Real People Investment Holdings Limited

Audited consolidated annual financial statements

For the year ended 31 March 2020

General information

Country of incorporation and domicile	South Africa
Company registration number	1999/020093/06
Nature of business and principal activities	Home finance, debt acquisition and management services, long term insurance products
Registered office	11 Rees Street Quigney East London 5201
Contact details	Telephone: +27 (0) 43 702 4600 Email: corporate@realpeople.co.za
Website	Corporate website: www.realpeoplegroup.co.za Consumer website: www.realpeople.co.za
Auditors	Deloitte & Touche Chartered Accountants (SA) Registered Auditors
Level of assurance	The audited consolidated financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
Preparer	The audited consolidated annual financial statements were internally compiled by: MT Laube, CA(SA), Group: Head of Finance
Supervised by	DJ Munro, CA(SA), Group Chief Financial Officer
Issued	30 September 2020

Contents

Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the audited consolidated annual financial statements and related financial information included in this report. It is their responsibility to ensure that the audited consolidated annual financial statements fairly present the state of affairs of the group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the consolidated financial statements.

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

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

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

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

The external auditors are responsible for independently auditing and reporting on the group's consolidated financial statements. The consolidated financial statements have been audited by the group's external auditors and their report is presented on pages 13 to 18.

The audited consolidated annual financial statements set out on pages 5 to 12 and 19 to 65, which have been prepared on the going concern basis, were approved by the board on 30 September 2020 and were signed on their behalf by:

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

30 September 2020

Company Secretary's Certification

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

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

C Wilkinson
Company Secretary

Johannesburg
30 September 2020

Audit Committee Report

Overview

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

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

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

Composition and governance

The RPIH AC has five members, all of whom are independent non-executive directors. Mr RR Buddle was appointed as a member of the RPIH AC on 1 June 2020. The committee met six times during the period.

Name	Audit Committee attendance
KT Hopkins - Chairman	6/6
PG de Beyer	6/6
DTV Msibi	6/6
NW Thomson	6/6
RR Buddle	1/1

The chair of the committee reports to the board on its activities and the matters discussed at each meeting.

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

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

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

The performance of the committee is assessed annually. The 2020 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 RPIH AC receives regular reports from internal audit as part of the planned internal audit programme, which assists in evaluating the group's internal controls. Significant areas of focus in the reports include the following:

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

The Risk Committee receives reports from the Group Information Technology function on the adequacy and effectiveness of the group's information system controls. The Risk Committee also receives reports from the Credit and Pricing Committees

[1] *DMC and Home Finance are divisions of the group. Refer to note 33 of the financial statements for a summary of the four divisions.*

Audit Committee Report

regarding the adequacy and effectiveness of the credit monitoring processes and systems. The RPIH AC members are also all members of the Risk Committee.

The RPIH AC receives regular reports regarding the group's key issues control log from management and regular reports regarding governance and compliance matters. Where there have been improvements required in internal controls, the Committee monitors the key actions required to affect the required improvements.

Having considered, analysed, reviewed and debated information provided by management, internal audit and the external auditors, the RPIH AC has recommended to the RPIH board that internal controls and mitigating actions by management where control processes require improvement provide the AC with sufficient assurance that 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, the committee and management have and continue to make use of external independent advisors to inform these judgements.

Financial reporting process

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

The RPIH AC reviewed and approved the accounting policies of the group as reported in the annual financial statements, monitoring the consistency of application and compliance with accounting standards.

The RPIH AC also:
- received a summary of the key technical accounting matters from the Group CFO for consideration as well as a summary of critical accounting judgements and estimates made during the financial reporting period and after the reporting period to take into account adjusting subsequent events;
- 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 RPIH AC considered the following significant issues and key areas of management judgement applied in the preparation of the financial statements in the current year.

Area of judgement	**Judgements Applied**	**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. *Impact of COVID-19* A portfolio overlay provision of R87.4 million has been raised to account for the estimated additional impairment arising from the COVID-19 adjusting event at 31 March 2020. Refer to note 5.1 to the annual financial statements for a description of the methodology and inputs used in making this assessment.	RPIH AC reviewed the input from internal and external 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. RPIH AC concluded that these estimates were appropriate and in accordance with the underlying accounting standards.

Audit Committee Report

Area of judgement	Judgements Applied	Assessment and Conclusion
Credit impaired assets	All books purchased are assumed to originate in stage 3 as Purchased Originated 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. *Impact of COVID-19* The additional impairment arising from the COVID-19 adjusting event is the shortfall in the present value of estimated future cash flows under this new scenario against the original 2020 financial year valuation expectation. A portfolio overlay provision of R106.9 million has been raised to account for the estimated additional impairment arising from the COVID-19 adjusting event at 31 March 2020. Refer to note 5.1 to the annual financial statements for a description of the methodology and inputs used in making this assessment. The methodology utilises an estimation of future job losses on account of COVID-19 and applying a job loss index to forecast collections. Refer to note 5.1 to the annual financial statements for a description of the methodology and inputs used in making this assessment.	The RPIH AC reviewed the input from internal and external experts to provide assurance on the work performed by credit modelling specialists. The RPIH AC concluded the model, its inputs and the disclosures relating to the financial instruments, and the key judgements and estimates applied in the determination thereof, to be appropriate and in accordance with the underlying accounting standards. RPIH AC reviewed the methodology for estimating the forward looking stress attributable to COVID-19 on collections and resulting impact on impairments and concluded that the methodology and additional impairments to be appropriate. RPIH AC reviewed the methodology for estimating the forward looking stress attributable to COVID-19 on collections and resulting impact on impairments and concluded that the methodology and additional impairments to be appropriate.
Deferred tax asset recognition	The group has estimated tax losses which have not been recognised in the Statement of Financial Position as IFRS requires that deferred tax assets will not be recognised until recoverability is probable. All deferred tax assets have been fully impaired.	After consideration the full amount was impaired.
Going concern assessment	As described in note 34 to the consolidated financial statements and in the directors' report, Real People Investment Holdings Limited breached the company's cost to income ratio covenants at 31 March 2020 following recognition of additional credit loss impairments as a result of the COVID-19 pandemic and for which covenant waivers were obtained from the company's Lenders. In addition, forecast cash flow stress on account of COVID-19 required RPIH AC to assess the going concern status of the company. Cash flow stress required renegotiation of financial covenants and the completion of a debt standstill arrangement with the company's lenders. This has resulted in a capital re-payment holiday period up to and including 31 December 2021 in	RPIH AC considered the validity of the going concern assumption by addressing the following elements: • Confirmed the debt standstill agreement with the company's lenders up to and including 31 December 2021 and relevant financial covenant waivers. • Considered the budget for the period of the standstill agreement and have confirmed that this is based on sound principles and that the assumptions underpinning its preparation are reasonable; • Reviewed the forecast financial covenants and confirm that based on the budget, these will not be breached during the period of the standstill agreement; • Assessed the budget impact for COVID-19 stress by assessing a relative estimation error on the job loss index and confirmed sufficient tolerance for error before covenants breach during the period of the standstill agreement;

Audit Committee Report

Area of judgement	Judgements Applied	Assessment and Conclusion
	addition to relevant covenant ratio amendments and waivers obtained as described in note 34.	• Disclosed the uncertainty associated with the current economic environment particularly given the risks associated with the COVID-19 pandemic; • Confirmed that based on this analysis that the group is a going concern and able to pay its liabilities as they fall due and are not likely to breach loan covenants over a 12 month horizon. • The RPIH AC concluded that the going concern assumption is subject to the successful negotiation of the terms of the standstill agreement.

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 the course of their audit.

The RPIH AC considered the significant audit issues that formed the basis of the auditors' opinion, which are presented on pages 13 to 18 in the auditor's report.

Combined assurance

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

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

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

External auditors

The RPIH AC is responsible for the appointment, compensation and oversight of the external auditors for the group. The RPIH board has a well-established policy on auditor independence and audit effectiveness. During the financial year ended to 31 March 2020, the RPIH AC:

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

Audit Committee Report

An annual review of the quality of the audit and performance of the external auditors was undertaken in 2019. This review included questionnaires completed by key finance staff, internal audit staff central to the assessment process and members of the RPIH AC.

As part of the assessment of the external auditors' independence, the committee reviewed and approved the Non-audit Services Policy. This policy governs the types of service that can be performed by the auditors, as well as the value and scope of the non-audit services provided by the auditors. Only those non-audit services that do not affect their independence and entail skills and experience that make them the most appropriate suppliers were approved during the period. Fees paid to the auditors are disclosed in note 21 to the annual financial statements. The RPIH AC recommended that the shareholders reappoint Deloitte as the external auditors for 2021.

Annual financial statements

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

K Hopkins
Audit Committee Chairman

Johannesburg
30 September 2020

Directors' Report

The directors submit their report on the audited consolidated annual financial statements of Real People Investment Holdings Limited and its subsidiaries, associates and joint venture ("the group") for the year ended 31 March 2020.

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

1. Nature of business

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

2. Review of financial results and activities

The audited consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008. The accounting policies have been applied consistently compared to the prior year, except for a change in accounting policy for costs included in the valuation of credit impaired assets set out in note 3 and the adoption of IFRS 16 Leases as set out in note 9 to the annual financial statements.

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.

As outlined in note 3 to the annual financial statements, the group revised and improved the valuation methodology employed in respect of acquired debt assets. This had a materially negative impact on the group's earnings for the year. The impact on the financial covenants was negative, with a breach of the cost to income ratio covenant. This breach was waived by the lenders. Thereafter, the impact of COVID-19 became apparent and the lenders were engaged to amend the borrowings and re-negotiate covenants, refer to note 34 to the annual financial statement for details of the revised terms.

The events after the reporting period have had a significant impact on the group.

3. Events after the reporting period

COVID-19 and national lockdown

The South African government declared a national lockdown on 26 March 2020.

The immediate impact on the group was the inability to operate on-site. Members of the workforce that could work from home continued to do so but the majority were unable to do so. The call centre was impacted the most which resulted in a loss of collection capacity due to the restrictions imposed by the lockdown regulations. New sales origination by the Home Finance sales channel reduced to nil. Simultaneously, customers suffered reductions or loss of income as a result of the lockdown. The combination of these factors resulted in decreased cash collections as the group started the 2021 financial year.

Management’s immediate response was to contain costs and to work on solutions which enabled more staff members to work from home and restore productivity. Salary cuts were implemented which were supported by claims on behalf of impacted staff under the Temporary Employee/Employer Relief Scheme (TERS) for a period. The group applied for rental concessions from lessors and cancelled leases where work from home solutions were viable. All non-essential discretionary spending ended.

Temporary covenant waivers were requested by Real People Investment Holdings Limited and funding special purpose entities. The group has, to date, honoured all payment obligations to lenders, however certain financial covenants have come under strain and there was a delay in payment in one of the special purpose entities, Real People Home Improvement Finance (RF) (Proprietary) Limited which was rectified within the required period stipulated in loan documentation.

Over the medium term the most significant impact on the group is expected to be the high rate and quantum of job losses during the 12 months after reporting date. The group has developed a conceptual framework for assessing the impact of COVID-19 which is tabled in note 5.1 to the annual financial statements.

The goal of management has been to ensure the sustainability of the group post the impact of COVID-19. This meant managing cash and other resources to minimise the short-term adverse impact on the business, followed by an internal restructure to manage resources in the medium to long term. During June 2020 management commenced with a leadership restructure to simplify the structure and reduce the cost of leadership. This was followed by an organisation design change and zero-based budget.

The impact of COVID-19 is deemed to be a condition that existed at the reporting date which required that the assets and liabilities at reporting date were adjusted to take into effect any accounting implications associated with or caused by events related to COVID-19. This included adjustments in forward-looking indicators for net advances, revaluations of equity investments, impairment of deferred tax assets and assessment of insurance liabilities, which is explained in detail in notes 5.1, 10, 11 and 16.1 to the annual financial statements.

