Evolution Credit Limited

Audited consolidated annual financial statements

For the year ended 31 March 2023

General Information

Company registration number	1999/020093/06
Country of incorporation and domicile	South Africa
Nature of business and principal activities	Home improvement finance, debt acquisition and management services, long term insurance products.
Registered office	12 Esplanade Road Quigney East London 5201
Contact details	Telephone: +27 (0) 43 702 4600 Email: corporate@evolution.za.com Website: www.evolution.za.com
Auditors	Deloitte & Touche Chartered Accountants (SA) Registered Auditors
Level of assurance	These audited consolidated annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.
Preparer	The audited consolidated annual financial statements were internally compiled by: MT Laube, CA(SA), Group Controller
Supervised by	A de Man, CA(SA), Chief Financial Officer
Issued	31 May 2023

Contents

Directors' Responsibilities and Approval

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

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

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

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

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

The external auditors are responsible for independently auditing and reporting on the group's consolidated financial statements. The consolidated financial statements have been examined by the group's external auditors and their report is presented on pages 11 to 13.

The audited consolidated annual financial statements set out on pages 5 to 10 and 14 to 47, which have been prepared on the going concern basis, were approved by the board on 31 May 2023 and were signed on their behalf by:

NW Thomson
Chairman

N Grobbelaar
Group Chief Executive Officer

31 May 2023

Company Secretary's Certification

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

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

C Wilkinson
Company Secretary

31 May 2023

Audit Committee Report

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

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

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

Composition and governance

The Audit Committee had three members during the year, all of whom are independent non-executive directors. The committee met five times during the period from 1 April 2022 to 31 March 2023.

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

The Audit Committee Chair reports to the board on its activities and the matters discussed at each meeting.

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

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

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

The performance of the committee is assessed annually. The 2023 review concluded that the committee continued to operate effectively, and successfully discharged its responsibilities and duties.

Internal control

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

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

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

The Risk Committee receives reports from the Group Information Technology function on the adequacy and effectiveness of the group's information system controls. The Risk Committee also reviews the credit and pricing policies which set the parameters within which credit risk is accepted and managed in the group. All the Audit Committee members are all members of the Risk Committee.

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

Audit Committee Report

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

Financial reporting process

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

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

The Audit Committee also:
- received a summary of the key technical accounting matters from the CFO for consideration as well as a summary of critical accounting judgements and estimates made during the financial reporting period and after the reporting period;
- received feedback where there were substantive discussions between management and the external auditors; and
- discussed key areas of judgement with management and the external auditors.

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

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

Area of judgement	Judgements Applied	Assessment and Conclusion
Credit risk provisioning	*Determination of expected losses* Consideration was given to expected credit losses (ECLs), the probability of default (PD), loss given default (LGD) and the exposure at default on a forward-looking basis. *Forward-looking indicators* The South African consumer has seen numerous headwinds in the current year that have impacted their disposable income. Higher levels of non-payment of collectable instalments and the impact of load shedding were considered in determining ECLs. Refer to notes 1.2, 1.3, 1.4 and 3.1 to the annual financial statements for a description of the methodology and inputs used in making this assessment.	The committee reviewed the input from internal experts to provide assurance on the model, its inputs and the disclosures relating to the financial instruments, and the key judgements and estimates applied in the determination thereof. The committee concluded that these estimates were appropriate and in accordance with the underlying accounting standards.
Credit impaired assets	*Determination of credit impaired value of assets* Management re-calibrates the amortised cost model assumptions on an ongoing basis incorporating the most recent available collection data in order to estimate expected cash flows. This is considered a significant area of judgement due to the extent of judgement and/or estimation applied. The methodology for determining estimated future collections is back tested and the methodology updated from time to time where necessary. *Forward-looking indicators* The South African consumer has seen numerous headwinds in the current year that have impacted their disposable income. Higher levels of non-payment of collectable instalments and the impact of loadshedding were considered in determining ECLs. Refer to notes	The committee reviewed the input from internal experts to provide assurance on the work performed by credit modelling specialists. The committee concluded the model, its inputs and the disclosures relating to the financial assets, and the key judgements and estimates applied in the determination thereof, to be appropriate and in accordance with the underlying accounting standards. The committee reviewed the methodology for estimating the forward looking stress on collections and resulting impact on impairments and concluded that the methodology and impairments levels to be appropriate.

Audit Committee Report

Area of judgement	Judgements Applied	Assessment and Conclusion
	1.2, 1.5 and 3.1 to the annual financial statements for a description of the methodology and inputs used in making this assessment.	
Deferred tax asset recognition	The group has estimated tax losses which have not been recognised in the Statement of Financial Position as IFRS requires that deferred tax assets will not be recognised until recoverability is probable. All deferred tax assets have been fully impaired.	The full amount remains impaired. The committee has not altered its position on recognising deferred tax assets.
Going concern assessment	Based on the group's annual forecast the group is has sufficient financial resources to meet its obligations as they fall due within the foreseeable future (twelve months from signature date). The funding special purpose entities have significant buffers in their covenants with low risk of being breached.	The committee considered the annual forecast and that it is based on sound principles and reasonable assumptions taking into account reasonable future stresses. The committee is satisfied that, based on this analysis that the group is a going concern and able to pay its liabilities as they fall due over a 12-month horizon.

External audit findings

The external audit report aims to provide information that allows users of the financial statements to understand how the external auditors have considered and evaluated the significant matters identified during their audit. The Audit Committee considered the significant audit issues that formed the basis of the auditors' opinion, which are presented on pages 11 to 13 in the auditor's report.

Combined assurance

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

Internal audit

Internal audit performs an independent assurance function and forms part of the third line of defense. Internal audit has a functional reporting line to the Audit Committee chair and an operational reporting line to the CFO.

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

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

External auditors

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

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

Audit Committee Report

An annual review of the quality of the audit and performance of the external auditors was undertaken in 2022.

As part of the assessment of the external auditors' independence, the committee ensured compliance with the Non-audit Services Policy. This policy governs the types of service that can be performed by the auditors, as well as the value and scope of the non-audit services provided by the auditors. Only those non-audit services that do not affect their independence and entail skills and experience that make them the most appropriate suppliers were approved during the period. Fees paid to the auditors are disclosed in note 20 to the annual financial statements. The committee recommended that the shareholders reappoint Deloitte as the external auditors for 2024.

Annual financial statements

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

RR Buddle
Audit Committee Chairman

31 May 2023

Directors' Report

The directors submit their report on the audited consolidated annual financial statements of Evolution Credit Limited and its subsidiaries and special purpose entities (the group) for the year ended 31 March 2023.

The separate company annual financial statements of Evolution Credit are available from the company's registered office.

1. Nature of business

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

2. Review of financial results and activities

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

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

The full senior unsecured facility in Evolution Credit Limited was early settled during March 2023. This included the foreign denominated NOK and SEK Bonds which were listed on the Nasdaq First North Bond Market in Sweden. The cross currency swaps that were used to hedge these foreign denominated borrowings were settled on the same day as the bonds. The bonds were delisted effective 31 March 2023. This early settlement was funded through the sale of on-balance sheet assets to the group’s special purpose vehicles and the repayment of excess junior capital in these vehicles.

