THE RCS GROUP

Consolidated Annual Financial Statements 2019

Including Supplementary Information

RCS
BNP PARIBAS GROUP
20 YEARS

CONTENTS

OVERVIEW

BNP Paribas Personal Finance South Africa Limited, previously known as RCS Investment Holdings Limited, and its subsidiaries (hereafter referred to as the "RCS Group") operate in South Africa, Namibia and Botswana. The RCS Group is a consumer finance business that offers its customers a range of financial services products under its brand name and in association with a number of leading retail and commercial partners.

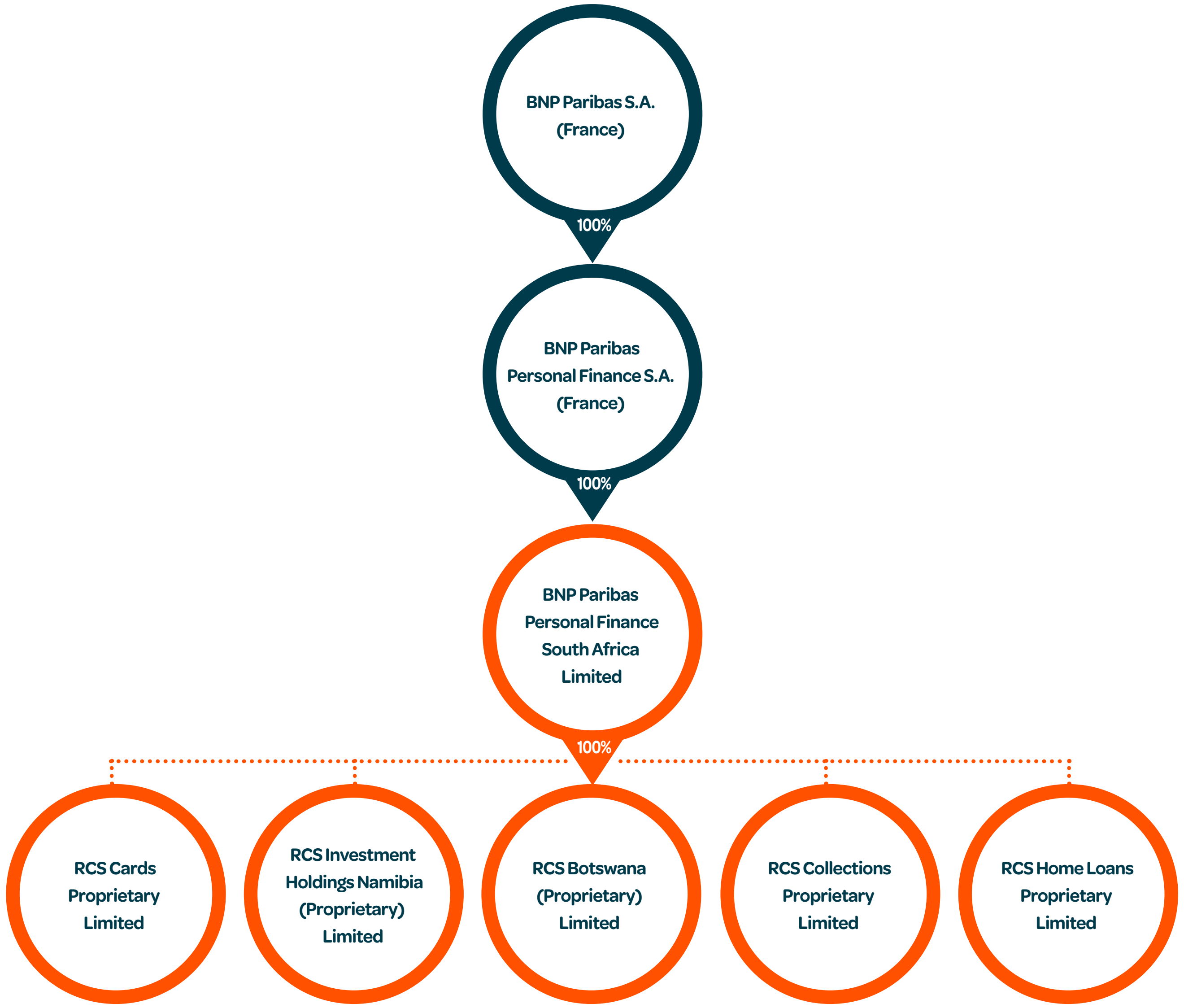
The RCS Group is an independent, JSE debt-listed and highly regulated financial services company. The RCS Group is owned by BNP Paribas Personal Finance Sociètè Anonyme (France) (hereafter referred to as "BNPP PF"), and the ultimate shareholder is BNP Paribas Sociètè Anonyme (France) (hereafter referred to as "BNP").

