Evolution Credit Limited

Audited consolidated annual financial statements

For the year ended 31 March 2024

General Information

Company registration number	1999/020093/06
Country of incorporation and domicile	South Africa
Nature of business and principal activities	Home improvement finance, debt acquisition and management services, long term insurance products.
Registered office	12 Esplanade Road Quigney East London 5201
Contact details	Telephone: +27 (0) 43 702 4600 Email: corporate@evolution.za.com Website: www.evolution.za.com
Auditors	Deloitte & Touche Chartered Accountants (SA) Registered Auditors
Level of assurance	These audited consolidated annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.
Preparer	The audited consolidated annual financial statements were internally compiled by: MT Laube, CA(SA), Group Controller
Supervised by	A de Man, CA(SA), Chief Financial Officer
Issued	04 June 2024

Contents

Directors' Responsibilities and Approval

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

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

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

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

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

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

The audited consolidated annual financial statements set out on pages 5 to 10 and 14 to 45, which have been prepared on the going concern basis, were approved by the board on 04 June 2024 and were signed on their behalf by:

DocuSigned by:
29696DBE55C540B...

NW Thomson
Chairman

DocuSigned by:
E5A598A7443B4AF...

N Grobbelaar
Chief Executive Officer

4 June 2024

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.

DocuSigned by:
D737A76EC82E4FE...

C Taylor
Company Secretary

4 June 2024

Audit Committee Report

The Evolution Credit Group Audit Committee plays a central role in improving risk management and control practices within the company and its subsidiaries and special purpose entities. It 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 reporting processes with an ongoing focus on enhancement therein. It assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors.

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

This report outlines how the Audit Committee fulfilled its obligations during the period.

Composition and governance

The Audit Committee had four members during the year, all of whom are independent non-executive directors. The committee met four times during the period from 1 April 2023 to 31 March 2024.

Name	Audit Committee attendance
RR Buddle – Chair, up until 31 March 2024	4/4
PG de Beyer	4/4
DTV Msibi	4/4
P Viranna – Chair, from 1 April 2024	3/4

* Poovendhri Viranna joined the Audit Committee in August 2023 and has attended all the meetings since appointment.

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

The committee meetings are attended by key individuals including the chairperson of the board, the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Operating Officer (COO), other senior executives, the Internal Audit Partner from KPMG and representatives of the external auditors. Additional management members may attend certain meetings to provide insights on specific issues.

The Audit Committee Chair maintains regular communication with the management team and holds separate meetings with internal and external auditors as needed. Both internal and external auditors have unrestricted access to the committee, including closed sessions without management present.

Committee members receive training on financial, regulatory, and compliance matters relevant to the group's operations. Annually, the committee's performance is evaluated, with the 2023 review confirming its effective operation and successful fulfillment of duties.

Internal control

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

The Audit Committee receives quarterly reports from internal audit as part of the planned internal audit programme, which assists in evaluating the group's internal controls. These 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;
- demonstrating the necessary respect for the control environment; and
- identifying and recommending corrections to weaknesses in systems and internal controls.

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

The Audit Committee receives regular reports on key issues, governance and compliance matters. It monitors actions needed to improve internal controls. After thorough consideration of information from management, internal audit, and external auditors, the Audit Committee has recommended to the board that internal controls and mitigating actions by management, where control processes require improvement, provide the committee with sufficient assurance that adequate controls are in place or subject to a programme of improvement. When needed, the committee and management seek input from independent advisors to inform their decisions.

Audit Committee Report

Financial reporting process

The Audit Committee, as part of the Board, receives regular reports from the CFO regarding the group's financial performance, tracking of key performance indicators, budgets, forecasts, and long-term plans. It also reviews financial reporting controls and processes to ensure the adequacy and reliability of management information used during financial reporting. The committee has reviewed and approved the group's accounting policies, ensuring consistency of application and compliance with accounting standards. IFRS 17 Insurance Contracts was applicable for the first time in the current year.

Additionally, the committee received summaries of key technical accounting matters and critical accounting judgements and estimates made during the reporting period. It received feedback where there were substantive discussions between management and external auditors and discussed key areas of judgement with both parties. The Audit Committee considered significant issues and key areas of management judgement involved in preparing the financial statements for the current year.

Area of judgement	Judgements Applied	Assessment and Conclusion
Credit impaired assets	*Determination of credit impaired value of assets* Management adjusts the assumptions of the amortised cost model, integrating the latest collection data to estimate expected cash flows. This process involves significant judgment and estimation. The methodology for forecasting future collections is back-tested and periodically updated as needed. *Forward-looking indicators* For Acquired Debt, indicators such as changes in debit order collections due to a shift in the collections window, and improvements in payment reversal rates have been examined. Refer to notes 1.3 and 3.1 to the annual financial statements for a description of the methodology and inputs used in making this assessment.	The committee assessed input from internal experts to provide assurance on the work performed by credit modelling specialists. The committee concluded the model, its inputs and the disclosures relating to the financial assets, and the key judgements and estimates applied in the determination thereof, to be appropriate and in accordance with the relevant accounting standards. The committee reviewed the methodology for estimating the forward looking stress on collections and resulting impact on impairments and concluded that the methodology and impairments levels to be appropriate.
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. In the current year management used a 24-month averaging period for all PD and recovery curves to ensure alignment with more recent actuals, and to ensure the downturn in PDs and recoveries observed over last 12 months are accurately captured. *Forward-looking indicators* Adjustments were made to the LGD curves to reflect RMS risks and to the PD rates to account for recent trends in loan impairments caused by economic factors. Refer to notes 1.3 and 3.1 to the annual financial statements for a description of the methodology and inputs used in making this assessment.	The committee assessed input from internal experts to provide assurance on the model, its inputs, and the disclosures concerning financial instruments, including the key judgements and estimates used in their determination. The committee concluded that these estimates were appropriate and aligned with the relevant accounting standards.
Insurance Contracts	The group sells insurance contracts through its cell captive arrangement to its customers. The insurance risk of the cell captive arrangement lies with the Cell Captive; however, the group is exposed to insurance risk to the extent that the Cell Captive requires additional capital injection if the solvency and capital adequacy ratios fall below the prescribed levels. The Cell Captive Shareholder Participation Agreement is seen as an in-substance reinsurance arrangement and therefore falls within the scope of IFRS 17 which is applicable in the current year. The impact of the adoption of IFRS 17 has been detailed in note 2 to the annual financial statements.	The committee reviewed the papers documenting the approach used on the first adoption of IFRS 17 and concluded that the methodology is appropriate and in accordance with the relevant accounting standards.

Audit Committee Report

Area of judgement	Judgements Applied	Assessment and Conclusion
	The group will use the Premium Allocation Approach given that the coverage period of the Shareholder Participation Agreement is one year or less. The risk adjustment is a reserve for uncertainty due to non-financial risks. The risk adjustment has been calculated based on a confidence level of 75% over a one-year time horizon.	
Fair value for share-based payment calculation	Fair value was determined by using a market approach using trade multiples. Comparable companies, both locally and internationally, were identified. The price-to-book ratio and return on equity was calculated for each company based on their trading data and financials. Regression analysis was used to correlate the return on equity to the price-to-book ratio. Based on this analysis, an appropriate price-to-book ratio was identified for the fair value of the group which was used to calculate the amount of the equity-settled share-based payment.	The committee assessed the input from internal experts to provide assurance on the calculation. The committee concluded that the calculation is appropriate and in accordance with the relevant accounting standards.
Deferred tax asset recognition	The group has estimated tax losses which have not been recognised in the Statement of Financial Position as IFRS requires that deferred tax assets will not be recognised until recoverability is probable. All deferred tax assets have been fully impaired.	The full amount remains impaired. The committee has not altered its position on recognising deferred tax assets.
Going concern assessment	Based on the group's annual forecast the group has sufficient financial resources to meet its obligations as they fall due within the foreseeable future (twelve months from signature date). The funding special purpose entities have significant buffers in their covenants with low risk of being breached.	The committee considered the annual forecast and that it is based on sound principles and reasonable assumptions including reasonable future stresses. The committee is satisfied that, based on this analysis that the group is a going concern and able to pay its liabilities as they fall due over a 12-month horizon.

External audit findings

The Audit Committee considered the Audit Summary Memorandum which covers the principal matters that arose from the audit for the year ended 31 March 2024.

