimum lease payments due

- within one year	16,269	17,776
- in second to fifth year inclusive	46,519	59,945
	62,788	**77,721**

Operating lease payments represent rentals payable by the group for certain of its office properties. Lease agreements include escalation clauses and options to renew contracts. The most material lease for the group includes an annual escalation of CPIX + 2%.

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.

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 group is in the process of refining its tax revenue recognition methodologies and considers its current tax provisions to be appropriate.

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

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2018	2017

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 BA Schenk (resigned 1 January 2018) A Padachie (resigned 14 February 2017) DJ Munro N Thomson PG de Beyer K Hopkins DTV Msibi MA Barnes (resigned 16 August 2017) HC van Heerden (Resigned 4 August 2017) D Malik (Resigned 31 July 2017)
Subsidiaries and special purpose entities	Refer to note 32
Joint venture and associates	Refer to note 9

Related party balances

	2018	2017
Borrowings - owing to shareholders *		
Investec Asset Management Proprietary Limited	270,118	416,728
Norwegian Investment Fund for Developing Countries	74,311	202,655
BIFM Capital Investment Fund No.1 Proprietary Limited	78,357	128,264
Old Mutual Life Assurance Company (South Africa) Limited	373,460	546,945
	796,246	**1,294,592**

* balances included for shareholders with voting rights of 5% or greater

	2018	2017
Amounts included in trade receivables (payables) regarding related parties		
Other receivables	11,300	16,842

Related party transactions

	2018	2017
Interest payable to shareholders		
Investec Asset Management Proprietary Limited	34,150	61,383
Norwegian Investment Fund for Developing Countries	9,395	9,629
BIFM Capital Investment Fund No.1 Proprietary Limited	6,655	14,434
Old Mutual Life Assurance Company (South Africa) Limited	58,516	74,471
	108,716	**159,917**

	2018	2017
Redeemable preference share dividends paid to shareholder		
Old Mutual Life Assurance Company (South Africa) Limited	-	12,567

	2018	2017
Other related party transactions		
Rent paid to related parties	(9,208)	(9,314)
Purchase price adjustment of proceeds on sale of Aspire Group Proprietary Limited	-	(7,540)
Administrative services to Aspire Group Proprietary Limited	5,623	10,878

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand

29. Directors' emoluments

Executive

2018

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

2017

	Salaries	*Incentive bonus*	*Other benefits**	*Total*
N Grobbelaar	3,313	1,437	213	4,963
BA Schenk	3,150	920	202	4,272
A Padachie	2,387	542	153	3,082
	8,850	**2,899**	**568**	**12,317**

* Other benefits include provident fund contributions and sign on benefits.

Service contracts

All executive directors are subject to written employment agreements.

Non-executive

2018

	Directors' fees	*Committees fees*	*Total*
PG de Beyer	562	326	888
DTV Msibi	337	405	742
MA Barnes	127	-	127
HC van Heerden	116	-	116
D Malik **	169	-	169
K Hopkins	337	349	686
N Thomson	421	510	931
	2,069	**1,590**	**3,659**

2017

	Directors' fees	*Committees fees*	*Total*
PG de Beyer	674	202	876
DTV Msibi	337	254	591
MA Barnes	337	64	401
RA den Besten **	84	16	100
HC van Heerden	337	-	337
CA Glover	296	9	305
D Malik **	337	21	358
K Hopkins	327	139	466
N Thomson	327	140	467
	3,056	**845**	**3,901**

** Fees paid to the shareholder represented

Figures in Rand thousand	2018	2017

30. Risk management

Capital risk management

The group's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for 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 30.38% at 31 March 2018 which is above the minimum requirement of 20.0% for this period.

In the previous year the group calculated capital adequacy levels under the Basel II Simplified Standardised Approach but this has been replaced with the above ratio in the current year.

Financial risk management

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 aim of the committees are 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.

- Audit Committee: The Audit Committee is responsible for overseeing external and internal audit, the financial statements and accounting practices and internal financial control.
- Risk Committee: This committee is responsible for reviewing the adequacy and overall effectiveness of the group's risk management agenda.
- Credit Committee: DMC and Home Finance each has a divisional credit committee who is responsible for the management of credit risk for net advances.
- Asset and Liability Committee: This committee's responsibilities include liquidity risk management, interest rate risk management, currency risk management and capital risk management.

Credit risk

Credit risk is the risk that the group's clients or counterparties will not be able or willing to pay interest, repay capital or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, and arises principally from the group's advances. Credit risk management for net advances is discussed in note 3.

