

Evolution Credit Limited
(formerly Real People Investment Holdings Limited)
Unaudited condensed group financial statements
For the quarter ended 31 March 2022



Evolution Credit Limited and subsidiaries

Unaudited condensed group financial statements for the quarter ended 31 March 2022

Condensed group statement of financial position

R'000	Notes	31 Mar 2022	31 Mar 2021
Assets			
Equipment		16,382	17,862
Right-of-use assets		3,660	5,633
Amount receivable from Old Mutual Alternative Risk Transfer	4	15,164	9,914
Net advances	5	1,130,426	1,066,354
Other receivables		24,237	26,261
Derivatives		12,183	18,847
Tax receivable		-	7,130
Cash and cash equivalents		357,307	426,793
Total assets		1,559,359	1,578,794
Equity			
Share capital and equity notes		1,308,857	1,308,857
Reserves		1,147	2,084
Accumulated loss		(916,715)	(1,034,595)
Total equity		393,289	276,346
Liabilities			
Borrowings		1,058,114	1,246,277
Deferred tax		760	349
Provisions		59,986	13,469
Trade and other payables		44,255	37,471
Tax payable		2,955	4,882
Total liabilities		1,166,070	1,302,448
Total equity and liabilities		1,559,359	1,578,794

Note that the results are unaudited and subject to change.

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Condensed group statement of financial performance

R'000	Notes	Three months ended		Twelve months ended	
		31-Mar-22	31-Mar-21	31-Mar-22	31-Mar-21
Revenue	6	132,454	97,533	626,291	637,029
Gross yield from assets		113,961	83,770	534,281	584,075
Impairments		19,632	61,682	63,468	3,080
Net yield		133,593	145,452	597,749	587,155
Finance costs		(27,330)	(31,947)	(115,304)	(142,256)
Net margin		106,263	113,505	482,445	444,899
Net assurance income - funeral benefits		6,608	3,060	26,126	23,518
Outsourced collection income		11,885	10,703	51,144	45,556
Other income		7,319	2,060	20,544	23,912
Net operating income		132,075	129,328	580,259	537,885
Operating expenses		(117,903)	(98,628)	(459,114)	(425,558)
Profit before taxation		14,172	30,700	121,145	112,327
Taxation		8,339	6,126	(3,265)	(3,696)
Profit for the period		22,511	36,826	117,880	108,631

Note that the results are unaudited and subject to change.

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Condensed group statement of comprehensive income

R'000	Twelve months ended	
	31-Mar-22	31-Mar-21
Profit for the period	117,880	108,631
<i>Other comprehensive income/(loss):</i>		
Effects of cash flow hedges	(937)	(346)
Total comprehensive income for the period	116,943	108,285

Condensed group statement of changes in equity

R'000	Share capital and equity notes	Cash flow hedging reserve	Accumulated loss	Total equity
<i>For the twelve months ended 31 March 2022</i>				
Opening balance	1,308,857	2,084	(1,034,595)	276,346
Profit for the period	-	-	117,880	117,880
Other comprehensive income	-	(937)	-	(937)
Closing balance	1,308,857	1,147	(916,715)	393,289
<i>For the twelve months ended 31 March 2021</i>				
Opening balance	1,308,857	2,430	(1,143,226)	168,061
Profit for the period	-	-	108,631	108,631
Other comprehensive income	-	(346)	-	(346)
Closing balance	1,308,857	2,084	(1,034,595)	276,346

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Condensed group statement of cash flows

R'000	31-Mar-22	31-Mar-21
Cash flows generated from operating activities		
Cash generated by operations	228,152	500,505
Finance costs	(114,666)	(141,590)
Tax refunded (paid)	4,403	(7,372)
	117,889	351,543
Cash flows utilised in investing activities		
Additions to equipment	(7,517)	(10,175)
Proceeds on sale of equipment	2,123	1,998
Investment in Cell Captive preference shares	-	(1,000)
Proceeds on sale of investment in joint venture	-	10,847
	(5,394)	1,670
Cash flows from financing activities		
Proceeds from borrowings	261,000	160,000
Repayment of borrowings	(442,981)	(413,020)
	(181,981)	(253,020)
Total cash movement for the period	(69,486)	100,193
Cash and cash equivalents at the beginning of the period	426,793	326,600
Total cash and cash equivalents at the end of the period	357,307	426,793

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Notes to the condensed financial statements

The registration number of Evolution Credit Limited is 1999/020093/06.