Approval for the transfer of the insurance business of the group

Real People Assurance Company Limited, the assurance subsidiary, obtained approval from the Prudential Authority, in terms of section 50(4)(a) of the Insurance Act, 2017, on 26 May 2020 to transfer all of the assets and liabilities relating to its insurance business to Old Mutual Alternative Risk Transfer Limited with an effective date of 1 July 2020.

Forecast process and debt amendments

Management prepared a detailed bottom-up budget and cash flow forecast and engaged senior lenders to amend the borrowings of the group, refer to note 34 to the annual financial statements.

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 has not already been disclosed in the notes to the financial statements.

4. Going concern

The directors consider it appropriate to adopt the going concern basis for preparing the consolidated annual financial statements, as the directors have no intention to liquidate the group or cease trading within the foreseeable future (twelve months from signature date). The assessment of going concern is based on the group's forecasts, covering the period 2021 to 2025, which included the effect of the internal restructure, capital payment holiday, rescheduled senior debt maturity and covenant waivers. The directors also considered the liquidity and funding position of the group following the implementation of the amendments. On account of the severity of the impact of COVID-19, refer to note 34 of the financial statements for further detail. Refer to note 34 of the financial statements for further detail noting the directors' assessment of going concern.

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	
K Hopkins		Non-executive Independent	
DTV Msibi		Non-executive Independent	
RR Buddle		Non-executive Independent	Appointed 01 June 2020
N Grobbelaar	Group chief executive officer	Executive	
DJ Munro	Group chief financial officer	Executive	

Directors' Report

6. Company secretary

The company secretary is C Wilkinson.

Postal address:	PO Box 19610 Tecoma East London 5214
Business address:	11 Rees Street Quigney East London 5201

7. Auditors

Deloitte & Touche continued in office as auditors for the group for 2020.

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 P Binnie as the designated lead audit partner for the 2021 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.

Deloitte.

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Real People Investment Holdings Limited (the Group) set out on pages 19 to 65, which comprise the consolidated statement of financial position as at 31 March 2020 and the consolidated statement of profit or loss, the consolidated statement of 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 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018),* parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td colspan="2">IFRS 9 “Financial Instruments” Loans and advances carried at amortised cost less loan provision – Home Finance</td></tr>
<tr><td>Loans and advances carried at amortised cost less provision are disclosed in note 5 of the consolidated Financial Statements. The associated impairment provisions are significant in the context of the consolidated financial statements.

The determination of credit losses is inherently uncertain and is subject to significant judgement by the directors. Models used to determinecredit impairments are complex and certain inputs are not observable.

The Home Finance business lends to individuals. These loans are generally low in value and are assessed collectively. The Group develops models to determine expected losses across the portfolio.

These factors individually and collectively result in a significant audit risk that credit impairments may be misstated.

In the current period, the outbreak of the COVID-19 pandemic and the nationwide lockdown instituted before 31 March 2020 necessitated the determination of an additional COVID-19 impairment provision as described in note 5 through the development of a separate COVID-19 impairment model.

Given the combination of inherent uncertainty in the determination of the credit impairment, the material nature of the balance and the significant judgements made by directors we considered the determination of the impairment provision to be a key audit matter.</td><td>The Home Finance portfolio impairment provision is model-driven.
For the base impairment model we:
• Focused on the most significant model assumptions and inputs, including probability of default, loss given default and roll rates;
• Performed detailed procedures on the completeness and accuracy of the information used, and also compared internal data and assumptions to those used more widely in the market; and
• Used internal credit specialists to challenge the appropriateness of the base model used and recalculated the impairment provision to confirm the accuracy of the provision raised
For the COVID -19 impairment model we:
• Focused on the most significant model assumptions and inputs including probability of default, loss given default and exposure at default estimates;
• Confirmed the accuracy and completeness of the information used and data inputs and also compared internal data and assumptions to those used more widely in the market;
• Used external credit specialists to challenge the appropriateness of the COVID-19 model; and
• Considered the adequacy of the disclosures made as to the key assumptions underpinning this model.

We found that the significant judgements applied in determining the impairment against loans and advances together with the related disclosures are appropriate.</td></tr>
</table>

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td colspan="2">IFRS 9 “Financial Instruments” Loans and advances carried at amortised cost less loan provision – DMC</td></tr>
<tr><td>Loans and advances carried at amortised cost less provision are disclosed in note 5 of the consolidated Financial Statements. The associated impairment provisions are significant in the context of the consolidated financial statements.

The determination of credit losses is inherently uncertain and is subject to significant judgement by the directors. Models used to determinecredit impairments are complex and certain inputs are not observable.

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

These factors individually and collectively result in a significant audit risk that credit impairments may be misstated.

In the current period, the outbreak of the COVID-19 pandemic and the nationwide lockdown instituted before 31 March 2020 necessitated the determination of an additional COVID-19 impairment provision as described in note 5 through the development of a separate COVID-19 impairment model.
Given the combination of inherent uncertainty in the credit impairment, the material nature of the balance and the significant judgements made by directors we considered the determination of the impairment provision to be a key audit matter.</td><td>The DMC portfolio impairment provision is model-driven.
For the base impairment model we:
• Focused on the most significant model assumptions and inputs, including assessment of the discounted cashflows determined to calculate the net carrying amount of the loan books;
• Performed detailed procedures on the completeness and accuracy of the information used, and also compared internal data and assumptions to those used more widely in the market; and
• Used internal credit specialists to challenge the appropriateness of the base model used and recalculated the impairment provision to confirm the accuracy of the provision raised.
For the COVID -19 impairment model we:
• Focused on the most significant model assumptions and inputs including roll rates of the new receipt activations and the existing paying pool, as well as the COVID-19 adjustments to the model (including lockdown capacity constraints, haircuts to expected instalments and reduction in the base activations as well as adjustments to the paying account fall off rates associated with changes in the employed base);
• Confirmed the accuracy and completeness of the information used and data inputs and also compared internal data and assumptions to those used more widely in the market;
• Used external credit specialists to challenge the appropriateness of the COVID-19 model; and
• Considered the adequacy of the disclosures made as to the key assumptions underpinning this model.

We found that the significant judgements applied in determining the impairment against loans and advances together with the related disclosures are appropriate.</td></tr>
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Key Audit Matter	How the matter was addressed in the audit
Going concern	
As described in note 34 to the consolidated financial statements and in the directors' report, Real People Investment Holdings Limited breached the Company's capital adequacy and cost to income ratio covenants at 31 March 2020 following recognition of additional credit loss impairments as a result of the COVID-19 pandemic. This has necessitated as described in note 34.2.2 the renegotiation of financial covenants and the completion of a debt standstill arrangement with the Company's lenders. The terms of this agreement are described in that note. In addition the Company has confirmed revised financial covenants as described in note 34.2.3. The Board of Directors in considering whether the revised terms with the lenders provide satisfactory support for the business to enable it to continue to trade for the next 12 months have (as disclosed in note 34.2): • Considered the budget for the period of the debt standstill agreement and have confirmed that this is based on sound principles and that the assumptions underpinning its preparation are reasonable (note 34.2.1); • Reviewed the revised financial covenants and confirm that based on the budget, these will not be breached during the period of the debt standstill agreement (note 34.2.3); • Assessed the budget impact for various stress scenarios as described in note 34.2.3) confirming that this does not result in a financial covenant breach during the period of the debt standstill agreement; • Considered the required investments required in the Group's SPV's and funding appetite in the market to make these investments (34.2.5); • Considered the risks associated with compliance and regulatory matters given the regulatory and taxation regimes that the Group is subject to; and • Confirmed that based on this analysis that the Group and its principle SPV are going concerns as they are able to pay their liabilities as they fall due and are not likely to breach loan covenants during the period of the debt standstill agreement. Due to the significant judgement required by the directors in making assumptions around the future profitability of the business and its budgets and forecasts this is considered to be a key audit matter.	We performed the following audit procedures: • Obtained an understanding of the terms of the debt standstill arrangement and the revised financial covenants; • Obtained an understanding of the key assumptions underpinning the budgets and forecasts and their reasonability in light of previous performance; • Assessed the budget for 2019 and 2020 against the actual results; • Challenged the reasonability of the directors' budgets and forecasts for 2021 and 2022 financial years; • Considered the revised forecast financial covenants and whether based on management's budgets, these would be breached in the 12 months from the date of this report; • Considered the headroom in the financial covenants in the event that the budgeted results differ to the actual results; • Considered the stresses applied to the budgeted results and ensured that these did not result in a financial covenant cashflow breach; • Considered the evidence that the Group's assumptions around access to future funding are reasonable; • Discussed the risks associated with compliance and regulatory matters and the impact that these may have on the Group's ability to achieve its financial targets; • Considered the adequacy of the disclosures made in the consolidated financial statements to ensure that these sufficiently and accurately disclosed the key assumptions underpinning the going concern assessment of the directors. We have concluded that the disclosures on this matter are appropriate in the consolidated financial statements and that budgets support the view that the adoption of the going concern basis of accounting is appropriate.

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Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Real People Investment Holdings Limited Audited Consolidated Annual Financial Statements for the year ended 31 March 2020", which includes the Directors' Responsibility and Approval, the Company Secretary's Certification, the Audit Committee's Report and the Directors' Report, as required by the Companies Act of South Africa, which we obtained prior to the date of this report. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Consolidated Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Real People Investment Holdings Limited for 4 years.

Deloitte & Touche
Registered Auditor
Per: Penny Binnie
Partner
30 September 2020

5 Magwa Crescent
Waterfall City
2090
Gauteng
South Africa

Consolidated Statement of Financial Position as at 31 March 2020

Figures in Rand thousand	Notes	2020	2019
Assets			
Equipment	8	19 288	13 485
Right-of-use assets	9	14 099	-
Intangible assets		387	1 536
Deferred tax	10	-	14 932
Investments in associates and joint venture	11	12 554	28 078
Net advances	5	1 314 580	1 468 503
Other receivables	12	15 357	26 821
Derivatives	13	28 700	11 891
Cash and cash equivalents	14	326 600	428 031
Total Assets		1 731 565	1 993 277
Equity and Liabilities			
Equity			
Share capital and equity notes	6	1 308 857	1 308 857
Reserves		2 430	475
Accumulated loss		(1 143 226)	(886 430)
Total Equity		168 061	422 902
Liabilities			
Borrowings - Non-current	7	693 700	960 892
Lease liabilities	9	15 625	-
Deferred tax	10	-	84
Provisions	15	7 918	24 600
Insurance liability	16	-	-
Borrowings - Current	7	807 165	532 884
Trade and other payables	17	33 864	42 498
Tax payable		5 232	9 417
Total Liabilities		1 563 504	1 570 375
Total Equity and Liabilities		1 731 565	1 993 277

Consolidated Statement of Profit or Loss

Figures in Rand thousand	Notes	2020	2019
Gross yield from assets	19	770 533	735 163
Impairments		(399 299)	(114 957)
Net yield		**371 234**	**620 206**
Net assurance income - funeral benefits	20	32 721	33 984
Outsourced collection income		54 951	51 146
Other income		9 895	14 406
Operating expenses		(487 308)	(464 910)
Operating (loss) profit	21	**(18 507)**	**254 832**
Finance costs	22	(201 387)	(197 150)
(Loss) income from equity accounted investments		(13 633)	10 377
Foreign exchange gains (losses)	23	362	(1 199)
(Loss) profit before taxation		**(233 165)**	**66 860**
Income tax expense	24	(23 631)	(1 921)
(Loss) profit for the year		**(256 796)**	**64 939**
(Loss) profit attributable to:			
Owners of the parent:			
From continuing operations		(256 796)	64 939