Combined assurance

The group has maintained a combined risk assurance programme to enhance the efficiency and effectiveness of risk management, compliance and audit in order to better illustrate, consolidate and report on all assurance activities. Management has an established combined assurance framework with action plans that engage the four lines of defense wherever appropriate. A risk ranking and associated control effectiveness framework has been integrated into the combined assurance framework. This process will ensure a continuous process of assurance being provided through testing, validation and verification of controls and risk management frameworks. The committee believes that the arrangements for the combined assurance model are adequate and effectively integrate risk management, compliance and audit.

Internal audit

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

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

Audit Committee Report

External auditors

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

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

An annual review of the quality of the audit and performance of the external auditors was undertaken in 2023.

As part of the assessment of the external auditors' independence, the committee ensured compliance with the Non-audit Services Policy. This policy governs the types of service that can be performed by the auditors, as well as the value and scope of the non-audit services provided by the auditors. Only those non-audit services that do not affect their independence and entail skills and experience that make them the most appropriate suppliers were approved during the period. Fees paid to the auditors are disclosed in note 17 to the annual financial statements. The committee recommended that the shareholders reappoint Deloitte & Touche as the external auditors for 2025.

Annual financial statements

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

DocuSigned by:
P Viranna
C8D3048FB42049D...

P Viranna
Audit Committee Chairman

4 June 2024

Directors' Report

The directors submit their report on the audited consolidated annual financial statements of Evolution Credit Limited and its subsidiaries and special purpose entities (the group) for the year ended 31 March 2024.

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

1. Nature of business

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

2. Review of financial results and activities

The audited consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. The accounting policies have been applied consistently compared to the prior year, except for the adoption of IFRS 17 Insurance Contracts.

The annual consolidated financial statements have been restated due to the adoption of IFRS 17 Insurance Contracts. Refer to note 2 of the 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.

3. Going concern

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

4. Events after the reporting period

Additional senior and mezzanine funding of R120.0 million and R95.0 million was raised by special purpose entities DMC Evolution (RF) Proprietary Limited and Umuzi Finance (RF) Limited respectively.

A proposal has been made to simplify the equity structure of Evolution Credit Limited by means of a Scheme of arrangement. A decision will be made on 10 June 2024.

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

5. Directorate

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

Directors	*Office*	*Designation*	*Changes in appointment*
NW Thomson	Chairperson	Non-executive Independent	
PG de Beyer		Non-executive Independent	
DTV Msibi		Non-executive Independent	
RR Buddle		Non-executive Independent	
L Mthimunye		Non-executive Independent	Appointed 01 July 2023
P Viranna		Non-executive Independent	Appointed 01 July 2023
N Grobbelaar	Chief Executive Officer	Executive	
A de Man	Chief Financial Officer	Executive	

Directors' Report

6. Company secretary

The company secretary is C Taylor.

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

7. Auditors

Deloitte & Touche continued in office as auditors for the group for 2024.

At the annual general meeting, the shareholders will be requested to reappoint Deloitte & Touche as the independent external auditors of the group and to confirm L Marshall as the designated lead audit partner for the 2025 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.

PO Box 578
Cape Town 8000
South Africa

Deloitte & Touche
Registered Auditors
Audit & Assurance -
Cape Town
The Ridge
6 Marina Road
Portswood District
V&A Waterfront
Cape Town 8000
Docex 5 Claremont

Tel: +27 (0)21 427 5300
Fax: +27 (0)21 425 7651
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Evolution Credit Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Evolution Credit Limited ("the Group") set out on pages 14 to 45, which comprise the consolidated statement of financial position as at 31 March 2024, and the consolidated statement of financial performance, the consolidated statement of comprehensive income, , the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2024, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) Accounting Standards as issued by the International Accounting Standards Board and the requirements of the Companies Act of South Africa.

Basis for Opinion

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled “Evolution Credit Limited Annual consolidated financial statements for the year ended 31 March 2024” which includes the Directors' Responsibilities and Approval, Company Secretary’s Certification, Audit Committee Report and Directors’ 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 that we 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 IFRS Accounting Standards as issued by the International Accounting Standards Board 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material

uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Group audit. We remain solely responsible for our audit opinion.

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

DocuSigned by:
Deloitte & Touche
E37C4BF01CA94AB...

Deloitte & Touche
Registered Auditor
Per: Llewellyn Marshall
Partner

6 June 2024

Consolidated Statement of Financial Position as at 31 March 2024

Figures in Rand thousand	Notes	2024	2023 Restated *	2022 Restated *
Assets				
Equipment	7	13,093	13,651	16,382
Right-of-use assets	8	2,041	3,391	3,660
Net advances	3	1,512,952	1,300,123	1,129,019
Insurance contract asset	9	19,731	20,543	14,529
Other receivables	10	21,928	20,983	24,296
Derivatives		-	-	12,183
Cash and cash equivalents	4	300,322	323,033	357,308
Total Assets		1,870,067	1,681,724	1,557,377
Equity and Liabilities				
Equity				
Share capital and equity notes	5	1,308,857	1,308,857	1,308,857
Share-based payments reserve		2,628	-	1,147
Accumulated loss		(704,309)	(822,144)	(916,316)
Total equity		607,176	486,713	393,688
Liabilities				
Borrowings - Non-current	6	835,462	811,712	676,945
Provisions	12	84,763	58,237	57,119
Deferred tax	13	1,222	1,323	815
Lease liabilities	8	2,325	3,780	4,003
Borrowings - Current	6	289,756	280,760	377,165
Trade and other payables	14	47,647	39,162	44,307
Current tax payable		1,716	37	3,335
Total Liabilities		1,262,891	1,195,011	1,163,689
Total Equity and Liabilities		1,870,067	1,681,724	1,557,377

* See Note 2

Evolution Credit Limited

Audited Consolidated Annual Financial Statements for the year ended 31 March 2024

Consolidated Statement of Financial Performance

Figures in Rand thousand	Notes	2024	2023 Restated *
Interest and similar income		645,982	557,699
Impairment loss		(28,589)	(3,929)
Net yield		**617,393**	**553,770**
Insurance revenue	9	86,991	83,081
Insurance service expenses		(16,962)	(12,128)
Outsourced collection income		44,515	44,111
Other income	16	8,591	12,160
Operating expenses		(506,074)	(457,656)
Operating profit	17	**234,454**	**223,338**
Finance costs	18	(145,268)	(127,362)
Derecognition gain on financial liability	19	35,419	-
Foreign exchange gains		-	1,001
Profit before taxation		**124,605**	**96,977**
Taxation	20	(6,770)	(2,805)
Profit for the year		**117,835**	**94,172**

* See Note 2

Consolidated Statement of Comprehensive Income

Figures in Rand thousand	2024	2023 Restated *
Profit for the year	**117,835**	**94,172**
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Effects of cash flow hedges	-	(1,147)
Other comprehensive loss for the year net of taxation	**-**	**(1,147)**
Total comprehensive income	**117,835**	**93,025**

Consolidated Statement of Changes in Equity

Figures in Rand thousand	Share capital and equity notes	Cash flow hedging reserve	Share-based payments reserve	Accumulated loss	Total equity
Restated* Balance at 01 April 2022	1,308,857	1,147	-	(916,316)	393,688
Profit for the year	-	-	-	94,172	94,172
Other comprehensive loss	-	(1,147)	-	-	(1,147)
Total comprehensive income for the year	-	(1,147)	-	94,172	93,025
Balance at 01 April 2023	1,308,857	-	-	(822,144)	486,713
Profit for the year	-	-	-	117,835	117,835
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	117,835	117,835
Equity-settled share-based payments	-	-	2,628	-	2,628
Balance at 31 March 2024	1,308,857	-	2,628	(704,309)	607,176
Note	5		11		

* See Note 2

Evolution Credit Limited

Audited Consolidated Annual Financial Statements for the year ended 31 March 2024

Consolidated Statement of Cash Flows

Figures in Rand thousand	Notes	2024	2023 Restated *
Cash flows from operating activities			
Cash generated from operations	21	44,371	36,653
Finance costs	18	(141,557)	(123,039)
Tax received (paid)	22	482	(1,441)
		(96,704)	**(87,827)**
Cash flows from investing activities			
Purchase of equipment	7	(6,960)	(6,642)
Proceeds from sale of equipment		389	395
Proceeds received on sale of associate		-	4,500
Proceeds from Insurance Contract Asset	9	12,400	4,900
		5,829	**3,153**
Cash flows from financing activities			
Repayments of borrowings	6	(264,336)	(513,751)
Proceeds from borrowings	6	332,500	549,150
Receipt of derivative collateral on settlement of derivatives		-	15,000
		68,164	**50,399**
Total cash movement for the year		**(22,711)**	**(34,275)**
Cash and cash equivalents at the beginning of the year		323,033	357,308
Cash and cash equivalents at the end of the year	4	**300,322**	**323,033**

* See Note 2

Accounting Policies

Corporate information

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

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

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

1. Material accounting policies

1.1 Basis of preparation

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

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

These accounting policies are consistent with the previous period, except for the implementation of IFRS 17 Insurance Contracts. The annual consolidated financial statements have been restated due to the adoption of IFRS 17 Insurance Contracts. The impact of the adoption on the annual consolidated financial statements has been detailed in note 2. In addition, refer to notes 1.2, 1.6 and 9.