1. Basis of preparation

The condensed financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These financial statements do not include all of the information required by International Financial Reporting Standards (IFRS) for full financial statements and should be read in conjunction with the annual financial statements for the year ended 31 March 2021.

The principal accounting policies are consistent with those of the annual financial statements for the year ended 31 March 2021, as described in those annual financial statements. There was a change in estimate during the year, refer below. The financial statements are presented in South African Rands.

2. Significant judgements and sources of estimation uncertainty

Key sources of estimation uncertainty

Impairment of financial assets

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

Forward-looking indicators

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

The impact that the COVID-19 lockdown has had on actual collections has sufficiently been taken into account in the annual valuation model recalibration and no further adjustments to expected credit losses are required. Most industries have reopened since the COVID-19 lockdown and the employed population is almost back to pre-lockdown levels, however, given the current economic and political environment, the South African consumer is still facing a myriad of challenges which could impact their ability to service their debt.

The debit order payments platform has been fully migrated to DebiCheck as from 1 November 2021 and no further Non-Authenticated Early Debit Order (Naedo) deductions are allowed. The system has become relatively stable and no anticipated system failures are foreseen on the new DebiCheck platform. On 1 November 2021 all existing Naedo mandates were transferred to the Migrated Naedo mechanism as part of the transition to DebiCheck. As Migrated Naedo mandates are suspended over time these will be replaced by either Authenticated DebiCheck (AC) or Registered Mandate Services (RMS) mandates. This will result in a higher proportion of the overall portfolio running debit orders on RMS mandates given the current low levels of authentication on payment arrangements.

Higher levels of non-payment of collectable instalments were considered in determining expected credit losses.

Critical judgements in applying accounting policies

Recognition of deferred tax asset

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

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.

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3. Change in estimate

IFRS requires that an entity regularly reviews the methodology and assumptions used for estimating expected credit losses to reduce any differences between estimates and actual credit loss experience. Provisioning methodologies for the group's net advances are reviewed annually to incorporate actual performance for the current year and to establish whether the methodologies still are appropriate

Shortening the Acquired debt collection curve from 120 months to 96 months

Management shortened the recovery curve used in the current methodology from 120 months to 96 months due to the following reasons:

- Operationally debts are resolved earlier after purchase which could result in less cash being available in these portfolios in later years.
- The longest repayment plan offered to customers is 96 months.
- To reduce the risk in the tail of the collection curve given the volatile socio- and macro-economic environment and given that the loans purchased are unsecured.
- To align net advance valuations with new book pricing where a 96-month recovery curve is applied.

The net impact of reducing the length of the curve to 96 months was a downwards valuation of R54.6 million.

Changes made to the Evolution Finance non-performing loan segmentation

The valuation methodology in the previous financial year segmented the non-performing loan (NPL) portfolio into twenty six segments using payment behaviour. This segmentation has proven to be accurate in forecasting recoveries but created volatile monthly provision charges due to the large number of accounts migrating back and forth between the different segments in "good" and "bad" collection months. The relatively small size of the NPL portfolio and monthly NPL emergence was insufficient to maintain a high level of segmentation with statistical stability.

Management therefore introduced a time-based (months since entry into NPL) segmentation to replace the current segmentation based on payment behavior. This has resulted in reducing the number of segments down to six which will produce a less volatile monthly impairment charge on these NPL loans.

The proposed segmentation has been back tested against the NPL book as at November 2018. The sum of the forecast recoveries was then compared to the actual recoveries over the subsequent two years. The recovery forecast for the back test period using the proposed segmentation is slightly more accurate over time when compared to the current segmentation.