The RCS Group's core purpose is to enhance people's lifestyles through innovative and accessible credit financial solutions, serving over 1.4 million active customers, and offers a range of card, loan and insurance products, including the following:

- The RCS Card and various partner-branded cards provide convenient retail credit facilities to customers.
- The RCS Credit Card and various partner-branded credit cards.
- RCS Loans provide customers with cash, auto and retail loan offerings.
- RCS Insurance includes Customer Protection Insurance and Accidental Death Cover, as well as Funeral Cover and Personal Accident Cover, which launched in the current financial year.

The RCS Group continues to demonstrate growth and innovation in the credit market, offering accessible credit solutions to our customers. For our partners, we provide more than just a technical solution and product. We customise products that integrate people, processes and technology to create value for our partners and their customers.

GROUP STRUCTURE



CEO'S REPORT

The RCS Group's focus in 2019 was on consistent transformation in our business, driven by the positive momentum towards our 2020 strategic plan generated over the past four years. We made significant progress on a number of key projects which have begun to contribute towards the future of the RCS Group. This year we also celebrated the significant milestone of our 20th Anniversary, which we used to galvanise our vibrant culture and show our appreciation for our people. The year ended on a financial note that was satisfactory and financial results that we are very proud of amid challenging market conditions. The RCS Group will continue its focus on its objectives as we progress towards the end of our strategic plan in the coming year.

RESULTS AND PERFORMANCE

Continued growth this financial year was realised through the efforts we embarked on as part of our 2020 strategic plan. We are very satisfied in achieving positive results in a challenging economic climate with sustained uncertainty and weak consumer demand. Profit after tax grew by 17% with the gross active debtors book growing by 17% to R11.5 billion as at the end of December 2019.

In addition to our business performance, we successfully sourced funding through our Domestic Medium Term Note ("DMTN") programme and banking funding in 2019. Our funding remains well diversified with over 30 funders. The R10 billion DMTN programme has a long-term zaAAA rating from Standard & Poor's Ratings and continues to receive strong interest from the investor market.

BUILDING FOR THE FUTURE

As part of our 2020 strategic plan, we aim to transform the RCS Group for the future by diversifying, digitising and nurturing a customer-centric culture, all of which draw from a focus on innovation that we have established as the foundation for these efforts. 2019 included a number of highlights in this regard, most notably the launch of a new digital customer on-boarding system. Customers can now apply for an RCS Card product via a fast, simple, paperless process on convenient and varying platforms. We expect to see an increase in new approvals and improved operational efficiencies as a result. The newest business lines including credit card and car finance gained traction this year and are set to begin contributing to our business in the year ahead.

INVESTING IN OUR COMMUNITY

Our Corporate Social Responsibility (CSR) strategy considers our business' responsibility from an economic, civic, social and environmental perspective to make a positive impact on our customers, our society, our staff and our environment. This year we contributed towards two notable CSR projects. Firstly, supporting the establishment of the Forest Whitaker Peace and Development Initiative in South Africa, which aims to end gang violence on the Cape Flats. Secondly, the sponsorship of the BNP Paribas RCS Rising Star Tennis Initiative which focuses on empowering young people and growing tennis in South Africa at grassroots level. We also continued our ongoing support for the Gugulethu Athletics Club, The JAG Foundation and TSIBA – who we partnered with to develop LevelUp – an exciting program which supports the growth of small businesses and entrepreneurs.

The RCS Group achieved the Top Employer rating for a second consecutive year. We see this achievement as an affirmation of the investment that we have always made in our people. It inspires us to continue to make these investments in line with our people strategy and our responsibility to our society. Ultimately, the RCS Group aims to contribute towards building a better South Africa, we are proud of the positive impact we are able to make to society and for our people.