The senior facility covenants have fallen away from the settlement date and are no longer effective at 31 March 2023. These covenants included a covenanted cost to income ratio, permanent equity to total assets ratio and a cash covenant ratio. The only covenants applicable in the group at 31 March 2023 are those specific to each special purpose vehicle.

3. Going concern

The directors consider it appropriate to adopt the going concern basis for preparing the consolidated annual financial statements, as the directors have no intention to liquidate the group or cease trading within the foreseeable future (twelve months from signature date). The assessment of going concern is based on the group's annual forecast.

4. Events after the reporting period

Real People Home Improvement Finance (RF) Proprietary Limited is a special purpose entity which has reached the end of its useful life and is currently in run down. At reporting date Old Mutual Life Assurance Company (South Africa) Limited (OMLACSA) holds a Junior Loan Facility, Preference shares and a Golden Preference share in the company. On 2 May 2023 OMLACSA accepted an offer by Opco 365 Proprietary Limited to purchase the Junior Loan Facility, the Preference shares and the Golden Preference share of OMLACSA. The effective date of purchase is proposed to be 1 July 2023 with a purchase price of R12.4 million.

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

5. Directorate

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

Directors	***Office***	***Designation***	***Changes in appointment***
NW Thomson	Chairperson	Non-executive Independent	
PG de Beyer		Non-executive Independent	
DTV Msibi		Non-executive Independent	
RR Buddle		Non-executive Independent	
N Grobbelaar	Group Chief Executive Officer	Executive	
A de Man	Chief Financial Officer	Executive	Appointed 01 July 2022
DJ Munro	Former Chief Financial Officer	Executive	Resigned 30 June 2022

Directors' Report

6. Company secretary

The company secretary is C Wilkinson.

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

7. Auditors

Deloitte & Touche continued in office as auditors for the group for 2023.

At the annual general meeting, the shareholders will be requested to reappoint Deloitte & Touche as the independent external auditors of the group and to confirm L Marshall as the designated lead audit partner for the 2024 financial year.

8. Share capital

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

9. Dividends

No ordinary or preference dividends were declared for the year.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Evolution Credit Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Evolution Credit Limited (the Group) set out on pages 14 to 47, which comprise the consolidated statement of financial position as at 31 March 2023 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2023, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

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

Other Information

The directors are responsible for the other information. The other information comprises the Company Secretary's Certification, the Audit Committee's Report and the Directors' Report, as required by the Companies Act of South Africa. The other information does not include the consolidated financial statements and our auditor's report thereon.

Deloitte.

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

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

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

DocuSigned by:
Deloitte & Touche
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Deloitte & Touche
Registered Auditor

Per: Llewellyn Marshall
Partner

1 June 2023

Consolidated Statement of Financial Position as at 31 March 2023

Figures in Rand thousand	Notes	2023	2022
Assets			
Equipment	6	13,651	16,382
Right-of-use assets	7	3,391	3,660
Amount receivable in terms of a Cell Captive arrangement	8	20,543	14,529
Net advances	3	1,300,123	1,129,019
Other receivables	9	20,983	24,296
Derivatives	10	-	12,183
Cash and cash equivalents	11	323,033	357,308
Total Assets		1,681,724	1,557,377
Equity and Liabilities			
Equity			
Share capital and equity notes	4	1,308,857	1,308,857
Cash flow hedging reserve		-	1,147
Accumulated loss		(822,144)	(916,316)
Total Equity		486,713	393,688
Liabilities			
Borrowings - Non-current	5	811,712	676,945
Lease liabilities	7	3,780	4,003
Provisions	12	58,237	57,119
Deferred tax	13	1,323	815
Borrowings - Current	5	280,760	377,165
Trade and other payables	14	39,162	44,307
Current tax payable		37	3,335
Total Liabilities		1,195,011	1,163,689
Total Equity and Liabilities		1,681,724	1,557,377

Consolidated Statement of Financial Performance

Figures in Rand thousand	Notes	2023	2022
Gross yield from assets	16	600,088	533,399
Impairment (loss) gain		(3,929)	62,061
Net yield		**596,159**	**595,460**
Net assurance income - Funeral benefits	17	28,564	26,126
Outsourced collection income		44,111	51,144
Other income	18	12,160	22,896
Operating expenses		(457,656)	(457,332)
Operating profit	19	**223,338**	**238,294**
Finance costs	20	(127,362)	(115,304)
Foreign exchange gains (losses)	21	1,001	(1,258)
Profit before taxation		**96,977**	**121,732**
Taxation	22	(2,805)	(3,453)
Profit for the year		**94,172**	**118,279**

Consolidated Statement of Comprehensive Income

Figures in Rand thousand	2023	2022
Profit for the year	**94,172**	**118,279**
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Effects of cash flow hedges	(1,147)	(937)
Other comprehensive (loss) income for the year net of taxation	**(1,147)**	**(937)**
Total comprehensive income	**93,025**	**117,342**

Consolidated Statement of Changes in Equity

Figures in Rand thousand	Share capital and equity notes	Cash flow hedging reserve	Accumulated loss	Total equity
Balance at 01 April 2021	**1,308,857**	**2,084**	**(1,034,595)**	**276,346**
Profit for the year	-	-	118,279	118,279
Other comprehensive (loss) income	-	(937)	-	(937)
Total comprehensive (loss) income for the year	**-**	**(937)**	**118,279**	**117,342**
Balance at 01 April 2022	**1,308,857**	**1,147**	**(916,316)**	**393,688**
Profit for the year	-	-	94,172	94,172
Other comprehensive (loss) income	-	(1,147)	-	(1,147)
Total comprehensive (loss) income for the year	**-**	**(1,147)**	**94,172**	**93,025**
Balance at 31 March 2023	**1,308,857**	**-**	**(822,144)**	**486,713**
Note	4			

Consolidated Statement of Cash Flows

Figures in Rand thousand	Notes	2023	2022
Cash flows from operating activities			
Cash generated from operations	23	36,653	218,029
Finance costs		(123,039)	(114,666)
Tax (paid) received	24	(1,441)	4,391
		(87,827)	**107,754**
Cash flows from investing activities			
Purchase of equipment	6	(6,642)	(7,516)
Proceeds on sale of equipment		395	1,758
Proceeds received on sale of associate		4,500	10,500
Dividends received from Cell Captive arrangement	8	4,900	-
		3,153	**4,742**
Cash flows from financing activities			
Proceeds from borrowings		549,150	261,000
Repayment of borrowings		(513,751)	(442,981)
Receipt of derivative collateral on settlement of derivatives		15,000	-
		50,399	**(181,981)**
Total cash movement for the year		**(34,275)**	**(69,485)**
Cash and cash equivalents at the beginning of the year		357,308	426,793
Total cash and cash equivalents at end of the year	11	**323,033**	**357,308**

Accounting Policies

Corporate information

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

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

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

1. Significant accounting policies

1.1 Basis of preparation

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

The audited consolidated annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in South African Rands.