Consolidated Statement of Comprehensive Income

Figures in Rand thousand	2020	2019
(Loss) profit for the year	**(256 796)**	**64 939**
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Effects of cash flow hedges	1 955	7 051
Other comprehensive income for the year net of taxation	**1 955**	**7 051**
Total comprehensive (loss) income	**(254 841)**	**71 990**

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 2018	**1 308 857**	**(6 576)**	**(951 369)**	**350 912**
Profit for the year	-	-	64 939	64 939
Other comprehensive income	-	7 051	-	7 051
Total comprehensive income	**-**	**7 051**	**64 939**	**71 990**
Balance at 01 April 2019	**1 308 857**	**475**	**(886 430)**	**422 902**
Loss for the year	-	-	(256 796)	(256 796)
Other comprehensive income	-	1 955	-	1 955
Total comprehensive income (loss)	**-**	**1 955**	**(256 796)**	**(254 841)**
Balance at 31 March 2020	**1 308 857**	**2 430**	**(1 143 226)**	**168 061**
Note	6			

Consolidated Statement of Cash Flows

Figures in Rand thousand	Notes	2020	2019
Cash flows from operating activities			
Cash generated from operations	25	138 798	277 559
Finance costs		(197 636)	(179 233)
Tax paid	26	(13 891)	(15 291)
Net cash (utilised by) generated from operating activities		**(72 729)**	**83 035**
Cash flows from investing activities			
Purchase of equipment	8	(12 867)	(5 776)
Proceeds on sale of equipment		852	298
Dividend received from associate		1 890	6 975
Net cash (utilitised in) generated from investing activities		**(10 125)**	**1 497**
Cash flows from financing activities			
Proceeds from borrowings		468 000	509 000
Repayment of borrowings		(475 403)	(543 487)
Receipt on settlement of derivative		-	33 417
Payment on lease liabilities		(11 174)	-
Net cash utilised by financing activities		**(18 577)**	**(1 070)**
Total cash movement for the year		**(101 431)**	**83 462**
Cash and cash equivalents at the beginning of the year		428 031	344 569
Total cash and cash equivalents at end of the year	14	**326 600**	**428 031**

Accounting Policies

Corporate information

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

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

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

1. Significant accounting policies

1.1 Basis of preparation

The audited consolidated financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these audited consolidated annual financial statements and the Companies Act 71 of 2008 of South Africa, as amended.

These audited consolidated 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 financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the company's functional and presentation currency.

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

These accounting policies are consistent with the previous period, except for a change in accounting policy for costs included in the valuation of credit impaired assets set out in note 3 and the adoption of IFRS 16 Leases (effective on 1 January 2019) set out in note 9.

1.2 Going concern

The directors consider it appropriate to adopt the going concern basis for preparing the consolidated financial statements, as the directors have no intention to liquidate the group or cease trading within the foreseeable future (twelve months from signature date). Refer to note 34 for events after the reporting date and the factors considered in making the going concern assessment.

1.3 Significant judgements and sources of estimation uncertainty

The preparation of audited consolidated annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Refer to note 4 for a change in estimate in the current year. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgements in applying accounting policies

Recognition of deferred tax assets

The recognition of deferred tax assets on taxable losses in Real People Investment Holdings Limited and subsidiaries has been suspended and the deferred tax assets recognised in prior financial years impaired until there is a history of sustainable profitability.

Accounting Policies

1.3 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.

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 most significant single event in the current year being the impact of COVID-19. The key assumptions and inputs used for net advances and the adjustment for events after reporting date are disclosed in note 1.5, 1.6. and 5.1.

Valuation of investment

The investment in Dorreal Properties (Proprietary) Limited is assessed with reference to the fair value of the investment property owned by the company. The fair value of the property has been reduced as a result of the impact of COVID-19 and therefore the carrying value of the investment has been reduced. The key assumptions and inputs used in this assessment are disclosed in note 11.

Uncertain tax positions

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

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

Doubtful debt allowances on stage 3 impairment provisions under section 11(j) of the Income Tax Act

The group has applied for a directive from the South African Revenue Services to approve the use of an 85% doubtful debt allowance on stage 3 impairment provisions. The group has not yet received final feedback from the South African Revenue Services in respect of the outcome of the application for a directive. The group's submissions and response to standard follow up queries have been consistent with the process and timing of applications and queries that industry peers have concluded to obtain issued directives. The financial statements have been prepared on the basis that the directive will be granted.

1.4 Financial instruments

Initial recognition

The group initially recognises financial assets and liabilities on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the group becomes a party to the contractual provisions of the instrument.

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

Financial instruments (continued)

Classification and measurement

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

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

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

Note 31 Financial instruments and risk management presents the financial instruments held by the company based on their specific classifications.

Securitisations

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

Financial assets at amortised cost

Impairment

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

Write off policy

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

Modifications

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

Financial instruments (continued)

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

Derecognition

Financial assets

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

Financial liabilities

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

Reclassification

Financial assets

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

Financial liabilities

Financial liabilities are not reclassified.

Offsetting financial assets and liabilities

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

1.5 Net advances - Home Finance

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

Credit risk

An appropriate credit risk premium is incorporated into the pricing structure of each product to ensure that acceptable returns are generated for shareholders. Credit risk premiums are based on expected probability of defaults and estimated recoveries from defaulters. Proprietary credit risk scoring models are used to assess the credit worthiness of individuals in combination 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.

1.5 Net advances - Home Finance (continued)

Classification

Performing loans

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

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

- Stage 1: loans have no arrears and there is no significant increase in credit risk. The impairment provision for these loans are calculated using lifetime expected loss over a 12 month probability of default.
- Stage 2: loans have an arrears ratio which is greater than one and less than or equal to three months in arrears, or have an arrears ratio of nil, but have signs of a significant increase in credit risk. The impairment provision for these loans is calculated using lifetime expected credit losses.

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

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

Modifications

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

Non-performing loans

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

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

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

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

1.5 Net advances - Home Finance (continued)

Management assesses portfolio credit losses for any (linear and non-linear) relationship with forward-looking economic indicators or scenarios on an annual basis. Should such economic indicators correlate to the performance of the loan book, management will take the likely forward looking scenarios into account when determining the expected credit loss adjustments. Should management not find any relationship as described above, it would consider a general view of economic factors and apply an appropriate management overlay.

1.6 Net advances - DMC

Acquired Debt

DMC applies the credit impaired amortised cost valuation methodology to acquired debt.

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

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

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

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

For remaining acquired debt portfolios, the cash flow estimates are forecast using three statistical models that fit statistical functions through actual cumulative receipts on a portfolio level. The expected cash flows are calculated separately on each debt portfolio acquired in the last 10 years. It is assumed that a portfolio will yield cash flows from collection activities for a maximum period of 10 years (120 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

DMC performs a statistical analysis to assess the correlation between macro-economic factors and receipting performance. The macro-economic factors include the petrol price, consumer price index, prime rate, unemployment levels, gross domestic product and unsecured credit supply as these are considered to have the most significant impact on over indebted clients. No significant correlation was found and therefore these indicators have not been used to determine forward looking indicator trends for the DMC financial assets. There has, however, been adjustments for subsequent events, refer to note 5.1.

Discontinued receivables

DMC continues to collect and manage the assets from discontinued activities from within the group. The portfolio is considered credit impaired as the original contracts are out of term and the asset is in run off. Modifications are not considered as the assets are already modified at inception due to all contracts being outside of their original contractual terms and contracts being already extensively modified during the collection process.

Cash flows are forecast based on back tested run-off triangle techniques. The effective interest rate applied to these cash flows are the debt’s original effective interest rate at date of origination.

Education receivables

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

Accounting Policies

1.6 Net advances - DMC (continued)

The effective interest rate is determined as the rate that exactly discounts the expected cash flows to the fair value.

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

1.7 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.

At the inception of the hedge relationship, the group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. At the inception of the hedge and at each reporting date, the group assesses whether the derivative is effective in offsetting changes in cash flows of the hedged foreign borrowings, which is when the hedging relationship meets all of the following hedge effectiveness requirements:
- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the group actually hedges and the quantity of the hedging instrument that the group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

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

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

1.8 Consolidation

Basis of consolidation

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

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

Securitisations form an integral part of the group’s funding strategy. The issuer, which is a bankruptcy remote special purpose entity, issues notes to fund the purchase of eligible loans from subsidiaries of the group that are the originators of the loans. The subsidiaries do not retain any rights and obligations in the assets of the special purpose entities, nor do they retain any obligation to the creditors of the special purpose entity in the event of liquidation. The issuer's activities are restricted to those of the securitisation programme and fall within the ambit of the National Credit Act.

The special purpose entities have been designed so that their activities are largely laid out in the transaction documents and the contractual arrangements entered into on or before closing of the transaction. Voting rights are therefore not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks only and the contractual arrangements determine the direction of the relevant activities. The board can only operate within the mandate of the transaction documents. Where the group has arranged the transaction, acts as administrator and servicer and is exposed to a residual return, the special purpose entity is consolidated into the group's accounts. Refer to note 33 for a list of special purpose entities.

An associate is an entity over which the group has significant influence and which is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Refer to note 11 for details of associates.

Accounting Policies

1.8 Consolidation (continued)

A joint venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Refer to note 11 for details of the joint venture.

1.9 Equipment

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

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

Capital work in progress is not depreciated.

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

1.10 Leases

Company as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, or date of initial application of IFRS 16, 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. Low value leases include leases for printers, copiers, coffee machines, water coolers and plants. 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.

Prior year policy for leases

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

1.11 Impairment of non-financial assets

The company 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 company 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.

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

1.13 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. The group has bonus and incentive provisions.

Employees in non-managerial roles are eligible for consideration of an annual discretionary bonus in December each year linked to individual and departmental performance while executive and management employees are eligible for consideration for a short-term incentive paid annually after the year-end results are finalised. Discretionary individual incentive allocations are based on a combination of group, divisional and individual performance, including financial, non-financial and risk management elements.

1.14 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.

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

Defined contribution plans

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

1.15 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 1.15 for the types of insurance contracts provided to customers. 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.

Accounting Policies

Revenue (continued)

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.

1.16 Insurance contracts

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

Recognition and measurement

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

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

Reinsurance contracts held

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

Notes to the Audited Consolidated Annual Financial Statements

2. New Standards

2.1 Standards effective and adopted in the current year

In the current year, the group adopted IFRS 16 Leases that is effective for the current financial year and that is relevant to its operations, refer to note 9.

There has also been a change in accounting policy, refer to note 3.

2.2 Standards not yet effective

The group has chosen not to early adopt the standards which have been published and are mandatory for the group's accounting periods beginning on or after 01 April 2020 or later periods. All the new standards and interpretations have been considered. Those expected to have an impact on the group are as follows:

2. New Standards (continued)

IFRS 17 Insurance Contracts

This standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The effective date of the standard is for years beginning on or after 1 January 2023. The company expects to adopt the standard for the first time in the 2024 audited consolidated annual financial statements.

The expected impact of the standard is a change in revenue recognition as the Cell Captive (refer to note 34) will be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums.

3. Changes in accounting policy

Costs included in the valuation of credit impaired assets

In the prior year the valuation of credit impaired assets included direct costs in the calculation of the credit adjusted effective interest rate and the calculation of estimated future cash flows. This was based on an interpretation of an implementation guideline given by the IFRS Transition Group on first adoption of IFRS 9 Impairment of Financial Instruments. Subsequently, global guidance has been received which concludes that the inclusion or exclusion of directly attributable and incremental costs in the credit adjusted effective interest rate and projected cash flows is an accounting policy choice and not a specific requirement under IFRS 9.

During the year, the group therefore changed its accounting policy to remove the directly attributable and incremental costs from both the calculation of the credit adjusted effective interest rate for acquired portfolios and to remove these costs from the calculation of estimated future cash flows that support the valuation of the acquired and discontinued receivable portfolios. The reason for the change is to simplify the asset valuation complexity, reduce valuation volatility through the removal of an unnecessary variable and to provide more meaningful reporting by removing the costs currently being set off the revenue line.