CHALLENGES AND RISKS

Weak economic growth persisted this year and the improved economic outlook that many were anticipating did not manifest. As such, the pressure on consumers and the retail environment remained an obstacle to growth. We proceeded to implement positive changes with the aim of gaining efficiencies and growing our market share in a considered and pragmatic manner. In addition, we have invested in existing and new strategic partnerships to deliver growth in the future.

COVID-19 PANDEMIC

With the uncertain times caused by the outbreak of the COVID-19 pandemic, the health, safety and well-being of our employees has remained RCS's primary focus of attention. During this time of altered social rules we had the continued commitment from our staff working from home, as well as the reduced, but essential complement of on-site staff to ensure we perform the necessary functions to support our customers and partners. We have implemented various financial, economic, social and structural modifications to ensure the sustainability of our business, enabling us to continually serve the needs of our partners, suppliers and customers in these uncertain times with the full support of our Board and Shareholders.

PROSPECTS

2020 will see a determined focus on completing the last steps on our journey toward our 2020 strategic objectives. We are confident that the initiatives we have invested in, as part of our 2020 plan, will position the RCS Group for continued growth and sustainability. We will continue to focus on our partnerships, new business lines and innovation to drive growth. We will also intensify our customer focus to ensure we partner effectively with our valued customers during this period of uncertainty and economic difficulty.

CEO’S REPORT

(continued)

APPRECIATION

I want to thank our shareholder and the Board for their consistent support and encouragement. In addition, we would like to thank our funders for their confidence in the RCS Group. As we reflect at the end of our 20th year, we are grateful to our commercial partners, those who have been with the RCS Group for some time and our newest partners for the integral part that they play in our business. We want to express our gratitude to the customers who have trusted the RCS Group to finance their purchases, their projects and their dreams over the past 20 years.

I would like to thank every employee of the RCS Group for their commitment and contribution towards the projects and initiatives that have been part of our 2020 plan so far. Transformation requires hard work and I appreciate yours. In particular, I would like to thank our longest serving employees, many of whom have been with our business more than 15 years, for their loyalty and contribution to building the RCS Group into the business that it is today. Lastly, sincere thanks to the RCS Group's Executive Team for their support and dedication to making it possible this past year.

THE BOARD OF DIRECTORS

OVERVIEW AND COMPOSITION OF THE BOARD OF DIRECTORS

The composition of the board of directors (hereafter referred to as the “Board”), is regulated by BNPP PF, the sole shareholder of the RCS Group, in terms of the RCS Group’s Memorandum of Incorporation, and is deemed to be adequate and appropriate.

The Board recognises and embraces the benefits of having a diverse board and appreciates that diversity at board level is an essential component for sustaining a competitive advantage. The Board is committed to ensuring a diverse and inclusive culture at board level, where directors believe that their views are heard, their concerns are attended to, and they serve in an environment where bias, discrimination and harassment are not tolerated. These principles are included in the Board’s Term of Reference.

The Board is committed to transformation while balancing this with the requirements of a foreign shareholder and are guided by BNPP PF with respect to board representation.

LEAD INDEPENDENT NON-EXECUTIVE DIRECTOR

Edwin Oblowitz (62)

Appointed: 2015

Lead Independent, Non-executive Director

Qualifications:

- B.Com (Accounting)
- CA (SA)
- CPA (Isr)

Experience:

Edwin has vast audit, finance and business advisory experience having spent over 20 years in professional practice, most notably as a senior partner of the Cape Town, Durban and Port Elizabeth offices of Arthur Andersen. Edwin is currently the Executive Chairman of Stonehage Fleming South Africa, which provides multifamily office, wealth management and advisory services to both local and international clients. Edwin presently holds the position of Chairman of the Board Audit and Risk and Social and Ethics Committees with the RCS Group. Edwin also holds the position of Non-executive Director at various listed and unlisted companies outside of the RCS Group.

He holds the following positions at companies outside of the RCS Group: Director and Chairman of the Audit, Member Risk and Compliance Committees of Stonehage Fleming Family and Partners; Independent Non-executive Director, member of the Audit Committee and Chairman of the Risk and Remuneration Committees of The Foschini Group Ltd; and Non-executive Director and Chairman of the Audit and Risk Committee at Trencor Ltd.