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

These accounting policies are consistent with the previous period.

1.2 Significant judgements and sources of estimation uncertainty

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

Key sources of estimation uncertainty

Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group’s history, existing market conditions in the micro-finance industry as well as forward looking estimates at the end of each reporting period. The key assumptions and inputs used are disclosed in notes 1.4, 1.5 and 3.

Critical judgements in applying accounting policies

Recognition of deferred tax assets

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

1.2 Significant judgements and sources of estimation uncertainty (continued)

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

1.3 Financial instruments

Initial recognition

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

Classification and measurement

Financial assets and financial liabilities are classified in the categories amortised cost or fair value through profit or loss. Note 27 Financial instruments and risk management presents the financial instruments held by the group based on their specific classifications.

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

Financial assets at amortised cost

Impairment

The group recognises a loss allowance for expected credit losses (ECL) on all financial assets measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans. Expected credit losses are a probability-weighted estimate of credit losses.

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

Write off policy

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

Modifications

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

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

Financial instruments (continued)

Derecognition

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

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

Reclassification

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

Financial liabilities are not reclassified.

1.4 Net advances - Evolution Finance

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

Credit risk

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

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

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

Classification

Performing loans

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

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

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

The significant increase in credit risk is assessed on an individual or collective basis using all reasonable and supportable information, including an assessment of forward-looking indicators. The Evolution Finance portfolio is assessed to identify if any part of this portfolio shows signs of a significant increase in credit risk. The current application scorecard is used to identify accounts where the credit score has weakened since inception indicating an increase in default risk. A lifetime loss in line with Stage 2 requirements is calculated on these contracts.

1.4 Net advances - Evolution Finance (continued)

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

Modifications

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

Non-performing loans

An account is deemed to be in default and is classified as a credit-impaired financial asset if the arrears on the account is more than three contractual instalments. These accounts are classified as stage 3 and the impairment provision is based on lifetime expected credit losses. Stage 3 is the final stage for impairment purposes, that is, once a customer moves into stage 3, the impairment provision will always be calculated with reference to stage 3, irrespective of whether the arrears are caught up. A portfolio modelling approach is used to estimate cash flows for each segment within the portfolio. Segments are based on months since entry into stage 3.

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

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

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

Management assesses portfolio credit losses for any (linear and non-linear) relationship with forward-looking economic indicators or scenarios on an annual basis. Should such economic indicators correlate to the performance of the loan book, management will take the likely forward-looking scenarios into account when determining the expected credit loss adjustments. Where no correlation is found, management considers a general view of economic factors and applies an appropriate management overlay. The macro-economic factors considered are outlined in note 3.1.

1.5 Net advances - Acquired debt

Purchased portfolios

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

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

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

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

Accounting Policies

1.5 Net advances - Acquired debt (continued)

For more recently acquired portfolios (less than 24 months) cash flows are estimated based on the original priced cash flow estimates per portfolio. The estimates are determined using statistical techniques based on historical performance on other similar portfolios previously acquired. Should there be significant deviation from these cash flows then management applies judgement to consider whether an adjustment is required.

For remaining acquired debt portfolios, the cash flow estimates are forecast using three statistical models that fit statistical functions through actual cumulative receipts on a portfolio level. The expected cash flows are calculated separately on each debt portfolio acquired in the last 8 years. It is assumed that a portfolio will yield cash flows from collection activities for a maximum period of 8 years (96 months).

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

The group performs a statistical analysis to assess the correlation between macro-economic factors and receipting performance. The macro-economic factors considered are outlined in note 3.1.

Credit risk

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

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

1.6 Hedge accounting

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

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

Hedge accounting was discontinued in March 2023 when the hedge was terminated on settlement of the hedged foreign borrowings.

1.7 Consolidation

Basis of consolidation

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

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

Securitisations form an integral part of the group’s funding strategy. The issuer, which is a bankruptcy remote special purpose entity, issues notes to fund the purchase of eligible loans from the subsidiary in the group that originated or purchased 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.

1.7 Consolidation (continued)

The special purpose entities have been designed so that their activities are 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.

1.8 Equipment

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

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

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

1.9 Leases

Group as lessee

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

Lease liability

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

Right-of-use assets

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

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

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

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

1.10 Reinsurance contract - Amount receivable in terms of Cell Captive arrangement (continued)

Recognition and measurement of insurance liability in Cell Captive

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

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

The IBNR liability has been calculated as three times the average risk premium (over the most recent three months). A loss ratio of 17.25% was assumed, based on reported experience over recent years. An Outstanding Claims Reserve was raised during the year in order to account for funeral and credit life claims that have been reported but not yet adjudicated and settled. The following Compulsory Margins have been included on IBNR and Outstanding Claims Reserves:

- 8.0% of the total IBNR reserve, which is a weighted average of 7.5% mortality, 10.0% morbidity/disability and 15.0% medical margins.
- 7.5% of the total Outstanding Claims Reserve.

1.11 Impairment of non-financial assets

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

1.12 Share capital and equity

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

1.13 Provisions

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

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

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

1.14 Employee benefits

Short-term employee benefits

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

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

1.14 Employee benefits (continued)

Defined contribution plans

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

1.15 Revenue

Interest and similar income

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

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

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

Insurance income

Premiums on insurance contracts are recognised gross of commission when due. Refer to note 1.10 for the types of insurance contracts provided to customers by the Cell Captive. Insurance benefits are recognised when the obligation to pay the benefit has been established.

Revenue from contracts with customers

Fee income

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

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

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

Outsourced collection income

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

2. New standards and amendments

2.1 Standards and amendments not yet effective

The group has chosen not to early adopt the following standards, which have been published and are mandatory for the group's accounting periods beginning on or after 01 April 2023 or later periods. The group did not adopt any new standards and interpretations that are effective for the current year.

IFRS 17 Insurance Contracts

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

IFRS 17 is expected to have an impact on reporting by cell owners as the Cell Captive Shareholder Participation Agreement is seen as an in-substance reinsurance arrangement.

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

IFRS 17 requires entities to apply IFRS 17 retrospectively as at the transition date as if it had always been applied. A preliminary transitional statement of financial position has been prepared by the cell captive insurer which shows an opening adjustment that is not a material value. Further work is still underway to finalise the transition to the new standard so that the consolidated annual financial statements for the year ended 31 March 2024 comply with IFRS 17.

The measurement approach being considered is the Premium Allocation Approach. The Premium Allocation Approach is a simplified measurement approach as per the IFRS 17 Standard that can be applied to contracts with a contract boundary of 12 months or less.

The most significant impact will be the presentation and disclosure of the cell captive arrangement under IFRS 17. The statement of profit or loss and other comprehensive income shall disaggregate the amounts recognised into insurance revenue, insurance service expenses and insurance finance income or expenses.