The impact of this change would result in an increased carrying value of credit impaired assets of R14.0 million at 31 March 2018 and a corresponding increase in equity. In the 2019 financial year profit would be R4.6 million lower resulting in a closing carrying value that is R9.4 million higher under the new basis. In the 2020 financial year profit would be R1.2 million lower resulting in a closing carrying value that is R7.2 million higher under the new basis. The change in accounting policy has been applied in the current period. The prior period figures were not restated as the amount is not considered material.

First time adoption of IFRS 16 Leases

The company adopted IFRS 16 Leases for the first time in the current financial period, refer to note 9.

4. Change in estimate

Valuation methodology for acquired debt

IFRS requires that an entity regularly reviews the methodology and assumptions used for estimating expected credit losses to reduce any differences between estimates and actual credit loss experience. The valuation methodology for acquired debt was back tested to the last two years of actual collections data and weaknesses were identified in the model. Firstly, under performance to the collections forecast was identified in the short term of the forecasting period, and secondly, the data demonstrated that higher balance portfolios had a stronger amortisation profile than the model predicted. These weaknesses were addressed by making the following changes to the methodology:

- Models were calibrated to the actual collections observed in the preceding 12 months.
- A balance segmentation was introduced to groups of portfolios with similar collections amortisation profiles.
- New statistical functions were applied to the small and high balance profiles.

The amortised cost value of the acquired debt portfolio was impaired as the lifetime credit loss increased by R51.6 million following the above changes.

Figures in Rand thousand | 2020 | 2019

5. Net advances

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

	2020	2019
Home Finance	786 325	778 587
DMC	528 255	689 916
	1 314 580	1 468 503

Home Finance offers a credit facility to customers. The undrawn facilities at 31 March 2020 is R30.4 million (2019: R28.0 million).

Home Finance accounts under debt review or administration are classified as modified contracts. The modification loss due to debt review for the year is R26.2 million (2019: 20.0 million).

Exposure to credit risk

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

Credit loss allowances

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

2020

Division	*Basis of loss allowance*	*Gross Carrying amount*	*Loss allowance*	*Amortised cost*
Home Finance				
Performing loans - stage 1	12 month ECL	642 959	(114 590)	528 369
Performing loans - stage 2	Lifetime ECL (not credit impaired)	174 506	(71 001)	103 505
Non-performing loans - stage 3	Lifetime ECL (credit impaired)	1 448 681	(1 294 230)	154 451
DMC	Lifetime ECL (credit impaired)	763 026	(234 771)	528 255
		3 029 172	(1 714 592)	1 314 580

2019

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

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2020	2019

5. Net advances (continued)

Reconciliation of loss allowances

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

Home Finance performing loans - stage 1: Loss allowance measured at 12 month ECL:		
Opening balance	50 358	51 979
New contracts originated	46 187	37 315
Movement between stages	(37 818)	(41 888)
Significant increase in credit risk	(3 454)	2 952
Forward looking overlay	59 317	-
Closing balance	114 590	50 358

Home Finance performing loans - stage 2: Loss allowance measured at lifetime ECL (not credit impaired):		
Opening balance	41 096	45 633
Release of loss allowance on transfer to lifetime expected credit losses (credit impaired)	(84 588)	(78 848)
New contracts originated	12 414	8 295
Movement between stages	88 027	66 016
Forward looking overlay	14 052	-
Closing balance	71 001	41 096

Home Finance performing loans - stage 3: Loss allowance measured at lifetime ECL (credit impaired):		
Opening balance	1 379 055	1 539 118
Release of loss allowance on contracts written off	(241 380)	(264 910)
Movement between stages	3 321	(2 518)
Modification loss on contracts moved to stage 3	131 523	107 365
Forward looking overlay	21 711	-
Closing balance	1 294 230	1 379 055

DMC: Loss allowance measured at lifetime ECL (purchased or originated credit impaired):		
Opening balance	59 161	43 744
Accounting policy change (refer to note 3)	(9 449)	-
Lifetime expected credit loss prior to an assessment of the impact of COVID-19	78 204	15 417
Additional lifetime expected credit loss arising from the impact of COVID-19 (refer to note 5.1)	106 855	-
Closing balance	234 771	59 161

Fair value

Refer to note 31 Financial instruments and risk management for the fair value of net advances. The fair value was calculated using expected recovery curves. Fair value measurements are categorised as level 3 on the fair value hierarchy as the valuation includes unobservable inputs.

Figures in Rand thousand 2020 2019

5. Net advances (continued)

Home Finance coverage ratios

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

2020	***Stage 1 CD 0***	***Stage 2 CD 1***	***Stage 2 CD 2***	***Stage 2 CD 3***	***Stage 3***	***Total***
Gross advances	642 959	115 485	38 082	20 939	1 448 681	2 266 146
Impairment allowance	(114 590)	(43 224)	(15 624)	(12 153)	(1 294 230)	(1 479 821)
Carrying value	528 369	72 261	22 458	8 786	154 451	786 325
Coverage ratio	17,8 %	37,4 %	41,0 %	58,0 %	89,3 %	65,3 %

2019	***Stage 1 CD 0***	***Stage 2 CD 1***	***Stage 2 CD 2***	***Stage 2 CD 3***	***Stage 3***	***Total***
Gross advances	544 586	95 919	32 685	13 242	1 562 664	2 249 096
Impairment allowance	(50 358)	(21 093)	(12 948)	(7 055)	(1 379 055)	(1 470 509)
Carrying value	494 228	74 826	19 737	6 187	183 609	778 587
Coverage ratio	9,2 %	22,0 %	39,6 %	53,3 %	88,3 %	65,4 %

5.1. COVID-19 impairment

The impact of COVID-19 is deemed to be a condition that existed at the reporting date which required that the assets and liabilities at reporting date were adjusted to take into effect any accounting implications associated with or caused by events related to COVID-19. This included adjustments in forward-looking indicators for net advances. Over the medium term the most significant impact on the group is expected to be the high rate and quantum of job losses during the 12 months after reporting date. The conceptual framework below has been developed by the group for assessing the impact of COVID-19.

Framework for assessing COVID-19 impact on net advances valuations

COVID-19 impact phase	***Impact on customers***	***Impact on group***
Phase 1 – Hard Lockdown (April 2020 – June 2020)	Temporary loss of income. Temporary Employee/Employer Relief Scheme (TERS) relief. Behavioural changes and income re-prioritisation	Loss of collection capacity for new activations due to inability to operate on-site. Increased payer fall-offs
Phase 2 – Job losses (July 2020 – December 2020)	Permanent loss of income. Salary reduction or reduced increases. Bonus suspensions	Reduction in pool of new activation potential following increases in the unemployment rate. Increased fall-off rate on paying base.
Phase 3 – Stabilisation (January 2021 – March 2022)	Reduced disposable income. Gradual recovery in employment	Normalisation of fall off rates
Phase 4 – Medium term economic outlook	Employed base not expected to recover to pre-COVID-19 levels in the medium term	Permanent loss of collections that will not be recovered in medium to long term

Job loss index

The most significant COVID-19 impact on the group is expected to be the high rate and quantum of job losses during the next 12 months. The group has chosen to use the quantum and rate of changes in the employed base as at 31 March 2020 as a proxy for the impact of COVID-19 on asset valuations post the initial hard lockdown period.

The opening employed base has been determined based on the Quarterly Labour Force Survey report published by Statistics South Africa and a job loss index has been created using the views of various economists that have been published in the public domain. The job loss index is referenced in all group forecasting models relating to COVID-19.

5.1 COVID-19 impairment (continued)

DMC COVID-19 impairment

The additional impairment arising from the COVID-19 adjusting event is the shortfall in the present value of estimated future cash flows under this new scenario against the 2020 financial year valuation expectation. The adjustment is R106.9 million at 31 March 2020.

The COVID-19 receipting expectations are calculated on a portfolio basis as the same collections process is applied to all owned assets portfolios and then split between Acquired debt and Discontinued receivables based on the expected activation rates. The revised cash flow have been discounted at the relevant portfolios effective interest rate

Methodology to calculate DMC receipting expectations for phase 1 - 3

The calculation for the collections expectations for phases 1 to 3 has been based on an activations roll rate model. The model determines how the pool of existing paying accounts falls off and how new paying accounts (activations) are created.

The collections expectations under the current valuation methodology has been used to determine the activations that are required to meet the collections under the valuation (the base activations). 12 month historic averages have been used to determine the receipting value of the activations and the fall off rates of existing paying accounts.

- Phase 1: New activations were limited to the maximum that the collections operations can produce with available capacity under lockdown. Average instalment values for new activations and paying account fall off rates were adjusted to take into account changes in client repayment behaviours
- Phases 2 and 3: The base activations required to meet the valuation receipts were adjusted to take into account the changes in the employed base by using the unemployment rate based on the job loss index. The paying account fall off rates were also adjusted by increases in the unemployment rate. Reduced average instalment values for new activations were expected to continue throughout phases 2 and 3. Further adjustments have been applied to take into account the impact of DebiCheck (refer further detail below).
- Phase 4: The shortfall between the valuation expectation at March 2022 and the revised receipting calculated will continue at the same rate until the end of the collections curve.

Roll rate model

Collections in the model are split into new receipt activations (activations) and paying accounts (paying pool).

- Activations: These are receipts obtained from clients that have not made a payment in the last three consecutive months. Activations are obtained from outbound and inbound call centre consultants, visitation network agents, SMS campaigns, external debt collectors and from contracts currently under administration or debt review.
- Paying pool: These are accounts from which a payment has been received in the last three consecutive months (excluding new activations). The paying pool has been calculated with reference to the prior months paying pool and activation receipts. A 12 month back test has been performed using the paying pool base at 31 March 2019 to ensure the accuracy of the model).

Areas where adjustments were applied

- Production constraints: The group was unable to produce any activations during April 2020 under the lockdown regulations. Work from home solutions were rolled out during May 2020 which increased activations to 50% of normal activations and then in June 2020 operations returned to full productivity either on-site or under work from home arrangements. Activations have therefore been capped to the maximum activations that the internal and external activations sources can produce under the constrained production environment during phase 1.
- Job loss index: The Job loss index has been applied to both activations and the paying pool.
- Average instalments: The average activations instalments have been reduced by 2% which has been based on current interactions with clients.
- DebiCheck: DebiCheck is a debit order payment system that requires electronic approval of debit order details at the commencement of an instruction. From May 2021 no mandates may be created using the current system and from November 2021 all mandates are required to be on DebiCheck.The impact that Debicheck will have once implemented is not yet known. The group’s view is that debit order reversals will reduce which should improve collections however low levels of authentication will negatively impact receipting. A negative adjustment of 5% has been phased into the cashflow forecasts between May and November 2021 to cater for the impact of DebiCheck.

A relative 10% increase in the job loss index amounts to approximately R4 million additional impairment in DMC.

5.1 COVID-19 impairment (continued)

Home Finance COVID-19 impairment

An additional portfolio overlay of R87.4 million has been raised to account for the additional impairment arising from the COVID-19 adjusting event at 31 March 2020.

The Home Finance division implemented debt relief measures during April 2020 upon receiving requests from customers for payment holidays or reduced instalments. As these debt relief requests were granted after 31 March 2020, they will not form part of the considerations taken into account in determining the overlay.

Methodology to calculate Home Finance overlay

The COVID-19 overlay has been calculated per stage of the portfolio at 31 March 2020 and discounted using an average discount rate per segment.

Stage 1

The Stage 1 portfolio is segmented by remaining amortisation term. The associated default for each segment is stressed with the above job loss index. The job loss index is applied to the default curve as follows:
- With a lag effect: It takes four months to reach default, thus the job loss index at July 2020 is applied to the defaults for November 2020.
- The job loss index is applied to non-default accounts i.e. the paying accounts are reduced by the index.