1.2 Significant judgements and sources of estimation uncertainty

The process of creating audited consolidated annual financial statements in accordance with IFRS involves management making judgements, estimates, and assumptions that impact how policies are applied and the amounts reported for assets, liabilities, income, and expenses. These estimates are based on experience and other factors deemed reasonable at the time. However, actual results may differ from these estimates, so they are regularly reviewed and revised as necessary. Any changes to these estimates are reflected in the period they are revised and in future affected periods.

Key sources of estimation uncertainty

Impairment of financial assets

The impairment provisions for financial assets are based on assumptions regarding default risk and expected loss rates. The group exercises judgement in formulating these assumptions and selecting the inputs to the impairment calculation, drawing from the group's historical data, prevailing market conditions in the micro-finance industry and forward-looking projections. The key assumptions and inputs used are disclosed in notes 1.3 and 3.

The probability of default (PD) and recovery curves used in the Evolution Finance expected credit loss (ECL) calculation are refreshed annually based on actual data. In the current year management used a 24-month averaging period for all PD and recovery curves which is a change from the previous 36-month averaging period. The reason for the change is to ensure alignment with more recent actual data. The impact on overall impairment provisions when calibrating to a 24-month averaging period is a R13 million charge.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Critical judgements in applying accounting policies

Recognition of deferred tax assets

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

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

Insurance contracts

The group sells insurance contracts through its cell captive arrangement to its customers. The insurance risk of the cell captive arrangement lies with the Cell Captive; however, the group is exposed to insurance risk to the extent that the Cell Captive requires additional capital injection if the solvency and capital adequacy ratios fall below the prescribed levels. The Cell Captive Shareholder Participation Agreement is seen as an in-substance reinsurance arrangement and therefore falls within the scope of IFRS 17 which is applicable in the current year, refer to note 2.

The group will use the Premium Allocation Approach (PAA) given that the coverage period of the Shareholder Participation Agreement is one year or less.

The risk adjustment is a reserve for uncertainty due to non-financial risks. The risk adjustment has been calculated based on a confidence level of 75% over a one-year time horizon.

Fair value for share-based payment calculation

Fair value was determined by using a market approach using trade multiples. Comparable companies, both locally and internationally, were identified. The price-to-book ratio and return on equity was calculated for each company based on their trading data and financials. Regression analysis was used to correlate the return on equity to the price-to-book ratio. Based on this analysis, an appropriate price-to-book ratio was identified for the fair value of the group which was used to calculate the amount of the equity-settled share-based payment.

1.3 Financial instruments

Financial instruments are recognised when the group becomes a party to the contractual provisions. They are measured at initial recognition at fair value plus transaction costs, if any.

Note 25 Financial instruments and risk management presents the financial instruments held by the group based on their specific classifications.

Financial assets are not reclassified after initial recognition, except in the period after the group changes its business model for managing financial assets. There have been no reclassifications in the current year.

The material accounting policies for net advances are presented below.

Impairment - Expected credit losses and write offs

Loss allowances are recognised for expected credit losses (ECL) on financial assets measured at amortised cost.

Loss allowances are measured at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk (risk of default) since initial recognition. If the credit risk has not increased significantly since initial recognition, then the loss allowance for that instrument is measured at 12 month expected credit losses (12 month ECL). The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective instruments. This means that at each reporting date, the ECL for a specific instrument will either be based on lifetime ECL or 12 month ECL depending on the credit risk at reporting date compared to the credit risk at initial recognition.

Financial instruments (continued)

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.

The measurement of expected credit losses incorporates the probability of default, loss given default and the exposure at default, taking the time value of money, historical data and forward-looking information into consideration.

The group writes off an instrument when there is information indicating that 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. Instruments written off may still be subject to enforcement activities under the group's recovery procedures. Any recoveries made are recognised in profit or loss.

Modifications

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

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

1.3.1 Net advances - Evolution Finance

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

Credit risk

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

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

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

Classification

Performing loans

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

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

1.3.1 Net advances - Evolution Finance (continued)

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

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

Modifications

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

Non-performing loans

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

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

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

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

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

1.3.2 Net advances - Acquired debt

Classification

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

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

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

Accounting Policies

1.3.2 Net advances - Acquired debt (continued)

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

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 eight years. It is assumed that a portfolio will yield cash flows from collection activities for a maximum period of eight years (96 months).

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

Credit risk

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

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

1.4 Consolidation

Basis of consolidation

The audited consolidated annual financial statements incorporate the financial statements of the company and all subsidiaries and special purpose entities that are controlled directly or indirectly by the company.

Securitisations form an integral part of the group’s funding strategy. The issuer, which is a bankruptcy remote special purpose entity, issues notes to fund the purchase of eligible loans from the subsidiary in the group that originated or purchased the loans. The subsidiary has limited rights rights and obligations in the assets in terms of the transaction documents of the special purpose entity, and it does not 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 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 financial statements.

1.5 Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. The useful lives of items of equipment have been assessed as follows:

Item	***Depreciation method***	***Useful life***
IT equipment	Straight line	2 - 5 years
Motor vehicles	Straight line	5 years
Furniture, office equipment and fixtures	Straight line	5 - 6 years

1.6 Insurance Contract Asset

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

The group effectively retains underwriting risk due the acceptance of insurance risk through the Share Participation Agreement resulting in variability of underwriting profits. Insurance risk therefore arises, and the arrangement is accounted for as an in-substance reinsurance contract issued to OMART. The agreement entitles the group to the net results of the cell. If there is any capital shortfall or deficit in the cell, the group has an obligation to provide additional capital to the cell.

The group is exposed to the credit quality of OMART as OMART will be required to make payment to the group of the residual interest in the cell on redemption of the preference shares. The reinsurance premiums receivable from OMART and the reinsurance service expenses payable to OMART are net settled.

The Cell Captive sells credit protection, funeral assistance, cancer medical cover and accidental death insurance contracts.

Contract boundary

The group has the right to redeem the preference shares after 91 business days' notice. The redemption includes an agreement on the transfer of the existing business to another life insurer, another cell within OMART or otherwise as mutually agreed. The contract boundary can therefore be limited based on the notice period for the redemption of the shares.

The group will use the Premium Allocation Approach (PAA) given that the coverage period of the Shareholder Participation Agreement is one year or less.

Components and level of aggregation

The Cell Captive has been assessed as one portfolio as a whole for reporting purposes.

The Shareholder Participation Agreement is not an onerous contract as evidenced by the dividends received from the Cell Captive during the financial year.

Measurement

On initial recognition, the group measures the liability for remaining coverage at the amount of premiums received in cash. As the insurance contract to which the PAA is applied has coverage of a year or less, the group applies a policy of expensing all insurance acquisition cash flows as they are incurred.

Subsequently the carrying amount of the liability for remaining coverage is increased by any premiums received and decreased by the amount recognised an insurance revenue for services provided.

The group has determined that there is no significant financing component with a coverage period of one year or less. The group does not discount the liability for remaining coverage to reflect the time value of money and financial risk for such insurance contracts.

The liability for incurred claims of an insurance contract is measured at the amount of the fulfilment cash flows relating to incurred claims. The future cash flows are not discounted where they are expected to be paid in one year or less from the date the claims are incurred.

The insurance revenue for each period is the amount of expected premium receipts for providing services in the period. The expected premium receipts are allocated to each period based on the passage of time, unless another basis is more appropriate.

Insurance service expenses are recognised in profit or loss generally as they are incurred. They include incurred claims and other insurance service expenses, and adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein.