Amendments to standards

It is unlikely that the amendments below will have a material impact on the group's audited consolidated annual financial statements but may result in a change in disclosure.
- Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2 (effective January 2023)
- Definition of accounting estimates: Amendments to IAS 8 (effective January 2023)
- Classification of Liabilities as Current or Non-Current - Amendment to IAS 1 (effective January 2023)
- Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12 (effective January 2023)

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2023	2022

3. Net advances

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

	2023	2022
Evolution Finance	590,901	522,374
Acquired debt	709,222	606,645
	1,300,123	1,129,019

The Evolution Finance channel offers a credit facility to customers. The undrawn facilities at 31 March 2023 are R12.3 million (2022: R13.0 million).

Evolution Finance accounts under debt review or administration are classified as modified contracts. The modification loss due to debt review for the year is R22.6 million (2022: R11.6 million).

Exposure to credit risk

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

Credit loss allowances

2023	***Basis of loss allowance***	***Gross carrying amount***	***Loss allowance***	***Amortised cost***
Evolution Finance				
Performing loans - stage 1	12-month ECL	380,115	(30,510)	349,605
Performing loans - stage 2	Lifetime ECL (not credit impaired)	177,935	(48,964)	128,971
Non-performing loans - stage 3	Lifetime ECL (credit impaired)	1,319,156	(1,206,831)	112,325
Acquired debt	Lifetime ECL (purchased credit impaired)	706,253	2,969	709,222
		2,583,459	(1,283,336)	1,300,123

2022	***Basis of loss allowance***	***Gross carrying amount***	***Loss allowance***	***Amortised cost***
Evolution Finance				
Performing loans - stage 1	12-month ECL	278,426	(16,950)	261,476
Performing loans - stage 2	Lifetime ECL (not credit impaired)	184,484	(53,027)	131,457
Non-performing loans - stage 3	Lifetime ECL (credit impaired)	1,416,168	(1,286,727)	129,441
Acquired Debt	Lifetime ECL (purchased credit impaired)	703,241	(96,596)	606,645
		2,582,319	(1,453,300)	1,129,019

Reconciliation of loss allowances

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

Evolution Finance

Performing loans - stage 1: Loss allowance measured at 12-month ECL:	2023	2022
Opening balance	(16,950)	(33,708)
Reclassification of accounts with a significant increase in credit risk to stage 2	-	14,288
New contracts originated	(37,440)	(28,755)
Movement between stages	32,318	23,094
Forward looking overlay	(8,438)	8,131
Loss allowance closing balance	(30,510)	(16,950)

Figures in Rand thousand	2023	2022

3. Net advances (continued)

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

Opening balance	(53,027)	(48,189)
Reclassification of accounts with a significant increase in credit risk to stage 2	-	(14,288)
Release of loss allowance on transfer to lifetime ECL (credit impaired)	83,459	50,292
New contracts originated	(4,267)	(2,790)
Movement between stages	(75,811)	(40,587)
Significant increase in credit risk	3,093	(1,343)
Forward looking overlay	(2,411)	3,878
Loss allowance closing balance	(48,964)	(53,027)

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

Performing loans gross carrying amount opening balance	462,910	435,433
New contracts originated	444,410	362,481
Contracts written off	(3,804)	(2,262)
Interest and similar income	196,205	154,510
Receipting	(413,519)	(414,971)
Transfer to non-performing loans	(128,152)	(72,281)
Performing loans gross carrying amount closing balance	558,050	462,910

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

Opening balance	(1,286,727)	(1,366,489)
Release of loss allowance on contracts written off	169,105	169,112
Movement between stages	6,421	(46,808)
Modification loss on contracts moved to stage 3	(93,360)	(56,035)
Forward looking overlay	(2,270)	13,493
Loss allowance closing balance	(1,206,831)	(1,286,727)

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

Non-performing loans gross carrying amount opening balance	1,416,168	1,529,242
Interest and similar income	52,748	108,442
Contracts written off	(186,413)	(168,232)
Receipting	(91,499)	(125,565)
Transfers to non-performing loans	128,152	72,281
Non-performing loans gross carrying amount closing balance	1,319,156	1,416,168

Acquired debt

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

Opening balance	(96,596)	(173,138)
Change in estimate in prior year to shorten the collection curve	-	(54,600)
Lifetime ECL	104,433	128,521
Transfer to trade and other receivables	-	(6,987)
Forward looking overlay - reversal of unamortised balance remaining from prior year	(4,639)	6,423
Forward looking overlay - current year	(229)	3,185
Loss allowance closing balance	2,969	(96,596)

Figures in Rand thousand

3. Net advances (continued)

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

	2023	2022
Acquired debt gross carrying opening balance	703,241	723,203
Purchases	269,815	227,639
Interest and other income	305,279	277,084
Receipting	(572,082)	(532,061)
Transfer to trade and other receivables	-	7,376
Acquired debt gross carrying amount closing balance	706,253	703,241

Fair value

Refer to note 27 Financial instruments and risk management for the fair value of net advances. The fair value was calculated using expected recovery curves. Fair value measurements are categorised as level 3 on the fair value hierarchy as the valuation includes unobservable inputs.

Evolution Finance coverage ratios

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

2023	***Stage 1 CD 0***	***Stage 2 SICR***	***Stage 2 CD 1***	***Stage 2 CD 2***	***Stage 2 CD 3***	***Stage 3***	***Total***
Gross advances	380,115	86,779	50,809	25,346	15,001	1,319,156	1,877,206
Impairment allowance	(30,510)	(11,886)	(19,099)	(10,116)	(7,863)	(1,206,831)	(1,286,305)
Carrying value	349,605	74,893	31,710	15,230	7,138	112,325	590,901
Coverage ratio	8.0 %	13.7 %	37.6 %	39.9 %	52.4 %	91.5 %	68.5 %

2022	***Stage 1 CD 0***	***Stage 2 SICR***	***Stage 2 CD 1***	***Stage 2 CD 2***	***Stage 2 CD 3***	***Stage 3***	***Total***
Gross advances	278,426	114,112	44,041	18,071	8,260	1,416,168	1,879,078
Impairment allowance	(16,950)	(24,827)	(15,797)	(7,866)	(4,537)	(1,286,727)	(1,356,704)
Carrying value	261,476	89,285	28,244	10,205	3,723	129,441	522,374
Coverage ratio	6.1 %	21.8 %	35.8 %	43.5 %	54.7 %	90.5 %	72.2 %

3.1. Forward-looking information

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

Macro-economic conditions

The South African consumer has seen numerous headwinds in the current year that have impacted their disposable income. These include:

- Increased inflation rates in excess of the South African Reserve Bank’s target ceiling of 6.0% which peaked at 7.8% in July 2022.
- Double digit increases in food inflation which has been impacted by higher input costs and load shedding.
- Significant increases in the petrol price since the invasion of Ukraine.
- 375 basis point increase in interest rates since November 2021.
- Weakening of the Rand to the US Dollar resulting in higher import costs.
- Increased severity of load shedding which is expected to further impact the unemployment rate and input costs in food production.