The recoveries on the defaulting accounts include the following assumptions:
- Accounts that are expected to default in an unstressed scenario will perform as per the current recovery curves.
- Additional accounts that are expected to default as a result of the COVID-19 stress that is applied will only perform at 50% of the current recovery curves.
- The additional defaulters will default because of job losses and it is expected that at least half of these customers will be employed again over time which will enable them to service the outstanding debt. This has been based on the peak job loss rate of 12% in the job loss index in December 2020 that recovers to 6% by 2022.

Stage 2

The impairment methodology uses life time expected cash flows. For the overlay on stage 2, the portfolio is split into two categories:
- Accounts that are in stage 2 which have been paying. The same stress is applied to these accounts as Stage 1.
- Accounts in Stage 2 that have rolled forward (that is, not paying). The cash from this portfolio is stressed at the same rate as the DMC portfolio stress above.

Stage 3

The Stage 3 portfolio is stressed at the same rate as the DMC portfolio stress above.

A relative 10% increase in the job loss index amounts to approximately R7 million in Home Finance.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2020	2019

6. 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.

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

7. Borrowings

Held at amortised cost		
Secured loans	1 033 010	910 194
Unsecured loans	467 855	583 582
	1 500 865	1 493 776

Split between non-current and current portions		
Non-current liabilities	693 700	960 892
Current liabilities	807 165	532 884
	1 500 865	1 493 776

The group was required to maintain the following financial covenants at each measurement date (31 March, 30 June, 30 September and 31 December of each financial year):
- Cost to income ratio: Minimum ratio of 68%
- Debt service cover ratio: Minimum of 1.05 times
- Permanent equity to total assets ratio (excluding ring-fenced special purpose entities): Minimum ratio of 22.5% on a measurement date that falls on or before 31 March 2020 and 25% on a measurement date that falls after 31 March 2020 and ends on or before the final maturity date.

Figures in Rand thousand 2020 2019

7. Borrowings (continued)

As outlined in note 3, the group revised and improved the valuation methodology employed in respect of acquired debt assets. This had a materially negative impact on the group's earnings for the year. The impact on the financial covenants above was negative, with a breach of the cost to income ratio covenant. This breach was waived by the lenders. Thereafter, the impact of COVID-19 became apparent and the lenders were engaged to amend the borrowings and re-negotiate covenants, refer to note 34 for details of the revised terms.

In addition, Real People Home Improvement Finance (RF) Proprietary Limited, a ring-fenced special purpose entity, went into default when it failed to pay the full mezzanine facility owing on 1 October 2019. This breach had no impact on the rest of the companies in the group. It has since paid the mezzanine debt as well as the senior facility debt. Subsequently, the performing loans receipting covenant has breached the required financial covenant. These matters were all noted at the various entity board meetings prior to the events of default where the lender is also represented. The lender has not exercised the right to wind up the company and has accepted repayment in terms of the post-enforcement period priority of payments.

The loans affected by the above breaches have been disclosed as current at reporting date.

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

Prior to the amendment after reporting date, the Real People Investment Holdings Limited loan repayments were due each quarter until 30 September 2025. The average effective interest rate on the borrowings was 12.7% (2019: 13.2%). Refer to note 31 for the payment profile of the loans.

The fair values of the financial liabilities with variable interest rates approximate carrying value. The fair value of the financial liabilities with fixed interest rates are calculated using the present value of cash outflow at the market rate. The carrying value of fixed rate borrowings is R178.4 million (2019: R167.5 million). Fair value measurements are categorised as level 3 on the fair value hierarchy as the valuation includes unobservable outputs.

Refer to note 27 Changes in liabilities arising from financing activities for details of the movement in the borrowings during the reporting period and note 31 Financial instruments and financial risk management for the fair value of borrowings and risk management disclosure.

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

	2020	2019
Net advances	912 824	779 890
Cash and cash equivalents	177 513	303 581
Motor vehicles	622	1 187
	1 090 959	1 084 658

8. Equipment

	2020			2019		
	Cost	***Accumulated depreciation***	***Carrying value***	***Cost***	***Accumulated depreciation***	***Carrying value***
Property	295	-	295	295	-	295
Furniture and fittings	5 501	(4 883)	618	5 105	(4 625)	480
Motor vehicles	8 327	(5 181)	3 146	9 571	(4 423)	5 148
Office equipment	3 346	(2 412)	934	2 581	(2 283)	298
Computer equipment	58 315	(51 994)	6 321	55 104	(48 002)	7 102
Leasehold improvements	832	(720)	112	832	(670)	162
Capital work in progress	7 862	-	7 862	-	-	-
	84 478	(65 190)	19 288	73 488	(60 003)	13 485

Figures in Rand thousand	2020	2019

8. Equipment (continued)

Reconciliation of equipment - 2020

	Opening balance	*Additions*	*Disposals*	*Depreciation*	*Total*
Property	295	-	-	-	295
Furniture and fittings	480	453	-	(315)	618
Motor vehicles	5 148	87	(483)	(1 606)	3 146
Office equipment	298	843	-	(207)	934
Computer equipment	7 102	3 622	(49)	(4 354)	6 321
Leasehold improvements	162	-	-	(50)	112
Capital work in progress	-	7 862	-	-	7 862
	13 485	12 867	(532)	(6 532)	19 288

Reconciliation of equipment - 2019

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

Capital work in progress includes computer hardware that was paid for during the financial year but had not been delivered at reporting date.

The group continues to obtain the economic benefits of the assets in its daily operations and no impairment was deemed necessary.

9. Leases

The group leases office space for its operations. The group adopted IFRS 16 Leases for the first time in the current financial period. The change in accounting policy has been made in accordance with the transitional provisions of IFRS 16. The leases for the buildings for the East London operations have been recognised on the statement of financial position using the modified retrospective approach. The right-of-use asset was recognised at the date of initial application at an amount equal to the lease liability. The lease liability was measured at the present value of the remaining lease payments discounted at a rate of 13.7% which is the rate incurred on the group's general purpose South African borrowings. A single discount rate was used for the East London building leases.

Comparative figures have been accounted for in accordance with IAS 17. The information presented in this note for right-of-use assets therefore only includes the current period. The operating lease commitments disclosed in the prior year reporting, discounted using the same incremental borrowing rate used in the calculation of the lease liability is higher than the lease liability at the date of initial recognition. The reason for the higher commitment balance was the use of higher inflation estimates, an additional four months included in the lease period and the inclusion of a lease that was classified as a short term lease.

Net carrying amounts of right-of-use assets

The carrying amounts of right-of-use assets are as follows:

	2020	2019
Buildings	14 099	-

At 31 March 2020 the group expected to continue to occupy the office space in East London for the remaining lease period. The recoverable amount was therefore expected to be the carrying value.

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2020	2019

9. Leases (continued)

Depreciation recognised on right-of-use assets

Buildings	9 872	-

Other disclosures

Interest expense on lease liabilities	2 828	-
Expenses on short term leases included in operating expenses	3 492	-
Leases of low value assets included in operating expenses	64	-
Total cash outflow from leases	14 730	-

At 31 March 2020, the group was committed to R0.8 million for short-term leases representing the amount due under lease agreements at that date.

Lease liabilities

The maturity analysis of lease liabilities is as follows:

Within one year	10 579	-
Two to five years	6 963	-
	17 542	-
Less finance charges component	(1 917)	-
	15 625	-

10. Deferred tax

Deferred tax asset	-	14 932
Deferred tax liability	-	(84)
	-	14 848

Deferred tax is attributable to the following:

Advances	-	15 529
Deferred expenses	-	(2 419)
Tax losses available for set off against future taxable income	-	1 738
	-	14 848

Reconciliation of deferred tax

At beginning of year	14 848	(6)
Advances	11 315	15 183
Increase in tax loss available for set off against future taxable income	750	1 657
Deferred expenses	-	(1 986)
Impairment of deferred tax asset	(26 913)	-
	-	14 848

At beginning of year	14 848	(6)
Tax charged to profit or loss	12 065	14 854
Impairment of deferred tax asset charged to profit or loss	(26 913)	-
	-	14 848

Figures in Rand thousand 2020 2019

10. Deferred tax (continued)

The policy of the group, as outlined in note 1.3, 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 deferred tax asset in Umuzi Finance (RF) Limited, a Home Finance special purpose entity, was impaired in the current year as the forecast based on the receipting expectations following the impact of COVID-19 raise doubt regarding when the unwind of the deductible temporary differences will reverse in the foreseeable future.

The group has estimated tax losses of R1 069.9 million (2019: R1 041.4 million) that are available indefinitely for offsetting against future taxable profits. These losses have not been recognised on the group statement of financial position.

11. Investment in associates and joint venture

Name of company	*Nature of investment*	*% ownership interest*	*% ownership interest*	*Carrying amount*	*Carrying amount*
		2020	***2019***	***2020***	***2019***
Dorreal Properties Proprietary Limited ("Dorreal")	Joint venture	50,00 %	50,00 %	12 176	27 128
Imfundo Finance (RF) Limited ("Imfundo")	Associate	45,00 %	45,00 %	378	950
EFS Holdings Proprietary Limited ("EFS Holdings")	Associate	49,00 %	- %	-	-
Empower Financial Services Proprietary Limited ("EFS")	Associate	- %	49,10 %	-	-
				12 554	28 078

Dorreal is a private property company in South Africa which owns one of the primary buildings from which the group operates. There is no quoted market price available for the company's shares. The valuation of the investment property in Dorreal is based on judgements including market-related rates for the office space and parking bay rental; the annual rental escalation rate; the discount rate at which future rental payments are present valued; and the market capitalisation rate, which is the assumed growth rate for the perpetuity value. Following the impact of COVID-19, there has been a reduction in market-related rates by 20%, a 15% increase in vacancy rates and uncertainty regarding the use of the building at premium rates for the full lease term. The property valuation has therefore been estimated at a lower value following the impact of COVID-19. The revised valuation of the property effects the valuation of the investment in Dorreal at reporting date which is 55.1% lower year on year.

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

EFS is a private company in South Africa that provides rehabilitative loans and financial rehabilitation solutions to overindebted employees of state owned entities. EFS is a registered Financial Service Provider. The requirements under the Financial Sector Conduct Authority changed to exclude subordinated debt in the financial soundness test. As a result, the subordinated loans from shareholders no longer qualified in the calculation of solvency. EFS was therefore re-structured. The group acquired the shares in EFS Holdings which acquired 100% of the shares in EFS. The investment continues to be held at the impaired value of Rnil. The original investment was R37.8 million. The group does not have any further obligation for losses of either EFS Holdings or EFS. The group's unrecognised share of profit relating to the current financial year amounted to R1.1 million (2019: R0.6 million loss), however, the cumulative unrecognised share of loss is R7.2 million loss (2019: R8.3 million) and therefore the carrying value remains at nil.