Insurance finance income is interest income on cash and cash equivalents within the Cell Captive and is recognised in profit or loss using the effective interest method.

1.7 Share capital and equity

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

1.8 Share based payments

In the current year a share-based long-term incentive was introduced for eligible participants (refer to note 11). Eligible participants will every year be offered the opportunity to convert some or all of their cash long-term incentive (as detailed in note 1.9 below) to a share based long-term incentive which the group recognises as an equity-settled share-based payment plan.

The employee service expense and the corresponding increase in equity is measured by reference to the fair value of the ordinary shares granted. The expense is recognised on a straight-line basis over the period in which the shares are restricted. Resolutive conditions will be agreed for each tranche awarded which may include financial or other targets set for the group. The best estimate of the outcome of each of these resolutive conditions will be used to estimate the number of equity instruments so that the transaction is based on the number of equity instruments that eventually vest.

1.9 Provisions

A short-term incentive (STI) is payable to leadership team members after the completion of the financial year. The amount is determined by the extent to which the financial objectives of the group, as set by the board in advance for that financial year, have been achieved, as well as each eligible persons' personal performance during that financial year.

A long-term incentive (LTI) is payable to leadership team members at the end of the vesting period of a particular LTI tranche (typically three years). The amount is determined by the value of the LTI award made in respect of each tranche, and the extent to which the tranche conditions (which are typically medium-term financial performance targets for the group) applicable to that tranche have been achieved. The amount recognised as a provision for the LTI is the best estimate of the consideration required to settle the obligation and the expected timing of payment at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. The carrying amount is the present value of cash flow estimated to settle the obligation.

1.10 Employee benefits

Short-term employee benefits

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

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

Defined contribution plans

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

1.11 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.

Revenue (continued)

Insurance revenue

The insurance revenue for each period is the amount of expected premium receipts for providing services in the period. The expected premium receipts are allocated to each period based on the passage of time, unless another basis is more appropriate.

Revenue from contracts with customers

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.

Fee income

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

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

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

1.12 New standards and interpretations

Standards and amendments effective and adopted in the current year

IFRS 17 Insurance Contracts and the amendments to IAS 1 Presentation of Financial Statements on the requirement to disclose material accounting policies rather than significant account policies became effective in the current year.

Refer to note 2 on the impact of the adoption of IFRS 17.

Standards and amendments not yet effective

The amendments to IAS 1 Presentation of Financial Statements concerning the classification of liabilities as current or non-current and non-current liabilities with covenants effective from periods (effective 1 January 2024) is not expected to have a material impact on the group.

The new standard IFRS 18 Presentation and Disclosure of Financial Statements has been published which will replace IAS 1 from 1 January 2027. IFRS 18 adds further disclosure requirements with the aim of improving reporting of financial performance and giving investors a better basis for analysing and comparing companies.

No other standards or interpretations are expected to have a material impact on the group's annual financial statements.

2. Changes in accounting policy

First time adoption of IFRS 17 Insurance Contracts

This standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, including reinsurance contracts. The Cell Captive Shareholder Participation Agreement is seen as an in-substance reinsurance arrangement and therefore falls within the scope of IFRS 17.

The effective date of the standard is for years beginning on or after 1 January 2023.

IFRS 17 does not change the Cell Captive's insurance products or operations. It requires new measurement and reporting in the accounting records and therefore the accounting policy and notes relating to the investment in the Cell Captive have been updated in line with the new standard.

IFRS 17 requires the entity to apply the standard retrospectively. The comparative figures have been restated to disclose the insurance revenue and insurance service expenses on the face of the statement of profit or loss and the insurance contract asset on the face of the financial position in accordance with IFRS 17.

2023 *R'000*	*Previously stated*	*Adjustment*	*IFRS 17 carrying amount*
Statement of Financial Position			
Amount receivable from Old Mutual Alternative Risk Transfer	20,543	(20,543)	-
Insurance contract asset	-	20,543	20,543
Statement of Financial Performance			
Gross yield from assets	600,088	(600,088)	-
Net assurance income - Funeral benefits	28,564	(28,564)	-
Interest and similar income	-	557,699	557,699
Insurance revenue	-	83,081	83,081
Insurance services expenses	-	(12,128)	(12,128)

2022 *R'000*	*Previously stated*	*Adjustment*	*IFRS 17 carrying amount*
Statement of Financial Position			
Amount receivable from Old Mutual Alternative Risk Transfer	14,529	(14,529)	-
Insurance contract asset	-	14,529	14,529
	14,529	-	14,529

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2024	2023

3. Net advances

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

	2024	2023
Evolution Finance	614,366	590,901
Acquired debt	898,586	709,222
	1,512,952	1,300,123

Exposure to credit risk

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

Credit loss allowances

2024	***Basis of loss allowance***	***Gross carrying amount***	***Loss (allowance) / gain***	***Amortised cost***
Evolution Finance				
Performing loans - stage 1	12-month ECL	407,029	(37,899)	369,130
Performing loans - stage 2	Lifetime ECL (not credit impaired)	189,159	(56,006)	133,153
Non-performing loans - stage 3	Lifetime ECL (credit impaired)	1,274,964	(1,162,881)	112,083
Acquired debt	Lifetime ECL (purchased credit impaired)	801,604	96,982	898,586
		2,672,756	(1,159,804)	1,512,952

2023	***Basis of loss allowance***	***Gross carrying amount***	***Loss (allowance) / gain***	***Amortised cost***
Evolution Finance				
Performing loans - stage 1	12-month ECL	380,115	(30,510)	349,605
Performing loans - stage 2	Lifetime ECL (not credit impaired)	177,935	(48,964)	128,971
Non-performing loans - stage 3	Lifetime ECL (credit impaired)	1,304,909	(1,192,584)	112,325
Acquired Debt	Lifetime ECL (purchased credit impaired)	706,253	2,969	709,222
		2,569,212	(1,269,089)	1,300,123

Reconciliation of loss allowances

2024 Loss allowance	***Performing loans Stage 1***	***Performing loans Stage 2***	***Non-performing loans***	***Acquired debt***	***Total***
Opening balance	(30,510)	(48,964)	(1,192,584)	2,969	(1,269,089)
New contracts originated	(29,259)	(3,184)	-	-	(32,443)
Movement between stages	21,791	(106,490)	(10,810)	-	(95,509)
Release of loss allowance on contracts moved to lifetime ECL	-	101,506	-	-	101,506
Release of loss allowance on contracts written off	1,821	-	139,543	-	141,364
Modification loss	-	-	(106,529)	-	(106,529)
Modification gain	-	-	2,974	-	2,974
Significant increase in credit risk	-	(1,719)	-	-	(1,719)
Lifetime ECL	-	-	-	122,667	122,667
Forward-looking overlay (FLI)	(1,742)	2,845	4,525	(28,654)	(23,026)
Loss allowance closing balance	(37,899)	(56,006)	(1,162,881)	96,982	(1,159,804)
FLI overlay closing balance	(11,251)	(1,254)	(2,828)	(59,576)	(74,909)

Figures in Rand thousand

3. Net advances (continued)

2024 ***Gross carrying amount***	***Performing loans***	***Non-performing loans***	***Acquired debt***	***Total***
Opening balance	558,050	1,304,909	706,253	2,569,212
New contracts originated or purchased	399,799	-	388,064	787,863
Interest and similar income	224,497	71,426	353,076	648,999
Transfer to non-performing loans	(144,375)	144,375	-	-
Contracts written off	(89)	(164,989)	-	(165,078)
Receipting	(441,674)	(77,783)	(645,789)	(1,165,246)
Modification gain or loss	-	(2,974)	-	(2,974)
	596,208	1,274,964	801,604	2,672,776

2023 ***Loss allowance***	***Performing loans Stage 1***	***Performing loans Stage 2***	***Non-performing loans***	***Acquired debt***	***Total***
Opening balance	(16,950)	(53,027)	(1,286,727)	(96,596)	(1,453,300)
New contracts originated	(37,440)	(4,267)	-	-	(41,707)
Movement between stages	32,318	(75,811)	6,421	-	(37,072)
Release of loss allowance on transfer to lifetime ECL	-	83,459	-	-	83,459
Release of loss allowance on contracts written off	-	-	169,105	-	169,105
Modification loss	-	-	(93,360)	-	(93,360)
Modification gain	-	-	14,247	-	14,247
Significant increase in credit risk	-	3,093	-	-	3,093
Lifetime ECL	-	-	-	104,433	104,433
Forward-looking overlay	(8,438)	(2,411)	(2,270)	(4,868)	(17,987)
Loss allowance closing balance	(30,510)	(48,964)	(1,192,584)	2,969	(1,269,089)
FLI overlay balance	(9,509)	(4,099)	(7,353)	(30,921)	(51,882)