Most estimates for 2023 and beyond indicate a more stable environment which include a more moderate inflation rate, possible reduction in the interest rates and some headway being made on reducing the severity of load shedding, however, management still believe that the impact of the increased cost of living in the current year has not fully filtered through into the collections environment. The impact that the increased cost of living will have on the collections trend has been incorporated into the 2023 forward-looking assessment.

3.1 Forward-looking information (continued)

Load shedding

Consultants in the group's contact centre mostly work from home and are impacted by load shedding, especially when load shedding reaches Stage 4 and above. The impact is:

- Insufficient time to recharge laptops and/or UPS devices between the power outages.
- No internet connection due to a break in cell phone reception where cell towers have insufficient back up battery capacity.
- Inability to reach customers due to cell phone reception not being available in the areas in which customers are located

This impacts productivity in the call centre and the quantum of new receipt activations that can be logged. Given that higher levels of load shedding are still expected over the next 12 months the impact on productivity has been considered for the forward-looking assessment.

Activation roll rate model

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

- Activations: These are receipts obtained from clients that have not made a payment in the last three consecutive months.
- Paying pool: These are accounts from which a payment has been received in the last three consecutive months (excluding new activations). The paying pool has been calculated with reference to the prior months paying pool and activation receipts.

The collections expectations under the current Acquired Debt valuation methodology and historical fall off rates have been used to determine the activations that are required to meet the collections under the valuation (the base valuation). The activations and fall off rates are then stressed to determine the impact that the FLI assumptions will have on the collection expectations.

Activation roll rate methodology

- Different buckets for new activation and fall offs are constructed for the various payment mechanisms as each payment mechanism has different rates of payer activation and fall off rates.
- The roll rate model is utilised to determine collections for the period 1 April 2023 to 31 March 2025.
- It is assumed that the shortfall between the valuation expectation at March 2025 per the roll rate model will continue at the same rate until the end of the collections curve.
- The cash flow impact is calculated as the difference in cash flows between the roll rate model and the statistical and priced cash flows.
- This impact is then applied to various asset valuations.

Forward-looking indicator (FLI) assumptions

- *Paying contract fall off rates impacted by the macro-economic environment:* Moderate correlation has been identified between the movement in the rolling six month average fall off rate of regular payers and the petrol price. The forecasted changes in the petrol price have therefore been used as a proxy to determine the impact that the increased cost of living will have on the paying account fall off rates used in the roll rate model.
- *Impact of load shedding on activation rates:* The forecasted activation rates have been reduced by the variance between the activation rates required to achieve valuation expectations and the average activations obtained during the higher load shedding periods in the current year. This variance is improved over the course of the 2024 financial year to cater for the improvement in the level of load shedding that is expected and the changes that will be implemented in the operational environment to deal with the challenges identified.

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

Evolution Finance Stage 1 accounts
Increase in the roll rates between contractual delinquency (CD) buckets 0 to 4 in the current year is an indicator of the impact that the increased cost of living has had on collections. Probability of defaults (PD) have been calculated using the current roll rate trends between these CD buckets. The increase between the PD's used to determine the Stage 1 ECL value and the calculated PD's have been applied to the ECL calculation to quantify the required FLI adjustment.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2023	2022

3.1 Forward-looking information (continued)

Sensitivity to FLI assumptions

The Acquired debt valuation models and Evolution Finance provision models were updated for historic collections experience during 2022, giving rise to updated Acquired debt valuation collection curves and revised Evolution Finance PDs and LGDs. The change in provision levels over the prior year also include amortisation of the book and new production during the year.

2023 ***Loss allowance***	***Acquired debt***	***Evolution Finance***	***Total***
Historical model	33,890	(1,265,344)	(1,231,454)
FLI overlay: Macro-economic risk	(30,921)	(20,961)	(51,882)
	2,969	(1,286,305)	(1,283,336)

2022 ***Loss allowance***	***Acquired debt***	***Evolution Finance***	***Total***
Historical model	(70,543)	(1,348,862)	(1,419,405)
FLI overlay: DebiCheck RMS risk	(6,868)	(1,771)	(8,639)
FLI overlay: Macro-economic risk	(19,185)	(6,071)	(25,256)
FLI overlay	(26,053)	(7,842)	(33,895)
	(96,596)	(1,356,704)	(1,453,300)

Movement in loss allowance	***Acquired debt***	***Evolution Finance***	***Total***
Historical model	104,433	83,518	187,951
FLI overlay: DebiCheck RMS risk	6,868	1,771	8,639
FLI overlay: Macro-economic risk	(11,736)	(14,890)	(26,626)
FLI overlay	(4,868)	(13,119)	(17,987)
	99,565	70,399	169,964

Valuation sensitivity to parameter estimation error	***2023***	***2022***
FLI sensitivity, provision understatement risk		
Forecast error estimate on macro-economic parameters		
5% estimation error	(8,869)	(1,221)
Forecast error estimate on DebiCheck parameters		
5% estimation error	-	(3,962)

FLI sensitivity, provision overstatement risk

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

3.2. Loans and advances that received financial relief

COVID-19 relief

In prior periods the group rolled out debt relief measures for Evolution Finance customers. Customers were granted a one month payment relief where financial assistance was requested by customers as a result of the lockdown. This relief measure has been treated as a distressed restructure and the staging and coverage have been adjusted in the line with the group’s normal practice.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2023	2022

3.2 Loans and advances that received financial relief (continued)

2023	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross advance	624	368	55,017	56,009
Impairment allowance	(296)	(151)	(49,903)	(50,350)
	328	217	5,114	5,659

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

Capital holiday

Certain qualifying customers were offered a one to three month capital holiday in prior years to provide financial relief for a limited period. These accounts did not go into arrears during the capital holiday period and customers were still required to pay interest and fees during this time. The relief offered to these customers was deemed to be temporary and qualified as a non-distress restructure.

2023	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross advance	3,215	661	8,241	12,117
Impairment allowance	(1,176)	(343)	(7,195)	(8,714)
	2,039	318	1,046	3,403

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

4. Share capital and equity notes

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

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

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

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

Figures in Rand thousand	2023	2022

4. Share capital and equity notes (continued)

The classes of shares have the following ranking:

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

5. Borrowings

Held at amortised cost

	2023	2022
Secured loans	1,092,472	875,330
Unsecured loans	-	178,780
	1,092,472	1,054,110

Split between non-current and current portions

	2023	2022
Non-current liabilities	811,712	676,945
Current liabilities	280,760	377,165
	1,092,472	1,054,110

The full senior unsecured facility in Evolution Credit Limited was early settled during March 2023. This included the foreign denominated NOK and SEK Bonds which were listed on the Nasdaq First North Bond Market in Sweden. The cross currency swaps that were used to hedge these foreign denominated borrowings were settled on the same day as the bonds. The bonds were delisted effective 31 March 2023. This early settlement was funded through the sale of on-balance sheet assets to the group's special purpose vehicles and the repayment of excess junior capital in these vehicles.

The senior facility covenants have fallen away from the settlement date and are no longer effective at 31 March 2023. These covenants included a covenanted cost to income ratio, permanent equity to total assets ratio and a cash covenant ratio. The only covenants applicable in the group at 31 March 2023 are those specific to each special purpose vehicle.