Roles and responsibilities of the Lead Independent, Non-executive Director:

- Briefs the CEO/Chairman of the Board on issues and concerns relevant to the RCS Group;
- Enables access to information to assist the Board in monitoring the RCS Group's performance and the performance of management;
- Ensures the Board is advised on country, industry and market best practice governance standards;
- Aids in the distribution of information to directors;
- Provides support and advice to the CEO/Chairman of the Board;
- Represents the Board on various sub-committees;
- Advises the Board on ad hoc strategic matters; and
- Providing expert, independent advice to the Board.

THE BOARD OF DIRECTORS

(continued)

NON-EXECUTIVE DIRECTORS

Benoit Cavelier (56)

Appointed: 2014

Non-executive Director

Qualifications:

- BA
- LLB
- Finance speciality qualification, *Tours Business School*
- CA (Fr)

Experience:

Benoit is one of the Deputy Chief Executive Officers and a member of the Executive Committee of BNPP Personal Finance. Benoit has over thirty years' experience in finance and consumer lending. Benoit presently holds the position of Chairman of the Remuneration, Asset and Liability, and Credit Risk Committees and is a member of the Social and Ethics Committee of the RCS Group. He holds the following positions at companies outside of the RCS Group: Member of the Supervisory Board of Von Essen Bank and the Chairman of the Board for Alpha Credit.

Independence

The RCS Group is a wholly owned subsidiary of the multinational banking and financial services group, BNPP PF, a company listed on the Paris Stock Exchange. The Chairman is a senior executive of the shareholder and is appointed by the shareholder. Given this, the Board is satisfied that he is independent.

NON-EXECUTIVE DIRECTORS (CONTINUED)

Schalk van der Merwe (55)

Appointed: 2006

Independent Non-executive Director

Qualifications:

- B.Com Hons (Economics)
- B.Com Hons (Transport Economics)

Experience:

Schalk joined the RCS Group as an Executive Director in 2006 and served as CEO of the RCS Group from 2009 until 2016. Prior to joining the RCS Group, Schalk worked in the management consulting industry, running his own practice as well as working for Arthur Andersen. He also gained significant retail consumer finance experience as an Executive at The Foschini Group Ltd and as an Executive Director of Woolworths Financial Services.

Schalk presently holds the position of Independent Non-executive Director with the RCS Group. He holds the position of Non-executive Director of Retail Capital Proprietary Limited and serves as a trustee for the JAG foundation.

NON-EXECUTIVE DIRECTORS (CONTINUED)

Patrick Alexandre (57)

Appointed: 2019

Non-executive Director

Qualifications:

- Political Sciences, *Université catholique de Louvain (Belgium)*
- Economics & Finance, *Université catholique de Louvain (Belgium)*

Experience:

Patrick is the Head of Africa for BNPP PF. Patrick joined the Board of the RCS Group with extensive experience within the BNP Group (30 years), having held a number of senior roles across Commercial, Operations and Risk across various business lines and countries.

NON-EXECUTIVE DIRECTORS (CONTINUED)

Vikas Khandelwal (50)

Appointed: 2016

Non-executive Director

Qualifications:

- BBA (Business Administration & Management)

Experience:

Vikas is Head of Territory for BNPP in South Africa. He directly oversees the Corporate and Institutional Banking business of the bank through a full banking branch in Johannesburg. Vikas has been with BNP Paribas Group since 2001. Prior to his current position, he was the Head of Corporate Coverage for the Middle East and Africa. In this role, he directed a team of coverage bankers to manage client portfolios and generate revenues across various product classes like Global Markets, Corporate Finance – M&A, Structured Finance, Trade Finance and Cash Management.

Vikas presently holds the position of Non-executive Director with the RCS Group. He holds the following positions at companies outside the RCS Group: Chairman of the International Banking Association (IBA) of South Africa, Board Member of the Banking Association of South Africa, Board Member of the French South Africa Chamber of Commerce and Industry and Member of the *Conseiller du Commerce Exterieur de La France.*

THE BOARD OF DIRECTORS

(continued)

NON-EXECUTIVE DIRECTORS (CONTINUED)

Patrick Miron de L'Espinay (58)

Appointed: 2018

Non-executive Director

Qualifications:

- Civil Engineer of Mines, *École des Mines de Saint-Étienne*

Experience:

Patrick has a wealth of experience within the broader BNP Group, having been involved within various BNP entities and subsidiaries since 2008. A specialist in business development and the management of profit centres, Patrick has been actively involved in a number of financial services mergers and has experience across more than 10 European countries.