2023 ***Gross carrying amount***	***Performing loans***	***Non-performing loans***	***Acquired debt***	***Total***
Opening balance	462,910	1,416,168	703,241	2,582,319
New contracts originated or purchased	444,410	-	269,815	714,225
Interest and similar income	196,205	52,748	305,279	554,232
Transfer to non-performing loans	(128,152)	128,152	-	-
Contracts written off	(3,804)	(186,413)	-	(190,217)
Receipting	(413,519)	(91,499)	(572,082)	(1,077,100)
Modification gain or loss	-	(14,247)	-	(14,247)
	558,050	1,304,909	706,253	2,569,212

Evolution Finance coverage ratios

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

2024	***Stage 1 CD 0***	***Stage 2 SICR***	***Stage 2 CD 1***	***Stage 2 CD 2***	***Stage 2 CD 3***	***Stage 3***	***Total***
Gross advances	407,029	98,840	53,218	23,639	13,462	1,274,964	1,871,152
Loss allowance	(37,899)	(14,355)	(22,719)	(11,026)	(7,906)	(1,162,881)	(1,256,786)
Carrying value	369,130	84,485	30,499	12,613	5,556	112,083	614,366
Coverage ratio	9.3 %	14.5 %	42.7 %	46.6 %	58.7 %	91.2 %	67.2 %

Figures in Rand thousand

3. Net advances (continued)

2023	*Stage 1 CD 0*	*Stage 2 SICR*	*Stage 2 CD 1*	*Stage 2 CD 2*	*Stage 2 CD 3*	*Stage 3*	*Total*
Gross advances	380,115	86,779	50,809	25,346	15,001	1,304,909	1,862,959
Loss allowance	(30,510)	(11,886)	(19,099)	(10,116)	(7,863)	(1,192,584)	(1,272,058)
Carrying value	349,605	74,893	31,710	15,230	7,138	112,325	590,901
Coverage ratio	8.0 %	13.7 %	37.6 %	39.9 %	52.4 %	91.4 %	68.3 %

The group's recovery expectations on advances reduce significantly once an account is more than three contractual instalments in arrears and no payment has been received in any preceding twelve months. These accounts are still subject to enforcement activity through the same collections process as the Acquired debt portfolios. A portfolio modelling approach is used to estimate the cash flows used to determine loss allowance for this segment of accounts. The contractual amount outstanding on these advances is R1,015 million (2023: R1,047 million) with an amortised cost value of R28.8 million (2023: R33.7 million). The weighted average duration that these loans have been in this state is 5 years (2023: 4 years) with 32.0% (2023: 32.5%) having made a payment in the last 2 years.

Loans and advances that received financial relief

COVID-19 relief

In prior periods the group rolled out debt relief measures for Evolution Finance customers. Customers were granted a one-month payment relief where financial assistance was requested by customers as a result of the lockdown. This relief measure was treated as a distressed restructure and the staging and coverage have been adjusted in the line with the group's normal practice. The net carrying amount of remaining loans to which this relief applied is R3.6 million (2023: R5.6 million). 93.1% (2023: 90.4%) of the loans are categorised as stage 3. The gross carrying amount is R47.3 million (2023: R56.0 million) with a loss allowance of R43.7 million (2023: R50.3 million).

Capital holiday

Certain qualifying customers were offered a one to three month capital holiday in prior years to provide financial relief for a limited period. These accounts did not go into arrears during the capital holiday period and customers were still required to pay interest and fees during this time. The relief offered to these customers was deemed to be temporary and qualified as a non-distress restructure. The net carrying amount of remaining loans for which a capital holiday was granted is R1.5 million (2023: R3.4 million). 52.3% (2023: 30.7%) of the loans are categorized as stage 3. The gross carrying amount is R10.1 million (2023: R12.1 million) with a loss allowance of R8.6 million (2023: R8.7 million).

Fair value

Refer to note 25 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.

Other disclosures

The Evolution Finance channel offers a credit facility to customers. The undrawn facilities at 31 March 2024 are R11.1 million (2023: R12.3 million). A provision for loan commitments has been raised against this balance.

Evolution Finance accounts under debt review or administration are classified as modified contracts. The modification loss due to debt review for the year is R35.4 million (2023: R22.6 million).

3.1. Forward-looking information

IFRS requires that the group considers future economic conditions when determining expected credit losses (ECL). For Acquired Debt the impact of changes in debit order collections due to a shift in the collections window for the Registered Mandate Services (RMS) payment mechanism, recent improvements in payment reversal rates, macro-economic conditions and the impact of loadshedding have been examined. For Evolution Finance, adjustments were made to the LGD curves to reflect the RMS risks and to the probability of default (PD) rates to account for recent trends in loan impairments caused by economic factors.

Registered Mandate Services (RMS)

RMS was implemented as a temporary measure to assist with the transition to DebiCheck. The South African Reserve Bank has proposed that from Q1 2025 RMS will be separated from the current DebiCheck platform as a separate payment mechanism. This change will move collections on RMS out from the early collections window to a second processing window later in the day which will impact receipting.

Furthermore, since June 2023 a reduction in the payment reversal rates on the RMS mechanism has been experienced and it is uncertain whether this will continue given the current economic climate.

The change in the RMS collection window and the continued improvement in the RMS reversal rates will be considered in the 2024 forward-looking assessment.

Macro-economic conditions

The real income of South African consumers has declined in the past two years. The impact of this higher cost of living on debt repayment ability has been mostly factored into current year valuation models, recalibrated with performance data up to November 2023. While predictions suggest that interest and inflation rates may start decreasing over the medium term, the 2024 forward-looking assessment has not incorporated these improvements due to uncertainty regarding timing and persistence of current trends. Evolution Finance Stage 1 PDs will be considered, acknowledging the lag effect of the 24-month calibration window used for valuation calculation.

Loadshedding

Consultants in the group's contact centre primarily work from home and have historically faced challenges during loadshedding, particularly during Stage 4 and above. However, for the 2024 forward-looking assessment, the impact of loadshedding has not been factored in. This decision is based on reduced levels of loadshedding compared to previous years, improved flexibility for consultants to reschedule work around loadshedding, and the incorporation of the impact higher loadshedding experienced in 2023 has had on the valuation recalibrations.

Methodology for Acquired Debt - Activation roll rate model

The impact on the collections expectations has been determined using an activations roll rate model which models the lifecycle of new payment arrangements (activations) and their subsequent fall offs. The key inputs to this model are the number of new receipt activations created per month, and the rate at which paying accounts fall off per month.

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

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

- Different buckets for new activation and fall offs are constructed for the various payment mechanisms as each payment mechanism has different rates of payer activation and fall off rates.
- The roll rate model is utilised to determine collections for the period 1 April 2024 to 31 March 2026.
- It is assumed that the shortfall between the valuation expectation at March 2026 per the roll rate model will continue at the same rate until the end of the collections curve.
- The cash flow impact is calculated as the difference in cash flows between the roll rate model and the statistical and priced cash flows. This impact is then applied to various asset valuations.

Figures in Rand thousand 2024 2023

3.1 Forward-looking information (continued)

FLI estimate for Acquired Debt Portfolios

- **Calculation of the impact for the change in the RMS processing window**
  The only comparable information the group has on the performance of collections in the later processing window is for a small pool of contracts that are collected under the EFT debits payment mechanism. This collections mechanism does not have the same functionality as RMS which includes daily tracking. The RMS collections success rates were compared to the EFT debits success rates for the most recent six months and the average variance calculated. The variance was reduced for the fact that the EFT debits population size is limited and therefore not fully representative of the RMS population and to cater for the difference in functionality. The variance was then applied to the RMS activation rates and fall off rates in the roll rate model from January 2025 onwards (implementation date of window change).

- **Calculation of the impact relating to the improved RMS reversal rates**
  Reversal rates on RMS have improved since July 2023 and these lower rates are included in the average rates used in the roll rate model. The adjustment assumes that reversal rates return to prior levels. The average reversal rates between June 2022 and May 2023 were compared to the average rates for the most recent six months and the variance was then applied for the period between April 2024 and December 2024 before the change in the payment window.