Reconciliation of borrowings

	2023	2022
Opening balance	1,054,110	1,240,560
New funding raised - Special purpose entities	549,150	261,000
Repayment of borrowings - Special purpose entities	(434,945)	(385,171)
Repayment of borrowings - Evolution Credit Limited	(201,845)	(172,601)
Finance costs	123,039	114,791
Foreign exchange gain (loss)	3,409	(4,704)
Effects of cash flow hedges	(446)	235
	1,092,472	1,054,110

Refer to note 27 for the liquidity maturity analysis and the fair value of borrowings. The fair values of the financial liabilities with variable interest rates approximate carrying value. The fair value of the financial liabilities with fixed interest rates are calculated using the present value of cash outflow at the market rate. The carrying value of fixed rate borrowings is R136.4 million (2022: R187.4 million). Fair value measurements are categorised as level 3 on the fair value hierarchy as the valuation includes unobservable outputs.

Senior and mezzanine funding held in the group's special purpose entities was raised at interest rates margins above the three month JIBAR rate of between 4% and 8%. The junior note held in Real People Home Improvement Finance (RF) Proprietary Limited accrues interest rate at the three month JIBAR rate plus a margin of 12.45%.

Figures in Rand thousand	2023	2022

5. Borrowings (continued)

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

	2023	2022
Net advances	1,189,706	931,422
Cash and cash equivalents	216,473	252,939
	1,406,179	1,184,361

6. Equipment

	2023			2022		
	Cost	***Accumulated depreciation or impairment***	***Carrying value***	***Cost***	***Accumulated depreciation or impairment***	***Carrying value***
Computer equipment	46,279	(36,119)	10,160	47,762	(35,710)	12,052
Motor vehicles	4,883	(2,050)	2,833	5,342	(1,651)	3,691
Furniture and fittings	876	(531)	345	716	(439)	277
Property	295	(100)	195	295	(100)	195
Office equipment	484	(415)	69	514	(384)	130
Leasehold improvements	663	(614)	49	832	(795)	37
	53,480	(39,829)	13,651	55,461	(39,079)	16,382

Reconciliation of equipment - 2023

	Opening balance	***Additions***	***Disposals***	***Depreciation***	***Closing balance***
Computer equipment	12,052	6,126	(251)	(7,767)	10,160
Motor vehicles	3,691	319	(259)	(918)	2,833
Furniture and fittings	277	160	-	(92)	345
Property	195	-	-	-	195
Office equipment	130	9	-	(70)	69
Leasehold improvements	37	28	-	(16)	49
	16,382	6,642	(510)	(8,863)	13,651

Reconciliation of equipment - 2022

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

7. Leases

Net carrying amounts of right-of-use assets

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

	2023	2022
Buildings	3,391	3,660

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2023	2022

7. Leases (continued)

Other disclosures

Depreciation recognised on right-of-use assets	2,105	2,063
Interest expense on lease liabilities	406	504
Expenses on short-term leases included in operating expenses	68	22

The lease liability is settled monthly by way of repayment of a loan account within trade and other receivables. There is therefore no cash outflow on settlement of the liability.

Lease liabilities

The maturity analysis of lease liabilities is as follows:

Within one year	2,206	2,465
Two to five years	2,038	1,928
	4,244	4,393
Less finance charges component	(464)	(390)
	3,780	**4,003**

8. Amount receivable in terms of a Cell Captive arrangement

The group's insurance business is housed within a Cell Captive Arrangement with Old Mutual Alternative Risk Transfer (OMART). The group holds preference shares in the OMART Evolution Life Cell Captive which entitles it to the profits of the insurance business that is housed in the cell.

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

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

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

OMART Evolution Life Cell Captive preference shares	1,000	1,000
OMART Evolution Life Cell Captive reserves	19,543	13,529
	20,543	14,529

Summarised financial information

Summarised statement of financial performance

Net premium income	83,081	78,108
Net claims paid	(11,537)	(17,885)
Net insurance income	71,544	60,223
Investment income and expenses	(56,476)	(53,813)
Profit before tax	15,068	6,410
Tax expense	(4,154)	(1,795)
Total comprehensive income	10,914	4,615
Dividends paid	(4,900)	-
Increase in equity	6,014	4,615

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2023	2022

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

Summarised statement of financial position

Assets		
Cash and cash equivalents	33,146	24,982
Net outstanding premium and other receivables	105	9
Total assets	33,251	24,991
Liabilities		
Gross liabilities in respect of contracts with policyholders *	4,560	3,756
Other payables	8,148	6,706
Total liabilities	12,708	10,462
Total net assets	20,543	14,529

* The gross liability, calculated per the policy in note 1.10 is summarised as follows:

Incurred-But-Not-Reported (IBNR) liability	4,246	3,478
Margins	314	278
	4,560	3,756

Solvency Capital Requirement (SCR)

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

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

The Evolution Life Cell Captive had a SCR cover ratio of 1.689 at 31 March 2023 (2022: 1.43).

9. Other receivables

Financial instruments:		
Sundry receivables	10,314	10,313
Staff loans and advances	94	269
Loan receivables	3,055	8,266
Non-financial instruments:		
Prepayments and deposits	7,520	5,448
	20,983	24,296

Categorisation of trade and other receivables

At amortised cost	13,463	18,848
Non-financial instruments	7,520	5,448
	20,983	24,296

10. Derivatives

Hedging derivatives		
Cross currency swaps	-	12,183

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2023	2022

10. Derivatives (continued)

The cross currency swaps were classified as level 3 on the fair value hierarchy as they were specifically designed to match the terms of the loan. The loan was settled in the current year and the cross currency swaps were terminated.

In prior years, the company made cash collateral payments to the swap counterparty to compensate the counterparty for credit risk in terms of the contract. The company was able to set this off against the swap liability in terms of the contract. The amounts offset in the prior year were as follows:

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

11. Cash and cash equivalents

Bank balances	44,004	59,215
Investments in money market funds	279,022	298,061
Cash on hand	7	32
	323,033	357,308

Cash and cash equivalents with a carrying value of R216.5 million (2022: R253.0 million) in special purpose entities are not available for use by the group. The average return earned on cash and cash equivalents was 6.0% (2022: 4.3%).