Material changes in the risk profile of new accounts originated over time could potentially affect the performance rank ordering of the recovery curves used for the new segmentation, however back tests show continued accuracy, even during a period where risk appetite changed materially.

The overall impact of the annual review and the change in the methodology is an increase in the provision held against the NPL portfolio of R12.3 million.

3. Dividends

No ordinary dividends were declared or paid to shareholders during the twelve months ended 31 March 2022.

4. Amount receivable form Old Mutual Alternative Risk Transfer

The group invested in the preference shares in the OMART Evolution Life (formerly Real People) Cell Captive which entitles it to the profits of the insurance business that is housed in the cell. The receivable from OMART is measured at the net asset value of the cell at the end of the reporting period.

	31-Mar-22 R'000	31-Mar-21 R'000
OMART Cell Captive preference shares	1,000	1,000
OMART Cell Captive retained earnings	14,164	8,914
	15,164	9,914

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Notes to the condensed financial statements

5. Net advances	31-Mar-22 R'000	31-Mar-21 R'000
<i>Evolution Finance (formerly Home Finance)</i>		
<i>Performing loans</i>		
Gross advances	462,909	435,433
Impairment of advances	(68,570)	(81,897)
	394,340	353,536
<i>Non-performing loans</i>		
Gross advances	1,416,168	1,529,242
Impairment of advances	(1,286,727)	(1,366,489)
	129,440	162,753
<i>Acquired Debt</i>		
Gross advances	677,188	723,203
Impairment of advances	(70,544)	(173,138)
	606,645	550,065
<i>Combined</i>		
Gross advances	2,556,265	2,687,878
Impairment of advances	(1,425,840)	(1,621,524)
Net advances	1,130,426	1,066,354

6. Revenue		
<i>Revenue other than from contracts with customers</i>		
Interest and similar income	497,044	502,819
Net premiums received	78,103	88,655
<i>Revenue from contracts with customers</i>		
Outsourced collection income	51,144	45,556
	626,291	637,029

7. Taxation

Recognition of additional deferred tax assets within the group remains suspended.

8. Segment information

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

<i>Reportable segment</i>	<i>Services</i>
Evolution Finance (formerly Home Finance)	Provides credit and related financial services (credit life cover) to customers of building supply merchants
Acquired Debt channel	Purchases non-performing loan portfolios and provides debt collection solutions to credit providers. Owns and collects the discontinued receivables of the group
Outsourced Collections	
Evolution Life (formerly RP Life)	Collects outstanding debt on the behalf of corporate outsourced clients Provides a variety of funeral, disability and loss of income benefits to customers.

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Notes to the condensed financial statements

Segment information (continued)	Net operating income R'000	Operating expenses R'000	Profit before tax R'000
<i>For the twelve months ended 31 March 2022</i>			
Evolution Finance	172,207	(37,164)	135,043
Acquired Debt	305,132	(124,453)	180,680
Outsourced collections	51,072	(38,001)	13,072
Evolution Life	27,033	(27,126)	(93)
Central cost centres and head office functions	24,815	(232,372)	(207,556)
	580,259	(459,114)	121,145

*** For the twelve months ended 31 March 2021**

Evolution Finance	182,115	(94,179)	87,937
Acquired Debt	263,702	(98,102)	165,599
Outsourced collections	45,630	(28,510)	17,120
Evolution Life	24,239	(22,748)	1,492
Central cost centres and head office functions	22,199	(182,019)	(159,820)
	537,885	(425,558)	112,327

* Comparatives have been restated for comparability with current year results per channel.

	Assets R'000	Liabilities R'000
<i>31 March 2022</i>		
Evolution Finance	645,296	(490,977)
Acquired Debt	740,074	(503,732)
Evolution Life	18,959	(17,187)
Central cost centres and head office functions	155,029	(154,174)
	1,559,359	(1,166,070)
<i>31 March 2021</i>		
Evolution Finance	676,514	(645,801)
Acquired Debt	841,856	(884,017)
Evolution Life	13,726	(17,427)
Central cost centres and head office functions	46,698	244,797
	1,578,794	(1,302,448)