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

11. Investment in associates and joint venture (continued)

Summarised financial information of associates and joint venture

2020

Summarised statement of comprehensive income	*Revenue*	*Other income and expenses*	*Tax expense*	*Profit after tax*	*Total comprehensive income*
Dorreal	(9 447)	59 642	(4 134)	46 061	46 061
Imfundo	22 964	(13 083)	(2 776)	7 105	7 105
EFS Holdings	14 325	(12 129)	-	2 196	2 196
	27 842	34 430	(6 910)	55 362	55 362

Summarised statement of financial position

Assets	*Non-current assets*	*Cash and cash equivalents*	*Other current assets*	*Total current assets*	*Total assets*
Dorreal	27 818	(180)	126	(54)	27 764
Imfundo	6	11 684	34 638	46 322	46 328
EFS Holdings	8 000	6 083	1 044	7 127	15 127
	35 824	17 587	35 808	53 395	89 219

Liabilities	*Non-current financial liabilities*	*Other non-current liabilities*	*Total non-current liabilities*	*Other current liabilities*	*Total current liabilities*	*Total liabilities*
Dorreal	-	5 284	5 284	871	871	6 155
Imfundo	39 995	-	39 995	1 324	1 324	41 319
EFS Holdings	47 949	-	47 949	4 811	4 811	52 760
	87 944	5 284	93 228	7 006	7 006	100 234

Reconciliation of net assets to equity accounted investments	*Total net assets*	*Interest at % ownership*	*Additional investment in preference shares*	*Impairment*	*Loan to associate*	*Investment*
Dorreal	21 609	10 805	37 097	(35 726)	-	12 176
Imfundo	5 009	2 254	-	(1 876)	-	378
EFS	(37 633)	(18 440)	-	(15 914)	34 354	-
	(11 015)	(5 381)	37 097	(53 516)	34 354	12 554

Reconciliation of movement in investments	*Investment at beginning of 2020*	*Dividends received*	*Share of profit (loss)*	*Investment at end of 2020*
Dorreal	27 128	-	(14 952)	12 176
Imfundo	950	(1 890)	1 318	378
	28 078	(1 890)	(13 634)	12 554

Notes to the Audited Consolidated Annual Financial Statements

11. Investment in associates and joint venture (continued)

2019

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

Summarised statement of financial position

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

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

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

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

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2020	2019

12. Other receivables

	2020	2019
Financial instruments:		
Sundry receivables	6 933	15 557
Staff loans and advances	383	589
Loan receivables	4 033	7 643
Non-financial instruments:		
Prepayments and deposits	4 008	3 032
	15 357	26 821

Categorisation of trade and other receivables

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

	2020	2019
At amortised cost	11 349	23 789
Non-financial instruments	4 008	3 032
	15 357	26 821

13. Derivatives

	2020	2019
Hedging derivatives		
Cross currency swaps	13 700	11 891
Cash collateral asset	15 000	-
	28 700	11 891

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

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

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

	2020	2019
Offsetting financial assets and financial liabilities		
Gross amount of cross currency swap (liability)	-	(3 109)
Cash collateral asset	-	15 000
	-	11 891

	2020	2019
Reconciliation of financial assets and liabilities classified as level 3		
Opening balance	11 891	3 061
Recognised in other comprehensive income	16 809	42 247
Collateral	-	(33 417)
	28 700	11 891

14. Cash and cash equivalents

Cash and cash equivalents consist of:

	2020	2019
Bank balances	58 150	105 587
Investments in money market funds	268 377	322 353
Cash on hand	73	91
	326 600	428 031

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2020	2019

14. Cash and cash equivalents (continued)

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

The cash and cash equivalents with a carrying value of R208.8 million (2019: R336.8 million) in special purpose entities and Real People Assurance Company Limited are not available for use by the group as these assets are ringfenced, refer to note 33.

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

Credit rating	2020	2019
AA+ *	24 578	45 688
AA *	243 799	276 665
Baa3 **	-	101 919
Ba1 **	58 150	-
BB ***	-	3 668
	326 527	427 940

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

15. Provisions

Reconciliation of provisions - 2020

	Opening balance	***Additions***	***Utilised during the year***	***Reversed during the year***	***Interest***	***Total***
Bonus provision	1 987	8 997	(8 983)	-	-	2 001
Incentive provision	22 613	4 709	(20 119)	(1 472)	186	5 917
	24 600	13 706	(29 102)	(1 472)	186	7 918

Reconciliation of provisions - 2019

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

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2020	2019

16. Insurance liability

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

Refer to note 16.1 for the consideration of COVID-19 on the insurance liability.

Gross insurance liability	-	-
Reinsurance asset	-	-
	-	-

Split between discounted and undiscounted liabilities		
Discounted liabilities	(4 314)	(5 072)
Undiscounted liabilities	4 314	5 072
	-	-

Reconciliation of discounted liabilities		
Opening balance	(5 072)	(4 590)
Expected interest	(1 129)	(1 701)
Expected premiums	61 003	74 196
Expected claims, maturities, surrenders	(21 272)	(22 487)
Expected expenses, commission and charges	(15 733)	(17 221)
Expected unwinding of margins	(5 822)	(7 471)
Experience variations	(2 329)	(8 753)
Changes in valuation basis (existing business)	9 687	1 663
New business added during the year	(11 362)	(6 095)
Change in discretionary margins	(12 285)	(12 613)
	(4 314)	(5 072)

Reconciliation of undiscounted liabilities		
Opening balance	5 072	4 590
Movement in IBNR	(758)	482
	4 314	5 072

16.1. Assessment of COVID-19 on the insurance liability

Age profile of cover

Evidence strongly indicates that the case fatality rates (CFR’s) for COVID-19 is heavily skewed over age. As such an analysis of the groups’s death sum insured, by age, coupled with the exhibited CFR’s observed in China, Italy and South Korea was done. The analysis indicated that the vast bulk of the group’s cover is at ages where fairly low CFR’s have been recorded internationally.

Potential for COVID-19 death claims

Assuming a level of local infections and then applying the above mentioned CFR’s to the company’s cover by age, allows for the calculation of the potential exposure the company could have to extra claims (based on different South African infection rate scenarios).

Population infection rate scenario R'm extra life cover claims	***Chinese CFR's***	***Italian CFR's***	***South Korean CFR's***
10%	R2.3m	R1.3m	R0.8m
20%	R4.7m	R2.7m	R1.6m
40%	R9.4m	R5.4m	R3.2m
60%	R14.0m	R8.1m	R4.8m

Figures in Rand thousand	2020	2019

17. Trade and other payables

Financial instruments:		
Trade payables	3 912	5 268
Accrued leave pay	8 522	8 383
Accrued expenses	18 687	26 575
Non-financial instruments:		
VAT	2 743	2 272
	33 864	42 498

18. Revenue

Revenue from contracts with customers		
Outsourced collection income	54 951	51 146
Revenue other than from contracts with customers		
Interest and similar income	715 409	679 821
Net insurance premiums (refer to note 20)	105 450	108 122
	820 859	787 943
	875 810	839 089

19. Gross yield from assets

Interest and similar income	715 409	679 821
Net assurance income - credit life	55 124	55 342
	770 533	735 163

20. Net insurance income

Credit life	55 124	55 342
Funeral benefits	32 721	33 984
	87 845	89 326

Net insurance premiums		
Premiums received	107 724	110 268
Premiums paid to reinsurers	(2 274)	(2 146)
	105 450	108 122
Net insurance benefits		
Insurance benefits	(18 385)	(18 956)
Insurance benefits recovered from reinsurers	780	160
	(17 605)	(18 796)
	87 845	89 326

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

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

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2020	2019

21. Operating profit

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

	2020	2019
Auditor's remuneration - external		
Audit fees	6 158	6 574
Adjustment for previous year	-	2 584
Other consultation services	160	25
Expenses	308	264
	6 626	9 447

Employee costs

	2020	2019
Remuneration	247 887	239 677
Retirement benefit plans: defined contribution expense	11 724	10 937
Termination benefits	1 467	332
Total employee costs	261 078	250 946

	2020	2019
Depreciation and amortisation		
Depreciation of equipment	6 532	7 188
Depreciation of right-of-use assets	9 872	-
Amortisation of intangible assets	1 150	1 974
	17 554	9 162

22. Finance costs

	2020	2019
Borrowings	197 636	197 150
Lease liabilities	2 828	-
Tax authorities	923	-
	201 387	197 150

23. Foreign exchange gains (losses)

	2020	2019
Gain on derivatives	16 212	28 363
Loss on restatement of borrowings	(15 850)	(29 562)
	362	(1 199)

24. Income tax expense

Major components of the tax expense

	2020	2019
Current		
Income tax	8 783	16 775
Deferred		
Originating and reversing temporary differences	(12 065)	(14 321)
Impairment of deferred tax asset	26 913	-
Arising from prior period	-	(533)
	14 848	(14 854)
	23 631	1 921

Figures in Rand thousand | 2020 | 2019

24. Income tax expense (continued)

Reconciliation of the tax expense

	2020	2019
Applicable tax rate	28,00 %	28,00 %
Tax losses not raised as deferred tax assets	(25,39)%	(21,27)%
Impairment of deferred tax asset	(11,54)%	- %
Exempt income	0,69 %	(4,59)%
Legal and consulting fees not deductible	(0,28)%	1,71 %
Interest and penalties on tax liabilities	(0,11)%	(1,85)%
Donations	(0,01)%	0,01 %
Expenditure not incurred in the production of income from trade	(0,98)%	- %
Prior year adjustments	(0,50)%	0,88 %
Average effective tax rate	(10,12)%	2,89 %

There is uncertainty relating to the tax treatment and tax allowances. Refer to note 1.3.

25. Cash generated from operations

	2020	2019
(Loss) profit before taxation	(233 165)	66 860
Adjustments for:		
Depreciation and amortisation	17 554	9 161
(Gains) losses on disposal of equipment	(320)	53
(Gains) losses on foreign exchange	(362)	1 199
Loss (income) from equity accounted investments	13 633	(10 377)
Finance costs	201 386	197 150
Impairment losses	5 021	136
Reversal of interest on tax liabilities included in other income	-	(4 438)
Movements in provisions	(16 682)	(5 577)
Interest and fees charged to debtors	(778 866)	(759 830)
Impairment of net advances	399 299	114 957
Changes in working capital:		
Other receivables	6 389	(1 018)
Trade and other payables	(8 580)	(5 297)
Origination of advances	(649 932)	(534 527)
Purchase of advances	(185 279)	(118 833)
Receipts from advances	1 368 702	1 327 940
	138 798	277 559

26. Tax paid

	2020	2019
Opening balance	(9 417)	(12 371)
Current tax for the year recognised in profit or loss	(8 783)	(16 775)
Reversal (accrual) of interest	(923)	4 438
Closing balance	5 232	9 417
	(13 891)	(15 291)

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2020	2019

27. Changes in liabilities arising from financing activities

Opening balance	1 493 776	1 474 159
Non-cash movement		
Initial recognition of lease liability at date of transition	23 971	-
Interest expense on lease liability	2 828	-
Fair value changes	14 492	54 104
Closing balance - Borrowings	(1 500 865)	(1 493 776)
Closing balance - Lease liability	(15 625)	-
	18 577	34 487

28. Contingencies

African Frontier Capital (Proprietary) Limited (AFC) provided treasury services to the company during and prior to the 2018 financial year. AFC represents a “Personal Services Provider” as defined in paragraph 1 of the Fourth Schedule of the South African Income Tax Act and accordingly employees' tax should have been deducted from amounts paid and paid over to the South African Revenue Services (SARS). A letter requesting absolution has been submitted to SARS but no response has to date been received. SARS has not been prejudiced as the employees tax has been paid over to SARS by African Frontier Capital (Proprietary) Limited. The estimated potential liability is R4.5 million for which the company has a concomitant claim against AFC.

There is uncertainty relating to the tax treatment and tax allowances. Refer to note 1.3.