Credit quality

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

Credit rating		
Money market fund: AA+ *	132,678	5,132
Money market fund: AA *	83,466	-
Money market fund: AA- *	62,878	292,929
Commercial bank: Aa1.za **	44,004	59,215
	323,026	357,276

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

12. Provisions

Reconciliation of provisions - 2023

	Opening balance	***Additions***	***Utilised during the year***	***Interest***	***Change in discount factor***	***Total***
Short term incentive provision	33,565	13,685	(24,522)	487	-	23,215
Long term incentive provision	23,554	7,122	-	-	3,396	34,072
Bonus provision	-	950	-	-	-	950
	57,119	21,757	(24,522)	487	3,396	58,237

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2023	2022

12. Provisions (continued)

Reconciliation of provisions - 2022

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

13. Deferred tax

	2023	2022
Deferred tax liability	(1,323)	(815)

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

	2023	2022
Advances	(9,963)	(5,861)
Provisions	144	193
Tax losses available for set off against future taxable income	7,228	2,474
Deferred finance costs and prepayments	(1,470)	(867)
Junior note embedded derivative timing difference	2,738	3,246
	(1,323)	(815)

Reconciliation of deferred tax for recognised assets or liabilities

	2023	2022
At beginning of year	(815)	(349)
Advances	(4,102)	3,412
Provisions	(49)	(1,148)
Increase (decrease) in tax loss available for set off against future taxable income	4,754	(5,109)
Deferred finance cost and prepayments	(603)	(867)
Junior note embedded derivative timing difference	(508)	3,246
	(1,323)	(815)

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

The group has estimated tax losses of R1 265.5 million (2022: 1 158.2 million) that are available indefinitely for offsetting against future taxable profits. Only R7.2 million of the estimated tax losses has been recognised on the group statement of financial position.

14. Trade and other payables

	2023	2022
Financial instruments:		
Trade payables	9,681	8,022
Accrued leave pay	9,402	9,180
Accrued expenses	17,717	23,736
Non-financial instruments:		
VAT	2,362	3,369
	39,162	44,307

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2023	2022

15. Revenue

Revenue from contracts with customers		
Outsourced collection income	44,111	51,144
Revenue other than from contracts with customers		
Interest and similar income	557,699	498,561
Net insurance premiums (refer to note 17)	83,080	78,103
	640,779	576,664
	684,890	627,808

16. Gross yield from assets

Interest and similar income	557,699	498,561
Net assurance income - credit life	42,389	34,838
	600,088	533,399

17. Net insurance income

Credit life	42,389	34,838
Funeral benefits	28,564	26,126
	70,953	60,964
Net insurance premiums		
Premiums received	85,059	80,007
Premiums paid to reinsurers	(1,979)	(1,904)
	83,080	78,103
Net insurance benefits		
Insurance benefits	(15,078)	(19,962)
Insurance benefits recovered from reinsurers	2,951	2,823
	(12,127)	(17,139)
	70,953	60,964

18. Other income

Administration fees received	7,133	6,995
Profit on sale of equipment	-	1,094
Reversal of impairment loss on investment in associate	4,500	10,500
Other income	527	4,307
	12,160	22,896

19. Operating profit

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

Auditor's remuneration - external		
Audit fees	6,898	7,103
Other consultation services	-	2
	6,898	7,105

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2023	2022

19. Operating profit (continued)

Employee costs

Salaries, bonuses and other benefits	226,361	249,156
Retirement benefit plans: defined contribution expense	10,444	6,562
Termination benefits	1,512	1,281
	238,317	256,999

Depreciation and amortisation		
Depreciation of equipment	8,863	8,333
Depreciation of right-of-use assets	2,105	2,063
	10,968	10,396

20. Finance costs

Borrowings	123,039	114,791
Lease liabilities	406	504
Other interest paid	521	9
Unwinding of discount on provisions	3,396	-
	127,362	115,304

21. Foreign exchange gain (loss)

Gain (loss) on derivatives	4,410	(5,962)
(Loss) gain on remeasurement of borrowings	(3,409)	4,704
	1,001	(1,258)

22. Income tax expense

Major components of the tax expense

Current		
Income tax - current period	(1,857)	3,174
Income tax - recognised in current tax for prior periods	-	(1,982)
Income tax - OMART Cell Captive	4,154	1,795
	2,297	2,987

Deferred		
Originating and reversing temporary differences	508	466
	2,805	3,453

Reconciliation of the tax expense

Applicable tax rate	27.00 %	28.00 %
Tax losses not raised as deferred tax assets	20.89 %	1.91 %
Deferred tax asset not recognised previously now utilised	(35.40)%	(23.83)%
Exempt income	(2.96)%	(1.68)%
Legal and consulting fees not deductible	- %	0.18 %
Income subject to capital gains tax	(9.72)%	(5.94)%
Other expenses not deductible for tax purposes	0.10 %	2.46 %
Expenditure not incurred in the production of income	3.49 %	2.17 %
Prior year adjustments	(0.51)%	(0.43)%
Average effective tax rate	2.89 %	2.84 %

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2023	2022

23. Cash generated from operations

	2023	2022
Profit before taxation	96,977	121,732
Adjustments for:		
Depreciation and amortisation	10,968	10,396
Gains on disposal of equipment	116	(1,094)
(Gains) losses on foreign exchange	(1,001)	1,258
Finance costs	127,362	115,304
Impairment loss (reversal) on trade and other receivables	(306)	561
Movements in provisions	(2,764)	43,650
Interest and fees charged to customers	(537,907)	(481,447)
Impairment loss (gain) on net advances	3,929	(62,061)
Impairment reversal on investment in associate	(4,500)	(10,500)
Profit before tax from Cell Captive (refer to note 8)	(15,068)	(6,410)
Changes in working capital:		
Other receivables	1,156	(905)
Trade and other payables	(5,184)	6,702
Origination of advances	(444,410)	(362,481)
Purchase of advances	(269,815)	(227,639)
Receipts from advances	1,077,100	1,070,963
	36,653	218,029

24. Tax paid

	2023	2022
Opening balance	(3,335)	2,248
Current tax for the year recognised in profit or loss	(2,297)	(2,987)
OMART Cell Captive tax charge	4,154	1,795
Closing balance	37	3,335
	(1,441)	4,391

The tax charge for the Cell Captive is included in current tax recognised in profit or loss but the tax liability is included in the equity accounted receivable disclosed in note 8.

25. Related parties

Relationships

Shareholders with 5% or more voting rights	Ninety One SA Proprietary Limited The Real People Incentive Trust Norwegian Investment Fund for Developing Countries Izabelo SEK B.V Izabelo NOK B.V BIFM Capital Investment Fund No.1 Proprietary Limited National Housing Finance Corporation (SOC) Limited Blockbuster Trading 3 Proprietary Limited
Directors	N Grobbelaar A de Man N Thomson PG de Beyer DTV Msibi RR Buddle
Subsidiaries of the group	Opco 365 Proprietary Limited Evolution Life Holdings Proprietary Limited
Special purpose entities controlled by the group	Umuzi Finance (RF) Limited DMC Evolution (RF) Proprietary Limited Real People Home Improvement Finance (RF) Proprietary Limited*

Figures in Rand thousand	2023	2022

25. Related parties (continued)

* Real People Home Improvement Finance (RF) Proprietary Limited reached the end of its useful life and it has been the intention of the directors to find a suitable solution to wind up the company. Refer to note 29.