Methodology and FLI estimate for Evolution Finance

- **Calculation of the RMS impact on LGD curves**
  All newly originated Evolution Finance loans undergo full authentication, reducing the RMS impact on this portfolio as fewer loans are collected through RMS. Consequently, the LGD impact for Evolution Finance loans was adjusted to reflect the lower proportion of RMS collections. LGD curves for Evolution Finance were adjusted based on the same factor determined in the Acquired debt roll rate model to incorporate the effect of RMS risks on recovery rates.

- **Calculation of the macro-economic impact on the PDs of Stage 1 loans**
  The PD calculation window spans 24 months (36 in prior years), ensuring stability across credit cycles but causing a lag in reflecting recent PD increases. The PD's for the FLI provision on Stage 1 accounts have been adjusted upwards to take into account the higher impairments experienced during the year as well as the improvements gained from credit adjustments that have been implemented.

Sensitivity to FLI assumptions

The Acquired debt valuation models and Evolution Finance provision models were updated for historic collections experience during 2023, giving rise to updated Acquired debt valuation collection curves and revised Evolution Finance PDs and LGDs. The change in provision levels over the prior year also include amortisation of the book and new production during the year.

Valuation sensitivity to parameter estimation error

FLI sensitivity, provision understatement risk

	2024	2023
Forecast error estimate on macro-economic parameters		
5% estimation error	(512)	(8,869)
Forecast error estimate on RMS parameters		
5% estimation error	(1,602)	-

FLI sensitivity, provision overstatement risk

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

Figures in Rand thousand	2024	2023

4. Cash and cash equivalents

Bank balances	35,727	44,004
Investments in money market funds	264,581	279,022
Cash on hand	14	7
	300,322	323,033

Cash and cash equivalents with a carrying value of R228.3 million (2023: R216.5 million) in special purpose entities are not available for use by the group. The average return earned on cash and cash equivalents was 8.5% (2023: 6.0%).

Credit quality

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

Credit rating		
Money market fund: AA+ *	109,054	132,678
Money market fund: AA *	106,871	83,466
Money market fund: AA- *	48,656	62,878
Commercial bank: Aa1.za **	35,727	44,004
	300,308	323,026

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

5. Share capital and equity notes

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

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

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

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

Figures in Rand thousand	2024	2023

5. Share capital and equity notes (continued)

The classes of shares have the following ranking:

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

A proposal has been made to simplify the equity structure of Evolution Credit Limited by means of a Scheme of arrangement. The objective is to implement a Scheme of Arrangement in which the E PIK notes, D PIK notes, C1 preference shares, C2 preference shares, B preference shares, and A ordinary shares are exchanged for ordinary shares in accordance with each equity holder’s economic participation in terms of the distribution waterfall. After the conversion, the ordinary shares will be consolidated on the basis that each shareholder will be issued 1 ordinary share for each 1,000 ordinary shares. A decision will be made on 10 June 2024.

6. Borrowings

	2024	2023
Held at amortised cost		
Secured loans	1,125,218	1,092,472

Split between non-current and current portions

	2024	2023
Non-current liabilities	835,462	811,712
Current liabilities	289,756	280,760
	1,125,218	1,092,472

Reconciliation of borrowings

	2024	2023
Opening balance	1,092,472	1,054,110
New funding raised - Special purpose entities	332,500	549,150
Repayment of borrowings - Special purpose entities	(405,892)	(434,945)
Repayment of borrowings - Evolution Credit Limited	-	(201,845)
Finance costs	141,557	123,039
Derecognition gain on financial liability (refer to note 19)	(35,419)	-
Foreign exchange gain	-	3,409
Effects of cash flow hedges	-	(446)
	1,125,218	1,092,472

In the prior year the full senior unsecured facility in Evolution Credit Limited was early settled. This included the foreign denominated NOK and SEK Bonds which were listed on the Nasdaq First North Bond Market in Sweden. The cross currency swaps that were used to hedge these foreign denominated borrowings were settled on the same day as the bonds. The bonds were delisted effective 31 March 2023. This early settlement was funded through the sale of on-balance sheet assets to the group’s special purpose vehicles and the repayment of excess junior capital in these vehicles. The senior facility covenants fell away from the settlement date. These covenants included a covenanted cost to income ratio, permanent equity to total assets ratio and a cash covenant ratio.

The only covenants that remain applicable in the group are those specific to each special purpose vehicle.

Refer to note 25 for the liquidity maturity analysis and the fair value of borrowings. The fair values of the financial liabilities with variable interest rates approximate carrying value. The fair value of the financial liabilities with fixed interest rates are calculated using the present value of cash outflow at the market rate. The carrying value of fixed rate borrowings is R95.5 million (2023: R136.4 million). Fair value measurements are categorised as level 3 on the fair value hierarchy as the valuation includes unobservable outputs.

Senior and mezzanine funding held in the group's special purpose entities was raised at interest rates margins above the three-month JIBAR rate of between 4% and 7% (2023: between 4% and 8%).

Figures in Rand thousand	2024	2023

6. Borrowings (continued)

The net advances and cash and cash equivalents in the special purpose entities provide the security for the borrowings. The carrying value at reporting date is as follows:

	2024	2023
Net advances	1,321,953	1,189,706
Cash and cash equivalents	228,260	216,473
	1,550,213	1,406,179

7. Equipment

	2024			2023		
	Cost	***Accumulated depreciation or impairment***	***Carrying value***	***Cost***	***Accumulated depreciation or impairment***	***Carrying value***
IT equipment	51,850	(41,173)	10,677	46,279	(36,119)	10,160
Motor vehicles	4,433	(2,593)	1,840	4,883	(2,050)	2,833
Property	295	(100)	195	295	(100)	195
Furniture, office equipment, fixtures	2,114	(1,733)	381	2,023	(1,560)	463
	58,692	(45,599)	13,093	53,480	(39,829)	13,651

Reconciliation of equipment - 2024

	Opening balance	***Additions***	***Disposals***	***Depreciation***	***Closing balance***
IT equipment	10,160	6,869	(122)	(6,230)	10,677
Motor vehicles	2,833	-	(147)	(846)	1,840
Property	195	-	-	-	195
Furniture, office equipment, fixtures	463	90	-	(172)	381
	13,651	6,959	(269)	(7,248)	13,093

Reconciliation of equipment - 2023

	Opening balance	***Additions***	***Disposals***	***Depreciation***	***Closing balance***
IT equipment	12,052	6,126	(251)	(7,767)	10,160
Motor vehicles	3,691	319	(259)	(918)	2,833
Property	195	-	-	-	195
Furniture, office equipment, fixtures	444	197	-	(178)	463
	16,382	6,642	(510)	(8,863)	13,651

8. Leases

Net carrying amounts of right-of-use assets

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

	2024	2023
Buildings	2,041	3,391

Other disclosures

	2024	2023
Depreciation recognised on right-of-use assets	2,200	2,105
Interest expense on lease liabilities	302	406
Expenses on short-term leases included in operating expenses	85	68

Figures in Rand thousand

8. Leases (continued)

Lease liabilities

The maturity analysis of lease liabilities is as follows:

	2024	2023
Within one year	1,584	2,206
Two to five years	936	2,038
	2,520	4,244
Less finance charges component	(195)	(464)
	2,325	3,780

9. Insurance contract asset

The Insurance contract asset comprises the Liability for remaining coverage (LRC) and Liability for incurred claims (LIC) as follows:

2024	***LRC - Deposit***	***LRC - Non-deposit***	***LIC - Best estimate liability***	***LIC - Risk adjustment***	***Total***
Opening balance	33,097	(5,936)	(6,467)	(151)	20,543
Insurance revenue - Premiums	-	86,991	-	-	86,991
Insurance revenue - Cell captive expenses	-	(55,735)	-	-	(55,735)
Insurance service expenses - Claims	-	-	(16,742)	(220)	(16,962)
Insurance service expenses - Tax expense	-	-	(5,674)	-	(5,674)
Insurance finance income	2,968	-	-	-	2,968
	36,065	25,320	(28,883)	(371)	32,131
Cash flow					
Premiums received	30,323	(30,323)	-	-	-
Claims and other expenses	(17,129)	-	17,129	-	-
Dividends paid	(12,400)	-	-	-	(12,400)
Total cash flow	(12,400)	-	-	-	(12,400)
	36,859	(5,003)	(11,754)	(371)	19,731