29. Related parties

Relationships

Shareholders with 5% or more voting rights	Investec Asset Management Proprietary Limited The Real People Incentive Trust Norwegian Investment Fund for Developing Countries Izabelo SEK B.V Izabelo NOK B.V BIFM Capital Investment Fund No.1 Proprietary Limited National Housing Finance Corporation (SOC) Limited Blockbuster Trading 3 Proprietary Limited
Directors	N Grobbelaar DJ Munro NW Thomson PG de Beyer K Hopkins DTV Msibi RR Buddle
Subsidiaries and special purpose entities	Refer to note 33
Joint venture and associate	Refer to note 11

Related party balances

Borrowings owing to shareholders with voting rights of 5% or greater		
Investec Asset Management Proprietary Limited	149 921	190 761
Norwegian Investment Fund for Developing Countries	41 244	52 479
BIFM Capital Investment Fund No.1 Proprietary Limited	52 751	60 461
	243 916	303 701

Amounts included in other receivables regarding related parties		
Imfundo Finance (RF) Limited*	5 034	5 909
Stratcap Funding Proprietary Limited (fully impaired)*	3 424	3 424
IQ Academy Proprietary Limited*	443	363

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2020	2019

29. Related parties (continued)

Related party transactions

	2020	2019
Interest accrued to related parties		
Investec Asset Management Proprietary Limited	23 927	30 083
Norwegian Investment Fund for Developing Countries	6 582	8 276
BIFM Capital Investment Fund No.1 Proprietary Limited	5 821	7 021
	36 330	45 380

	2020	2019
Services from (to) related parties		
Rent paid to related parties	(10 024)	(9 432)
Administrative service fees received from IQ Academy Proprietary Limited*	3 989	3 799
Administrative service fees received from Imfundo Finance (RF) Proprietary Limited*	4 360	5 187

* related party as there are common directors

30. Directors' emoluments

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

Executive

2020

	Salaries	*Incentive bonus - 2019*	*Incentive bonus - 2018*	*Other benefits*	*Total*
N Grobbelaar	3 676	1 477	1 339	207	6 699
DJ Munro	2 541	802	-	171	3 514
	6 217	2 279	1 339	378	10 213

2019

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

Incentive bonuses are approved by the Group Remuneration Committee each year after reporting date. The amounts reflected above are the vested amounts paid to the directors in the current year based on performance in prior financial years.

Other benefits include provident fund contributions.

Service contracts

All executive directors are subject to written employment agreements.

Notes to the Audited Consolidated Annual Financial Statements

30. Directors' emoluments (continued)

Non-executive

2020

	Directors' fees	*Committees fees*	*Directors' fees for services as directors' of subsidiaries*	*Total*
NW Thomson	701	302	-	1 003
PG de Beyer	351	273	-	624
K Hopkins	351	309	-	660
DTV Msibi	351	132	89	572
	1 754	1 016	89	2 859

2019

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

31. Financial instruments and risk management

Categories of financial instruments

2020

	Notes	*Fair value through profit or loss*	*Amortised cost*	*Total*	*Fair value*
Net advances	5	-	1 314 580	1 314 580	1 660 292
Derivatives	13	28 700	-	28 700	28 700
Other receivables	12	-	11 349	11 349	11 349
Cash and cash equivalents	14	-	326 600	326 600	326 600
Borrowings		-	(1 500 603)	(1 500 603)	(1 488 210)
Trade and other payables		-	(31 121)	(31 121)	(31 121)
		28 700	120 805	149 505	507 610

2019

	Notes	*Fair value through profit or loss*	*Amortised cost*	*Total*	*Fair value*
Net advances	5	-	1 468 503	1 468 503	1 675 530
Derivatives	13	11 891	-	11 891	11 891
Other receivables	12	-	23 789	23 789	23 789
Cash and cash equivalents	14	-	428 031	428 031	428 031
Borrowings		-	(1 493 776)	(1 493 776)	(1 495 976)
Trade and other payables		-	(41 240)	(41 240)	(41 240)
		11 891	385 307	397 198	602 025

31. Financial instruments and risk management (continued)

Capital risk management

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

The group is required to maintain a Permanent Capital to Total Adjusted Assets ratio as outlined in note 7.

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

The ratio is 23.3% at 31 March 2020 (2019: 32.2%) which is above the minimum requirement of 22.5% for this period.

Financial risk management

Overview

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

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

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

Credit risk

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

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

		2020			2019		
	Notes	***Gross carrying amount***	***Credit loss allowance***	***Amortised cost / fair value***	***Gross carrying amount***	***Credit loss allowance***	***Amortised cost / fair value***
Net advances	5	3 029 172	(1 714 592)	1 314 580	2 998 173	(1 529 670)	1 468 503
Other receivables	12	11 349	-	11 349	23 789	-	23 789
Derivatives	13	28 700	-	28 700	11 891	-	11 891
Cash and cash equivalents	14	326 600	-	326 600	428 031	-	428 031
		3 395 821	(1 714 592)	1 681 229	3 461 884	(1 529 670)	1 932 214

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

31. Financial instruments and risk management (continued)

Liquidity risk

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

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

The group is required to maintain a minimum debt service cover ratio of 1.05 as outlined in note 7. The debt service cover ratio is the ratio of free cash flow to debt service in respect of 12 months measured retrospectively every quarter. The ratio at 31 March 2020 is 1.06 (2019: 1.19).

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

The table below analyses the group's assets and liabilities into relevant maturity buckets based on the remaining contractual period at reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows for liabilities and expected receipts from assets on a non-cumulative basis.

2020

	1 to 3 months	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets	570 880	807 272	2 035 558	92 650	3 506 360
Liabilities	(180 721)	(435 322)	(1 159 893)	(8 393)	(1 784 329)
	390 159	371 950	875 665	84 257	1 722 031

2019

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

Tax risk management

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

Foreign currency risk

The company is exposed to foreign currency risk as a result of borrowings which are denominated in foreign currencies. The group's foreign currency risk management policy requires that the currency exposure arising from foreign currency debt is hedged via the execution of cross currency hedging instruments with suitably rated swap counterparts. The business rationale of hedging the foreign exchange risk is to manage:

- The risk of volatility in the group's statement of profit or loss due to the effects of foreign exchange gains and loss.

31. Financial instruments and risk management (continued)

- The risk that movements in foreign exchange influence the group's cash flow adversely due to capital and interest payments increasing.

Exposure in Rand

It is the group's strategy to hedge the foreign currency denominated borrowings in its entirety for foreign currency risk. The net carrying amounts, in Rand, of the various exposures, are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amounts at the closing rate at the reporting date.

Norwegian Krona	57 825	73 248
Swedish Krona	78 132	87 495
Botswana Pula	52 751	60 461
	188 708	221 204

Exposure in foreign currency amounts

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

Norwegian Krona (NOK'000)	34 227	43 538
Swedish Krona (SEK'000)	43 978	55 937
Botswana Pula (BWP'000)	35 264	44 862

Exchange rates

The following closing exchange rates were applied at reporting date:

Rand per unit of foreign currency:		
Norwegian Krona	0,592	0,594
Swedish Krona	0,563	0,693
Botswana Pula	0,669	0,742

Foreign currency sensitivity analysis

The sensitivity of the derivatives, designated as hedging instruments, to foreign exchange rate movements was calculated using the average balance since inception of the swaps. If the Rand strengthens by 1% to the three loan currencies the swap values will decrease by R3.9 million (2019: R3.5 million).

Interest rate risk

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

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

Interest rate sensitivity analysis

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

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

Notes to the Audited Consolidated Annual Financial Statements

31. Financial instruments and risk management (continued)

The table below illustrates the sensitivity of profit before tax to an increase of 50 basis points. The sensitivity of 50 basis points represents management's assessment of the reasonably possible change in interest rates over the next financial year. This assumes that floating rate liabilities will reprice at their next repricing date with assets repricing immediately. All other variables remain constant. The sensitivity analysis includes only financial instruments exposed to interest rate risk which were recognised at the reporting date.

2020	***3 months***	***6 months***	***12 months***	***24 months***
Cumulative profit (loss): 50 basis points increase				
Home Finance - Performing loans	1 073	2 147	4 294	8 588
Cash and cash equivalents	408	816	1 633	3 266
Home Finance - Non-performing loans	(437)	(437)	(437)	(437)
Additional interest income on assets	1 044	2 526	5 490	11 417
Additional interest expense on liabilities	(410)	(1 855)	(4 848)	(11 304)
	634	671	642	113

2019	***3 months***	***6 months***	***12 months***	***24 months***
Cumulative profit (loss): 50 basis points increase				
Home Finance - Performing loans	925	1 850	3 700	7 400
Cash and cash equivalents	535	1 070	2 140	4 280
Home Finance - Non-performing loans	(402)	(402)	(402)	(402)
Additional interest income on assets	1 058	2 518	5 438	11 278
Additional interest expense on liabilities	(651)	(2 315)	(5 637)	(12 648)
	407	203	(199)	(1 370)

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

2020	***0-3 months***	***4-6 months***	***7-12 months***	***13-24 months***
Cash flow impact for the period: 50 basis points increase				
Net advances	-	-	-	-
Cash and cash equivalents	408	816	1 633	3 266
Fixed rate assets	-	-	-	-
Borrowings	(36)	(1 646)	(4 959)	(11 813)
	372	(830)	(3 326)	(8 547)

2019	***0-3 months***	***4-6 months***	***7-12 months***	***13-24 months***
Cash flow impact for the period: 50 basis points increase				
Net advances	-	-	-	-
Cash and cash equivalents	535	535	1 070	2 140
Fixed rate assets	-	-	-	-
Borrowings	-	(1 653)	(3 257)	(6 799)
	535	(1 118)	(2 187)	(4 659)

Insurance risk

The group issues contracts that transfer insurance risk. The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insured contract, this risk is random and therefore unpredictable.

31. Financial instruments and risk management (continued)

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

The larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. As the insurance business grows, the group is aiming to diversify the type of insurance risks accepted and within each of those categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Frequency and severity of claims

The group charges for insurance risk on a monthly basis for all insurance contracts. It has the right to alter these premiums based on its underwriting experience and hence minimise its exposure to insurance risk. Delays in implementing increases in premiums and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

Sources of uncertainty in the estimation of future benefit payments and premium receipts

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

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

32. Segmental information

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

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

Segmental revenue and results

2020

	Net yield	***Other income***	***Total income after impairments***	***Profit (loss) before tax***	***Interest expense***	***Taxation***	***Loss after tax***
Home Finance	204 051	310	204 361	(62 092)	(118 107)	(13 159)	(75 251)
DMC	163 201	50 029	213 230	(145 852)	(78 880)	95	(145 756)
Assurance	923	32 754	33 677	6 973	-	(10 567)	(3 594)
Group Central Services	3 059	1 203	4 262	(32 194)	(4 400)	-	(32 195)
	371 234	84 296	455 530	(233 165)	(201 387)	(23 631)	(256 796)

Notes to the Audited Consolidated Annual Financial Statements

32. Segmental information (continued)

2019

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

Segment assets and liabilities

2020

	Total assets	*Total liabilities*
Home Finance	938 542	(887 191)
DMC	704 712	(597 631)
Assurance	31 751	(36 530)
Group Central Services	56 560	(42 155)
	1 731 565	(1 563 507)

2019

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

33. Group structure

The audited consolidated annual financial statements include the results of Real People Investment Holdings Limited and all its subsidiaries and special purpose entities as well as its equity accounted investments as disclosed in note 11. The country of incorporation and principal place of business for all the entities below is South Africa.

To improve operating efficiencies, the group engaged in a process of simplifying its legal structure by reducing the number of operating legal entities in the group. As part of the simplification, the name of DMC Debt Management Proprietary Limited was changed to Opco 365 Proprietary Limited and Real People Home Finance Proprietary Limited and DMC Acquired Debts 4 Proprietary Limited merged with Opco 365 Proprietary Limited.

The remaining principal operating subsidiaries are as follows:

Name of company	*Division*	*% holding 2020*	*% holding 2019*
Opco 365 Proprietary Limited	DMC, Home Finance	100,00 %	100,00 %
Real People Assurance Company Limited	Assurance	100,00 %	100,00 %

33. Group structure (continued)

Real People Assurance Company Limited is subject to capital requirements in accordance with the Insurance Act, 2017. This is the additional amount required, over and above the actuarial liabilities, to enable the company to meet material deviations in the main risks affecting the life assurer's business. This is the maximum of two numbers: the MCR (Minimum Capital Requirement) and the SCR (Solvency Capital Requirement). The MCR was the higher number as at 31 March 2020, whilst the SCR was higher at previous valuations. The MCR was 169% at 31 March 2020 (2019: SCR 107%). These capital requirements restrict the ability of the company to remit dividends to its holding company.