Financial assets exposed to credit risk at year-end were as follows:

	2018	2017
Net advances (refer to note 3)	1,498,213	2,201,428
Cash and cash equivalents (refer to note 12)	344,569	462,138
Derivative assets (refer to note 11)	3,061	15,082
Other receivables, excluding prepaid expenses, deposits and VAT	22,603	104,781

For the above financial assets, the carrying amount represents the maximum exposure to credit risk.

Figures in Rand thousand 2018 2017

30. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its current and future obligations, both expected and unexpected, without materially affecting its daily operations or overall financial position.

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 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 for the 2018 financial year is 5.05. The ratio will decline to approximately 1.60 once the payment holiday period has ceased.

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.

2018	*Less than 1 month*	*1-3 months*	*3 months to 1 year*	*1-5 years*	*More than 5 years*	*Total*
Assets	430,867	228,193	866,689	1,896,322	216,107	3,638,178
Liabilities	(57,085)	(258,360)	(362,564)	(1,079,480)	(167,173)	(1,924,662)
	373,782	**(30,167)**	**504,125**	**816,842**	**48,934**	**1,713,516**

2017	*Less than 1 month*	*1-3 months*	*3 months to 1 year*	*1-5 years*	*More than 5 years*	*Total*
Assets	593,104	294,425	1,086,485	2,155,673	369,341	4,499,028
Liabilities	(89,848)	(238,840)	(934,214)	(2,027,237)	(233,573)	(3,523,712)
	503,256	**55,585**	**152,271**	**128,436**	**135,768**	**975,316**

Market risk - Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The group originates predominantly variable rate retail lending assets. The interest rate component of the total yield of the asset varies according to different term and loan amounts (due to the fixed and available fees charged) and the interest rate charged is largely at the maximum rate permitted by the National Credit Act, which is a 2.2 multiple of the South African repo rate. For many of the assets the instalment is fixed so an increase in the variable interest rate results in term extension rather than an increase in instalment and therefore these assets behave more like fixed interest rate assets, except for loans with a remaining term to original maturity near the repo or JIBAR changed date.

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. The table below illustrates the sensitivity of profit or loss before tax for a year to an increase of 50 basis. The sensitivity of 50 basis points was considered a conservative basis for illustrating a possible incremental change over the next financial year. This assumes that floating rate liabilities will reprice at their next repricing date with assets repricing immediately.

Current rates + 0.5%	2018	2017
Additional interest income on assets	5,029	7,238
Additional interest expense on liabilities	(5,063)	(6,750)
	(34)	**488**

Figures in Rand thousand

30. Risk management (continued)

Market risk - Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The group was exposed to, and actively managed, currency risk: on the asset side through its lending operations in East Africa and on the liability side via foreign borrowings. The East African operations have been sold.

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 balance of loans denominated in foreign currency at reporting date is R287.8 million (2017: R464.7 million). The loans are denominated in Norwegian Krona, Swedish Krona and Botswana Pula.

	2018		***2017***	
	Balance	***Exchange rate (ZAR1:)***	***Balance***	***Exchange rate (ZAR1:)***
Norwegian Krona	NOK 62.4 million	0.66	NOK 98.2 million	0.65
Swedish Krona	SEK 80.1 million	0.71	SEK 127.2 million	0.68
Botswana Pula	BWP 64.2 million	0.81	BWP 100.1 million	0.78

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 R3.5 million.

The East Africa operations are consolidated in the group's results up to the date of sale on 29 March 2018. The group no longer has foreign currency exposure arising from East African operations.

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.

Figures in Rand thousand

30. Risk management (continued)

Risk management for the group is becoming increasingly important under the Solvency Assessment and Management (SAM) regime which is the new risk-based regulatory regime currently being developed by the Financial Services Board. SAM proposes a three-pillar approach. Pillar I is a quantitative solvency assessment using market-consistent methods. Pillar II addresses qualitative aspects that affect an assurance company's solvency, namely the assurance company's risk management structure and procedures. Pillar III sets out public reporting requirements.

31. Segmental information

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

- Home Finance provides credit and related financial services (credit life cover) to customers of building supply merchants in South Africa;
- Assurance provides a variety of funeral, disability and loss of income benefits to customers;
- DMC purchases non-performing loan portfolios and provides debt collection solutions to credit providers in South Africa and includes the ownership and collection of the discontinued receivables; and
- Group Central Services houses the centralised functions which operate across the group.

The operations of the Business Finance division were sold, refer to note 25.