2023	***LRC - Deposit***	***LRC - Non-deposit***	***LIC - Best estimate liability***	***LIC - Risk adjustment***	***Total***
Opening balance	24,982	(5,720)	(4,609)	(124)	14,529
Insurance revenue - Premiums	-	83,081	-	-	83,081
Insurance revenue - Cell captive expenses	-	(57,591)	-	-	(57,591)
Insurance service expenses - Claims	-	-	(12,101)	(27)	(12,128)
Insurance service expenses - Tax expense	-	-	(4,154)	-	(4,154)
Insurance finance income	1,706	-	-	-	1,706
	26,688	19,770	(20,864)	(151)	25,443
Cash flow					
Premiums received	25,706	(25,706)	-	-	-
Claims and other expenses	(14,397)	-	14,397	-	-
Dividends paid	(4,900)	-	-	-	(4,900)
Total cash flow	(4,900)	-	-	-	(4,900)
	33,097	(5,936)	(6,467)	(151)	20,543

Liability for incurred claims (LIC)

The liability for incurred claims relates to past coverage which has already occurred, for which an insurance service has been provided. This includes the incurred but not reported reserve (IBNR), Claims in payment liability and Pending Claims Reserve. These also have an applicable risk adjustment.

Figures in Rand thousand 2024 2023

9. Insurance contract asset (continued)

The risk adjustment is a reserve for uncertainty due to non-financial risks. The risk adjustment has been calculated based on a confidence level of 75% over a one-year time horizon. The risk adjustment is lower than previous IFRS 4 prescribed margins. The group does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

Solvency Capital Requirement (SCR)

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

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

The Evolution Life Cell Captive had a SCR cover ratio of 2.09 at 31 March 2024 (2023: 1.69).

10. Other receivables

	2024	2023
Financial instruments:		
Trade receivables	13,504	10,314
Staff loans and advances	334	94
Loan receivables	350	3,055
Non-financial instruments:		
Prepayments and deposits	7,740	7,520
	21,928	20,983

11. Share-based payments

A share-based long-term incentive was introduced in the current year. The primary purpose of introducing a share-based long-term incentive is to align the economic interests of key members of management with the shareholders in the business, specifically with a view to creating opportunities for liquidity in the share and also sustained value growth in the share, as well as to position management as a long-term shareholder in the business. Eligible participants are the members of the Core Executive Committee. It is envisaged that the eligible participants will every year be offered the opportunity to convert some or all of their cash long-term incentive to a share-based long-term incentive in order to keep growing the management shareholding in the business. The share-based long-term incentive qualifies as an equity-settled share-based payment transaction.

The grant date was October 2023. Once the resolutive conditions have been met, shares will be issued to eligible participants.

Fair value was determined by using a market approach using trade multiples. Comparable companies, both locally and internationally, were identified. The price-to-book ratio and return on equity was calculated for each company based on their trading data and financials. Regression analysis was used to correlate the return on equity to the price-to-book ratio. Based on this analysis, an appropriate price-to-book ratio was identified for the fair value of the group which was used to calculate the amount of the equity-settled share-based payment.

	2024	2023
Credit to equity for equity-settled share-based payments	2,628	-

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2024	2023

12. Provisions

Reconciliation of provisions - 2024

	Opening balance	*Additions*	*Utilised during the year*	*Reversed during the year **	*Interest or change in discount factor*	*Total*
Bonus provision	950	5,775	(4,653)	-	-	2,072
Short-term incentive provision	23,215	28,161	(19,589)	-	448	32,235
Long-term incentive provision	34,072	28,262	-	(14,835)	2,957	50,456
	58,237	62,198	(24,242)	(14,835)	3,405	84,763

* With the introduction of the share-based long-term incentive eligible participants were given the opportunity to convert cash long-term incentives to share-based incentives. The recognition criteria for those conversions resulted in a change in accounting treatment and therefore a release from the provision.

Reconciliation of provisions - 2023

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

13. Deferred tax

	2024	2023
Deferred tax liability	(1,222)	(1,323)

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

	2024	2023
Advances	(8,781)	(9,963)
Provisions	225	144
Tax losses available for set off against future taxable income	4,651	7,228
Deferred finance costs and prepayments	(1,996)	(1,470)
Junior note embedded derivative timing difference	4,679	2,738
	(1,222)	(1,323)

Reconciliation of deferred tax for recognised assets or liabilities

	2024	2023
At beginning of year	(1,323)	(815)
Advances	1,182	(4,102)
Provisions	81	(49)
Tax loss available for set off against future taxable income	(2,577)	4,754
Deferred finance cost and prepayments	(526)	(603)
Junior note embedded derivative timing difference	1,941	(508)
	(1,222)	(1,323)

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

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2024	2023

13. Deferred tax (continued)

The group has estimated tax losses of 1 187.4 million (2023: 1 265.5 million) that are available indefinitely for offsetting against future taxable profits. Only R4.7 million (2023: R7.2 million) of the estimated tax losses has been recognised on the group statement of financial position.

14. Trade and other payables

	2024	2023
Financial instruments:		
Trade payables	9,095	9,681
Accrued leave pay	9,702	9,402
Audit fee accrual	9,122	4,539
Accrued expenses	17,580	13,178
Non-financial instruments:		
VAT	2,148	2,362
	47,647	39,162

15. Revenue

	2024	2023
Revenue from contracts with customers		
Outsourced collection income	44,515	44,111
Revenue other than from contracts with customers		
Interest and similar income	645,982	557,699
Insurance revenue - Credit life	53,257	48,482
Insurance revenue - Funeral benefits	33,734	34,599
	777,488	684,891

16. Other income

	2024	2023
Administration fees received	8,204	7,133
Reversal of impairment loss on investment in associate	-	4,500
Other income	387	527
	8,591	12,160

17. Operating profit

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

	2024	2023
Auditor's remuneration - external		
Audit fees	8,836	6,898

Employee costs

	2024	2023
Salaries, bonuses and other benefits	267,378	226,361
Retirement benefit plans: defined contribution expense	11,598	10,444
Termination benefits	1,174	1,512
	280,150	238,317

	2024	2023
Depreciation and amortisation		
Depreciation of equipment	7,248	8,863
Depreciation of right-of-use assets	2,200	2,105
	9,448	10,968

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2024	2023

18. Finance costs

Borrowings	141,557	123,039
Lease liabilities	302	406
Other interest paid	452	521
Unwinding of discount on provisions	2,957	3,396
	145,268	127,362

19. Derecognition gain on financial liability

Borrowings at amortised cost - gain	35,419	-

Real People Home Improvement Finance (RF) Proprietary Limited (RPHIF) was a special purpose entity which had reached the end of its useful life and was in run down. On 2 May 2023 Old Mutual Life Assurance Company (South Africa) Limited, the holder of a Junior Loan Facility, Preference shares and a Golden Preference share in the company, accepted an offer by Opco 365 Proprietary Limited to purchase these interests for a value of R9.7 million. The entity had incurred significant losses and was no longer able to pay the interest on the loan and had no means to repay any capital. The carrying value of the Junior Loan Facility, which was reported as part of Borrowings, was R45.1 million. The difference between the carrying value and purchase price has been recognised as a gain on derecognition of the financial liability.

Following the acquisition of all external interests in RPHIF, the assets and liabilities were merged into Opco 365 Proprietary Limited and RPHIF was deregistered.