Related party balances

	2023	2022
Borrowings owing to shareholders with voting rights of 5% or greater		
Ninety One SA Proprietary Limited	-	60,069
Norwegian Investment Fund for Developing Countries	-	16,525
BIFM Capital Investment Fund No.1 Proprietary Limited	-	17,992
Borrowings owing to other related parties		
Blue Sands Trading 727 CC**	10,200	-
	10,200	94,586

	2023	2022
Amounts included in trade receivables regarding related parties		
IQ Academy Proprietary Limited**	180	247
Aspire Academic Holdings Proprietary Limited**	1,684	3,027

Related party transactions

	2023	2022
Interest accrued to related parties		
Ninety One SA Proprietary Limited	4,525	8,823
Norwegian Investment Fund for Developing Countries	1,248	2,427
BIFM Capital Investment Fund No.1 Proprietary Limited	1,222	2,755
Blue Sands Trading 727 CC**	200	-
	7,195	14,005

	2023	2022
Services to related parties		
Administrative fees received from IQ Academy Proprietary Limited**	2,789	2,974
Administrative fees received from Imfundo Finance (RF) Limited**	4,275	4,006

** related party as there is a common director

26. Directors' emoluments

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

Executive

2023

	Salaries	*Incentive bonus*	*Other benefits*	*Termination benefits*	*Total*
N Grobbelaar	3,711	3,504	236	-	7,451
A de Man (appointed 1 July 2022)	2,538	1,332	159	-	4,029
DJ Munro (resigned 30 June 2022)	620	1,365	214	1,094	3,293
	6,869	6,201	609	1,094	14,773

2022

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

Figures in Rand thousand

26. Directors' emoluments (continued)

The Group Remuneration Committee approves incentive bonuses each year after reporting date. The amounts reflected above are the vested amounts paid to the directors in the current year based on performance in prior financial years. Other benefits include provident fund contributions.

Non-executive

2023

	*Directors' fees**	*Directors' fees for services as directors of subsidiaries*	*Total*
NW Thomson	958	-	958
RR Buddle	670	20	690
PG de Beyer	602	-	602
DTV Msibi	602	-	602
	2,832	20	2,852

* Non-executive Directors' fees in the current year are inclusive of Committee fees.

2022

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

27. Financial instruments and risk management

Categories of financial instruments

2023

	Notes	*Fair value through profit or loss*	*Amortised cost*	*Total*	*Fair value*
Net advances	3	-	1,300,123	1,300,123	1,548,416
Other receivables	9	-	13,463	13,463	13,463
Cash and cash equivalents	11	-	323,033	323,033	323,033
Borrowings	5	-	(1,092,472)	(1,092,472)	(1,086,465)
Trade and other payables	14	-	(36,797)	(36,797)	(36,797)
		-	507,350	507,350	761,650

2022

	Notes	*Fair value through profit or loss*	*Amortised cost*	*Total*	*Fair value*
Net advances	3	-	1,129,019	1,129,019	1,425,671
Derivatives	10	12,183	-	12,183	12,183
Other receivables	9	-	18,848	18,848	18,848
Cash and cash equivalents	11	-	357,311	357,311	357,311
Borrowings	5	-	(1,054,110)	(1,054,110)	(1,055,904)
Trade and other payables	14	-	(40,916)	(40,916)	(40,916)
		12,183	410,152	422,335	717,193

Figures in Rand thousand

27. Financial instruments and risk management (continued)

Capital risk management

The group's objective when managing capital is to safeguard the group's ability to continue as a going concern to provide returns to shareholders and sustainable benefits for other stakeholders. During the year, the group maintained a Permanent Capital to Total Adjusted Assets ratio that exceeded the minimum requirement of 25%. At 31 March 2023, the group was no longer subject to any externally imposed capital requirement.

Financial risk management

Overview

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

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

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

Credit risk

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

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

		2023			2022		
	Notes	***Gross carrying amount***	***Credit loss allowance***	***Amortised cost / fair value***	***Gross carrying amount***	***Credit loss allowance***	***Amortised cost / fair value***
Net advances	3	2,583,459	(1,283,336)	1,300,123	2,582,319	(1,453,300)	1,129,019
Other receivables	9	13,463	-	13,463	18,848	-	18,848
Derivatives	10	-	-	-	12,183	-	12,183
Cash and cash equivalents	11	323,033	-	323,033	357,311	-	357,311
		2,919,955	(1,283,336)	1,636,619	2,970,661	(1,453,300)	1,517,361

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

Liquidity risk

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

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

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

Figures in Rand thousand

27. Financial instruments and risk management (continued)

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.

2023

	1 to 3 months	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets	610,644	789,937	2,193,112	200,427	3,794,120
Liabilities	(102,667)	(282,402)	(974,574)	(5,378)	(1,365,021)
	507,977	507,535	1,218,538	195,049	2,429,099

2022

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

Tax risk management

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

Foreign currency risk

The group was exposed to foreign currency risk during the year because of borrowings which were denominated in foreign currencies. The group's foreign currency risk management policy required that the currency exposure arising from foreign currency debt was hedged via the execution of cross currency hedging instruments with suitably rated swap counterparts. The foreign debt was settled prior to reporting date. The net carrying amount included in the prior year figures per currency is:

- R22.9 million denominated in Norwegian Krona (NOK 13.7 million),
- R27.5 million denominated in Swedish Krona (SEK 17.6 million), and
- R18.0 million denominated in Botswana Pula (BWP 14.1 million).

Interest rate risk

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

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

Figures in Rand thousand

27. Financial instruments and risk management (continued)

Interest rate profile

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

Interest rate sensitivity analysis

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

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

2023	***3 months***	***6 months***	***12 months***	***24 months***
Cumulative profit (loss): 50 basis points increase				
Evolution Finance - Performing loans	749	1,498	2,996	5,992
Cash and cash equivalents	403	807	1,615	3,230
Evolution Finance - Non-performing loans	(246)	(246)	(246)	(246)
Additional interest income on assets	906	2,059	4,365	8,976
Additional interest expense on liabilities	(753)	(1,967)	(4,417)	(9,460)
	153	92	(52)	(484)

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

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

2023	***0-3 months***	***4-6 months***	***7-12 months***	***13-24 months***
Cash flow impact for the period: 50 basis points increase				
Evolution Finance - Performing loans	-	-	-	-
Cash and cash equivalents	404	404	808	1,615
Fixed rate assets	-	-	-	-
Borrowings	(6)	(1,175)	(2,450)	(5,028)
	398	(771)	(1,642)	(3,413)

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

27. Financial instruments and risk management (continued)

Insurance risk

The Cell Captive issues contracts that transfer insurance risk. The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insured contract, this risk is random and therefore unpredictable. Refer to note 8 for further detail on the Cell Captive.

28. Going concern

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

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

29. Events after the reporting period

Real People Home Improvement Finance (RF) Proprietary Limited is a special purpose entity which has reached the end of its useful life and is currently in run down. At reporting date Old Mutual Life Assurance Company (South Africa) Limited (OMLACSA) holds a Junior Loan Facility, Preference shares and a Golden Preference share in the company. On 2 May 2023 OMLACSA accepted an offer by Opco 365 Proprietary Limited to purchase the Junior Loan Facility, the Preference shares and the Golden Preference share of OMLACSA. The effective date of purchase is proposed to be 1 July 2023 with a purchase price of R12.4 million.

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