Segment assets and liabilities:

2018	*Home Finance*	*Assurance*	*Business Finance*	*DMC*	*Group Central Services*	*Total*
Net advances	722,629	-	-	775,584	-	1,498,213
Other assets	179,655	32,499	-	198,279	11,611	422,044
Segment assets	902,284	32,499	-	973,863	11,611	1,920,257
Segment liabilities	(784,166)	(4,472)	-	(668,886)	(111,821)	(1,569,345)
	118,118	**28,027**	**-**	**304,977**	**(100,210)**	**350,912**

2017	*Home Finance*	*Assurance*	*Business Finance*	*DMC*	*Group Central Services*	*Total*
Net advances	841,648	-	160,196	1,199,584	-	2,201,428
Other assets	181,705	83,753	59,831	202,444	124,637	652,370
Segment assets	1,023,353	83,753	220,027	1,402,028	124,637	2,853,798
Segment liabilities	(892,526)	(58,524)	(500,601)	(1,464,735)	(46,249)	(2,962,635)
	130,827	**25,229**	**(280,574)**	**(62,707)**	**78,388**	**(108,837)**

Figures in Rand thousand

31. Segmental information (continued)

Segment income and expenses:

2018	*Home Finance*	*Assurance*	*DMC*	*Group Central Services*	*Total*
Net yield	333,460	938	354,049	4,439	692,886
Other non-interest income	-	35,204	56,902	50,235	142,341
Finance costs	(113,329)	-	(114,766)	(3,287)	(231,382)
	-	-	-	-	-
Operating expenses	(137,410)	(26,164)	(267,352)	(93,759)	(524,685)
Profit (loss) before tax	82,721	9,978	28,833	(42,372)	79,160
Taxation	(13,546)	(2,799)	11,231	(237)	(5,351)
Profit (loss) after tax from continuing operations	**69,175**	**7,179**	**40,064**	**(42,609)**	**73,809**
Loss from disposal group					(30,310)
Profit for the year					**43,499**

2017	*Home Finance*	*Assurance*	*DMC*	*Group Central Services*	*Total*
Net yield	316,615	-	483,049	5,736	805,400
Other non-interest income	-	35,932	25,621	2,651	64,204
Finance costs	(123,731)	(839)	(216,516)	(48,602)	(389,688)
Non-recurring items	(55,149)	(1,004)	(191,461)	14,771	(232,843)
Operating expenses	(145,840)	(21,707)	(305,801)	(79,592)	(552,940)
Loss before tax	(8,105)	12,382	(205,108)	(105,036)	(305,867)
Taxation	474	(3,339)	(175,406)	226	(178,045)
Loss after tax from continuing operations	**(7,631)**	**9,043**	**(380,514)**	**(104,810)**	**(483,912)**
Loss from disposal group					(130,254)
Loss for the year					**(614,166)**

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand

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 9.

Subsidiaries

The principal operating subsidiaries are as follows:

Name of subsidiary	*Country of incorporation and principal place of business*	*Principal division*	*Proportion of ownership interest held by the group 2018*	*Proportion of ownership interest held by the group 2017*
DMC Debt Management Consultants Proprietary Limited	South Africa	DMC	100.0 %	100.0 %
Real People Home Finance Proprietary Limited	South Africa	Home Finance	100.0 %	100.0 %
Real People Assurance Company Limited	South Africa	Long term insurance	100.0 %	100.0 %
DMC Acquired Debts 4 Proprietary Limited	South Africa	DMC	100.0 %	100.0 %
MKA Debt Solutions Proprietary Limited	South Africa	DMC	100.0 %	100.0 %

Real People Kenya Limited and Real People Financial Services (Uganda) Limited were wholly owned subsidiaries in the prior year but were sold as part of the sale of the East African operations in the current year, refer to note 25.

Real People Assurance Company Limited is subject to statutory capital requirements that restrict the ability of the company to remit dividends to its holding company.

Special purpose entities

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

Name of special purpose entity	*Principal division*
Real People Home Improvement Finance (RF) Proprietary Limited	Home Finance
Umuzi Finance (RF) Limited	Home Finance
Evolution Future Flow Securities 2 (RF) Limited	DMC
Imonti Future Flow Securities (RF) Limited *	DMC
Evolution Future Flow Securities (RF) Limited *	DMC, Home Finance

* These entities have come to the end of their term and are in the process of winding down.

Nyati Securitisation 1 (RF) Limited became a subsidiary during the year and is therefore no longer classified as a special purpose entity.

The carrying amount of the assets and liabilities of special purpose entities at 31 March 2018 was R792.1 million (2017: R 1 060.4 million) and R815.2 million (2017: R1 066.1 million) respectively.