20. Taxation

Major components of the tax expense

Current		
Income tax - current period	1,197	(1,857)
Income tax - OMART Cell captive	5,674	4,154
	6,871	2,297
Deferred		
Originating and reversing temporary differences	(101)	508
	6,770	2,805

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	27.00 %	27.00 %
Tax losses not raised as deferred tax assets	5.47 %	20.89 %
Deferred tax asset not recognised previously now utilised	(29.40)%	(35.40)%
Exempt income	(1.27)%	(2.96)%
Expenses not deductible for tax purposes	1.25 %	0.10 %
Income subject to capital gains tax	- %	(9.72)%
Expenditure not incurred in the production of income	2.16 %	3.49 %
Prior year adjustments	0.22 %	(0.51)%
	5.43 %	2.89 %

Figures in Rand thousand	2024	2023

21. Cash generated from operations

Profit before taxation	124,605	96,977
Adjustments for non-cash items:		
Depreciation and amortisation	9,448	10,968
(Gain) loss on sale of equipment	(119)	116
Derecognition gain on financial liability	(35,419)	-
Foreign exchange gains	-	(1,001)
Impairment loss (gain) on other receivables	378	(306)
Impairment reversal on investment in associate	-	(4,500)
Movements in provisions	25,749	(2,764)
Interest and fees charged to customers	(618,822)	(537,907)
Net result from Insurance contract asset	(17,263)	(15,068)
Impairment loss on net advances	28,589	3,929
Adjust for items which are presented separately:		
Finance costs	145,268	127,362
Changes in working capital:		
(Increase) decrease in trade and other receivables	(2,238)	1,156
Increase (decrease) in trade and other payables	6,811	(5,184)
Origination of advances	(399,799)	(444,410)
Purchase of advances	(388,064)	(269,815)
Receipts from advances	1,165,247	1,077,100
	44,371	36,653

22. Tax refunded (paid)

Balance at beginning of the year	(37)	(3,335)
Current tax recognised in profit or loss	(6,871)	(2,297)
Tax charge relating to Cell Captive	5,674	4,154
Balance at end of the year	1,716	37
	482	(1,441)

23. Related parties

Relationships

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

Figures in Rand thousand	2024	2023

23. Related parties (continued)

Special purpose entities controlled by the group	Umuzi Finance (RF) Limited DMC Evolution (RF) Proprietary Limited

Real People Home Improvement Finance (RF) Proprietary Limited was deregistered during the year after a merger of the assets and liabilities into Opco 365 Proprietary Limited.

Related party balances

	2024	2023
Borrowings owing to related parties		
National Housing Finance Corporation (SOC) Limited	95,483	136,383
Blue Sands Trading 727 CC**	14,969	10,200
Amounts included in trade receivables regarding related parties		
IQ Academy Proprietary Limited**	100	180
Aspire Academic Holdings Proprietary Limited**	250	1,684

Related party transactions

	2024	2023
Interest accrued to related parties		
Ninety One SA Proprietary Limited	-	4,525
Norwegian Investment Fund for Developing Countries	-	1,248
BIFM Capital Investment Fund No.1 Proprietary Limited	-	1,222
National Housing Finance Corporation (SOC) Limited	10,165	13,815
Blue Sands Trading 727 CC**	1,697	200
	11,862	21,010
Services to related parties		
Administrative fees received from IQ Academy Proprietary Limited**	1,123	2,789
Administrative fees received from Imfundo Finance (RF) Limited**	6,900	4,275

** related party as there is a common director

24. Directors' emoluments

Executive

2024	***Salaries***	***Incentive bonus***	***Other benefits***	***Total***
N Grobbelaar	4,109	2,918	263	7,290
A de Man	2,724	1,192	180	4,096
	6,833	4,110	443	11,386

2023	***Salaries***	***Incentive bonus***	***Other benefits***	***Termination benefits***	***Total***
N Grobbelaar	3,711	3,504	236	-	7,451
A de Man	2,538	1,332	159	-	4,029
DJ Munro (resigned 30 June 2022)	620	1,365	214	1,094	3,293
	6,869	6,201	609	1,094	14,773

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

Notes to the Audited Consolidated Annual Financial Statements

Figures in Rand thousand	2024	2023

24. Directors' emoluments (continued)

Non-executive

Directors' fees		
N Thomson	1,025	958
RR Buddle *	717	690
PG de Beyer	644	602
DTV Msibi	644	602
L Mthimunye	431	-
P Viranna	431	-
	3,892	2,852

* Includes R20,000 for fees for services as director of one of the special purpose entities in the prior year.

25. Financial instruments and risk management

Categories of financial instruments

2024

	Notes	***Amortised cost***	***Fair value***
Net advances	3	1,512,952	1,722,693
Other receivables	10	14,188	14,188
Cash and cash equivalents	4	300,322	300,322
Borrowings	6	(1,125,218)	(1,121,249)
Trade and other payables	14	(45,499)	(45,499)
		656,745	870,455

2023

	Notes	***Amortised cost***	***Fair value***
Net advances	3	1,300,123	1,548,416
Other receivables	10	13,463	13,463
Cash and cash equivalents	4	323,033	323,033
Borrowings	6	(1,092,472)	(1,086,465)
Trade and other payables	14	(36,800)	(36,800)
		507,347	761,647

Capital risk management

The group's objective when managing capital is to safeguard the group's ability to continue as a going concern to provide returns to shareholders and sustainable benefits for other stakeholders. The group is no longer subject to any externally imposed capital requirement.

Financial risk management

Overview

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

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

Figures in Rand thousand 2024 2023

25. Financial instruments and risk management (continued)

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

Credit risk

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

The group is exposed to credit risk primarily on net advances and cash and cash equivalents. The maximum exposure is the carrying value.

Credit risk management for net advances is set in notes 1.3 and 3.

Credit risk exposure arising on cash and cash equivalents is managed by the group through dealing with well-established financial institutions with high credit ratings as set out in note 4.

Liquidity risk

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

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

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

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.

2024

	1 to 3 months	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets	626,461	881,844	2,407,501	222,531	4,138,337
Liabilities	(94,131)	(302,541)	(1,024,647)	(2,154)	(1,423,473)
	532,330	579,303	1,382,854	220,377	2,714,864

2023

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

Figures in Rand thousand 2024 2023

25. Financial instruments and risk management (continued)

Tax risk management

The group has established a framework to govern the management of tax throughout the group. The group seeks to be efficient in its tax affairs and ensures that tax planning is built on sound, commercially viable transactions. The tax strategy is to comply with the legal requirements of the tax law, in a manner that ensures that it pays the right amount of tax while creating the highest possible sustainable shareholder value. The group is committed to acting 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.

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 profile

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

Interest rate sensitivity analysis

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

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

2024	***3 months***	***6 months***	***12 months***	***24 months***
Cumulative profit (loss): 50 basis points increase				
Evolution Finance - Performing loans	804	1,608	3,215	6,430
Cash and cash equivalents	375	751	1,502	3,003
Evolution Finance - Non-performing loans	(258)	(258)	(258)	(258)
Additional interest income on assets	921	2,101	4,459	9,175
Additional interest expense on liabilities	(870)	(2,168)	(4,767)	(10,086)
	51	(67)	(308)	(911)

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

Figures in Rand thousand

25. Financial instruments and risk management (continued)

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

2024 ***Cash flow impact for the period: 50 basis points increase***	***0-3 months***	***4-6 months***	***7-12 months***	***13-24 months***
Evolution Finance - Performing loans	-	-	-	-
Cash and cash equivalents	375	375	751	1,502
Fixed rate assets	-	-	-	-
Borrowings	(5)	(1,290)	(2,605)	(5,303)
	370	(915)	(1,854)	(3,801)

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

Insurance risk

The Cell Captive issues contracts that transfer insurance risk. The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insured contract, this risk is random and therefore unpredictable. The insurance risk of the cell captive arrangements lies with the Cell Captive; however, the group is exposed to insurance risk to the extent that the Cell Captive requires additional capital injection if the solvency and capital adequacy ratios fall below the prescribed levels. This risk is managed quarterly through review of the solvency ratios and liquidity of the Cell Captive arrangement.

The cell captive insurance structure is subject to the Insurance Act 18 of 2017, regulatory capital requirements under the Solvency Assessment and Management regime and conduct requirements regulated by the Financial Sector Conduct Authority.

Based on current premium volumes, the Liability for Incurred Claims will increase (decrease) by less than R15,000 for every 1% increase (decrease) in claims over a one-year period.

26. Going concern

The audited consolidated annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. The assessment of going concern is based on the group's annual forecast which assumes an outcome that is more likely than not. Based on the group's annual forecast the group is able to meet its financial covenants and has sufficient financial resources to meet its obligations as they fall due within the foreseeable future (twelve months from signature date). The directors are not aware of any new material changes that may adversely impact the group. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the group.

27. Events after the reporting period

Additional senior and mezzanine funding of R120.0 million and R95.0 million was raised by special purpose entities DMC Evolution (RF) Proprietary Limited and Umuzi Finance (RF) Limited respectively. A proposal has been made to simplify the equity structure of Evolution Credit Limited by means of a Scheme of arrangement. A decision will be made on 10 June 2024.

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