Special purpose entities

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

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

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

34. Events after the reporting period and going concern

COVID-19 and national lockdown

The impact of COVID-19 is deemed to be a condition that existed at the reporting date which required that the assets and liabilities at reporting date be adjusted to take into effect any accounting implications associated with or caused by events related to COVID-19. This included an adjustment in forward-looking indicators for net advances, revaluations of equity investments, impairment of deferred tax assets and assessment of insurance claims which are explained in notes 5.1, 10, 11 and 16.1. Real People Investment Holdings Limited (RPIH) debt covenant waivers were obtained to account for breaches on account of COVID-19, as a result the company's debt is shown as current in terms of the requirements of IAS1.

Over the medium term the most significant impact on the group is expected to be the high rate and quantum of job losses during the 12 months after reporting date. We expect these losses to give rise to reduced collections and higher defaults going forward. The group has developed a conceptual framework for assessing the impact of COVID-19 on ECL which is tabled in note 5.1.

The goal of management has been to ensure the sustainability of the group post the impact of COVID-19. This meant managing cash and other resources and minimizing the short-term adverse impact on the business, followed by an internal restructure to manage resources in the medium to long term. During June 2020 management commenced with a leadership restructure to simplify the structure and reduce the cost of leadership. This was followed by organisation design change and a zero-based budget. The internal restructure is expected to be concluded after signature date.

Given the impact of COVID-19 on the results of the business to March 2020 and its expected impact on the results going forward, management embarked on a debt terms amendment process as described below. The progress made in finalising this matter is described as a subsequent event.

Going concern in light of the following subsequent events and considerations

Forecast process informed by COVID-19

Management have prepared a detailed bottom-up five year budget and cash flow forecast for the period through to 31 March 2025. This forecast formed the basis of renegotiating terms with the company's lenders.

This forecast has been approved by management and the board. The directors confirm that the budget is based on sound principles and that the assumptions underpinning its preparation are reasonable. This includes consideration of:
- Forecast economic indicators that could emerge in South Africa over the medium to long term.
- Solvency and liquidity requirements post restructure and the group's ability to raise funding through special purpose entities.
- Assessments under plausible stress events and the effects this would have on the covenant levels negotiated.

34. Events after the reporting period and going concern (continued)

Based on these assumptions, the group is expected to return to profitability in 2021 and 2022 which is the period considered from a going concern time horizon. In arriving at this budget, management and the board have assumed that:

- Significantly lower asset origination levels based on more conservative funding volumes in the group's funding special purpose entities compared to past experience.
- A return to more normal yields following improvement in collections during 2021 and 2022 with collections returning to normalised levels after considering the forward looking impairments taken in the year to March 2020.
- Decreased operating expenses driven by the cost rationalisation process which has included a leadership restructure and organisation design change.
- Vacating rented office space where the lease period had come to an end.
- Lower finance costs on account of amortising debt and lower base rates after recent repo rate cuts.
- Lender appetite in the debt capital market is likely to be tentative initially until the economy normalises. The group's funding special purpose entities's are forecast to be used for meeting the asset origination requirements.
- Finalisation of the debt restructure matters as noted below.

Amendment to the RPIH senior facilities agreement

The group through its subsidiaries and investments in special purpose entities is subject to a number of financial covenants. As a result of the COVID-19 pandemic and its actual and expected impact on the business, covenants were breached or are expected to be breached.

As a result, the senior lenders to RPIH were engaged to amend the borrowings of the company. The outstanding balance at 31 March 2020 was R476.6 million.

RPIH company lenders have agreed to a debt standstill agreement from 30 September 2020 to 31 December 2021. The terms of the debt standstill agreement allow a capital payment holiday under the RPIH company senior facility agreement from 30 September 2020 to 31 December 2021, inclusive.

RPIH company lenders have also granted relevant covenant waivers during the debt standstill agreement.

As was the case before the occurrence of COVID-19, the RPIH Lenders will continue to engage the company on a quarterly basis to assess company forecasts and operating cash flow to determine whether early payments of capital can be made if the company generates more cashflow than the base case forecast used for the loan amendment agreement. This process is structured in a manner that does not put the company's going concern at risk at each early payment date.

RPIH company lenders have entered into the standstill agreement with the objective being to finalise an amended debt amortisation profile, to be finalised during the debt standstill period. This standstill period is long enough to support the business in restructuring operations, normalising debt collections levels after the lockdown and as a result finalising amended RPIH debt amortisation terms.

Status of the group's funding special purpose entities:

Umuzi Finance (RF) Limited

- Covenant waivers or amendments are not expected to be required during the going concern test horizon.

Consideration of forecast covenants

The group will be subject to revised financial covenants in the period to 31 December 2021. This is the period required to be considered in terms of the going concern horizon. Amendments are as follows.

1) Permanent Capital to Total Assets Ratio

- Updated ratio including net junior investment as part of total assets instead of impairing the equity by the junior investment, as is currently the case.
- Updated covenant levels: 22.5% up to 31 March 2021 and 25% from 30 June 2021 onwards.

2) Cost to income ratio

- Covenant waiver up to and including 31 March 2021.
- Updated ratio to exclude once-off impairments/revaluations, restructure and retrenchment costs.
- Updated covenant levels: 70% up to 30 June 2022 and 68% from 30 September 2022 onwards.

3) Debt service coverage ratio

- Updated waiver up to and including 31 December 2021.

34. Events after the reporting period and going concern (continued)

During September 2020, the lenders to DMC Evolution (RF) Limited approved a covenant measurement amendment to carve out the COVID-19 debt collections stress from the receipting covenant by using the group's forecast jobs loss index as a basis for this.

The forecast impact for COVID-19 stress was assessed, in light of the above re-negotiated terms, by performing assessments of estimation error to confirm that there is sufficient buffer with which to reasonably mitigate a covenant breach during the period of the standstill agreement.

In considering the various stresses to be applied the directors considered the following stresses over the going concern test horizon:

- Costs higher than expected,
- Collections lower than expected,
- Funding raised and commensurately asset origination in the special purpose entities lower than expected,
- The impact of junior note investments to support forecast covenant breach remedies in Umuzi Finance (RF) Limited as well as junior note investments in DMC Evolution (RF) Limited to support funding raising activity in that company.

The trading environment remains challenging and therefore the directors have considered the headroom in terms of the covenants, relevant waivers obtained from the respective lenders in place and confirm that the group has adequate headroom to cover forecast estimation risks within reasonable levels. Such assessments include an assessment of the ability of RPIH to invest the required junior investments in special purpose entities with which to support special purpose entities covenant compliance and new fund raising activities.

Covenants applicable to the group considered in the assessment of going concern

There are a number of covenants in place and those monitored most closely being at risk of breach during COVID-19, are noted below. The group's response to these have included securing waivers and or implementing contractual remedies to prevent unmitigated breaches of covenants.

RPIH Company covenants

- Permanent Capital to Total Assets Ratio
- Cost to Income Ratio
- Debt Service Cover Ratio

The Covenants relevant to maintain ongoing funding in the active special purpose entities are as follows:

DMC Evolution (RF) Limited

- Receipting relative to original priced receipting, as amended during September 2020

Umuzi Finance (RF) Limited

- Long term liquidity covenant
- Excess spread covenant
- Cash reserve undertaking, being junior note funding to offset the excess spread shortfall

Liquidity and funding

The securitisation special purpose entities will rely on the group to provide junior investment facilities to maintain their covenant compliance status or to support funding requirements. RPIH has sufficient resources during the next 12 months, in light of the company Lenders' support and the investment proposal procedure allowed under the senior facility agreement, to invest the necessary junior capital investments required to maintain the active special purpose entities, Umuzi Finance (RF) Limited and DMC Evolution (RF) Limited.

In addition to available cash reserves in the special purpose entities, the directors considered the list of pre-COVID-19 credit approvals, credit applications in process and pipeline funder relationships. The level of funding in the pre-COVID-19 pipeline was considered sufficient after expected haircuts for reduced funder appetite to still meet the lower asset origination volumes during COVID-19.

The forecast demonstrated that the group, Umuzi Finance (RF) Limited and DMC Evolution (RF) Limited are able to pay their liabilities as they fall due and are not likely to breach loan covenants during the period of the standstill agreement provided RPIH continues to invest the required junior funding to support covenant ratios breaching during the period of COVID-19 stress when applicable.

34. Events after the reporting period and going concern (continued)

The forecast demonstrated that the group and its special purpose entities are able to pay their liabilities as they fall due. Forecast covenant breaches in Umuzi Finance (RF) Limited on account of the group's COVID-19 forecast are remediable by the investment of junior note funding which funding has been included in the RPIH planning model. DMC Evolution (RF) Limited is not forecast to breach its covenant ratios.

Compliance and regulatory matters

The group is subject to a number of regulatory and taxation regimes. As described in note 1.3 to the financial statements, the group has submitted its application to SARS for a ruling as this pertains to doubtful debt allowances on stage 3 impairment provisions under section 11(j) of the Income Tax Act. This remains pending at the time of signing these financial statements. The group has taken external tax advice on its positions and the directors confirm that there is no reason to believe that the group will not be successful in its application.

Outcomes on the timing and solutions implemented for new authenticated collections regulations involves ongoing project management between various industries and the banking industry. In the group's forecast, this process is assumed to deliver fair outcomes for non bank financial institutions in the collections industry. The group's asset valuations and product pricing incorporate receipting haircuts for the impact of the transition to authenticated collections.

Operational restructure

The goal of management has been to ensure the sustainability of the group post the impact of COVID-19. This meant managing cash and other resources to minimise the short-term adverse impact on the business, followed by an internal restructure to manage resources in the medium to long term. During June 2020 management commenced with a leadership restructure to simplify the structure and reduce the cost of leadership. This was followed by an organisation design change and zero-based budget. The result is a removal of divisional management structures to avoid duplication and a centralisation of all specialist support areas. This re-organisation process is expected to be completed in October 2020 with retrenchment costs and re-organisation costs included in the base case forecast model.

Going concern conclusion

Based on these group forecasts, which included the effect of the internal restructure, capital payment holiday, rescheduled senior debt maturity and covenant waivers, the directors assessed the going concern of the group. The directors also considered the liquidity and funding position of the group following the implementation of the loan amendments and organisational restructure.

The directors confirm that in light of the debt amendments, and considering the group's current trading position, forecasts and expected funds to be raised, the directors believe that the group will be able to comply with its financial covenants and be able to meet its obligations as they fall due and accordingly have formed a judgement that it is appropriate to prepare the financial statements on a going concern basis. The 2020 group financial statements therefore do not include any adjustments that would result if the going concern assumption was not used as the basis for the underlying preparation of the financial statements.

Sale of Dorreal Properties investment

Prior to signing the financial statements the group entered into an agreement to sell its equity stake in Dorreal Properties (Pty) Ltd on terms satisfactory to the board and the company's lenders. The terms of sale include the group securing a lease over the property, on terms approved by the board and the company's lenders.

Notes to the Audited Consolidated Annual Financial Statements

34. Events after the reporting period and going concern (continued)

Approval for the transfer of the insurance business of the group

Real People Assurance Company Limited obtained approval from the Prudential Authority on 26 May 2020, in terms of section 50(4)(a) of the Insurance Act, 2017, to transfer all of the assets and liabilities relating to its insurance business to a Cell Captive arrangement with Old Mutual Alternative Risk Transfer Limited. The transfer date and Cell Captive launch took place on 1 July 2020. The staff in the company have been transferred to the group's operating company, Opco 365 Proprietary Limited. Income and expenditure of the Cell Captive will be included in the group's statement of profit or loss, with the investment shown on the statement of financial position at the equity accounted value. The administration functions for the policy book remain the responsibility of the group who will share in the profits through a preference share holding.

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.