Patrick presently holds the position of Non-executive Director with the RCS Group. He holds the following positions at companies outside of the RCS Group: Deputy Head of Key Partners, in charge of Brokerage, an entity of BNP Paribas Personal Finance France.

EXECUTIVE DIRECTORS (CONTINUED)

Regan Adams (48)
Appointed: 2011
Executive Director
Qualifications:
- B.Sc Engineering (Electrical & Electronics)
- B.Com
- B.Com Hons (Financial Analysis & Portfolio Management, Investments & Securities)

Experience:
Regan was appointed as CEO of the RCS Group in 2016. Having been an executive director since 2004, Regan has had experience in a number of senior roles in the RCS Group, most notably as Chief Operating Officer and Chief Commercial Officer. Before joining the RCS Group in 2004, Regan was a senior manager at Capital One Financial Corporation in engineering management. Regan does not currently hold any professional position other than Executive Director and CEO of the RCS Group.

Notice period:
It is our policy that the CEO has an employment contract with the RCS Group which may be terminated with three calendar months' notice. Included in this agreement are the clauses pertaining to restraint of trade and non-solicitation.

Succession plan:
Succession planning is done at the BNPP PF level with regard to the position of CEO at the RCS Group. This is further strengthened by a formal talent programme, Leaders for Tomorrow.

Leaders for Tomorrow is BNPP's integrated talent strategy and is a structured programme that focuses on identifying and developing leadership talent, preparing the next group of leaders and broadening diversity among senior leadership. The ultimate goal of this group-wide programme is to prepare the succession of employees who are able to progress to executive committee positions. All executive directors are part of the Leaders for Tomorrow talent programme.

THE BOARD OF DIRECTORS

(continued)

EXECUTIVE DIRECTORS

Chris de Wit (40)
Appointed: 2016
Executive Director
Qualifications:
- B.Com (Accounting)
- B.Com Hons (Accounting)
- CA (SA)

Experience:
Chris is the Deputy CEO of the RCS Group. Chris joined the RCS Group in 2008 and progressed his career in finance to his appointment as Chief Financial Officer (CFO) in 2016. Over his tenure with the RCS Group, Chris expanded his responsibilities beyond Finance, into Commercial, Procurement and the Strategic Project Office. Prior to joining the RCS Group, Chris served as Financial Manager within the retail sector.

Chris does not currently hold any professional positions other than Executive Director and Deputy CEO of the RCS Group.

THE BOARD OF DIRECTORS

(continued)

EXECUTIVE DIRECTORS (CONTINUED)

Mariné van Brakel (37)
Appointed: 2019
Executive Director
Qualifications:
- B.Com (Accounting)
- B.Com Hons (Accounting)
- CA (SA)

Experience:
Mariné joined the RCS Group in 2014, where she was promoted through the Finance department to ultimately being appointed Chief Financial Officer (CFO) in December 2019. Prior to this, Mariné was the Deputy to the CFO as the Finance Executive. Mariné joined the RCS Group from KPMG where she gained valuable international experience in her capacity as Corporate Audit Manager and Management Consultant in the United Kingdom.

Mariné does not currently hold any professional positions other than Executive Director and CFO of the RCS Group.

MEETINGS AND QUORUM

The Board meets three times a year and a quorum comprises a majority of directors of the RCS Group provided that at least one BNPP Designated Director is present at the meeting.

EVALUATION OF THE PERFORMANCE OF THE GOVERNING BODY

The Board is assessed annually by way of an internally conducted process that deals with the performance effectiveness of the Board and its various sub-committees. Each Board member is given a confidential questionnaire to complete regarding the effectiveness of the Board and the Board sub-committees. The assessment includes an evaluation of the following:

- whether the diversity of the Board is appropriate;
- the number of meetings held;
- whether there is sufficient support for the Board;
- whether the decision-making process is appropriate;
- whether the Board is kept abreast of developments in the RCS Group; and
- whether the Board was afforded access to management and exposure to operations.

The results of the questionnaires are reviewed by the Company Secretary who summarises the results and identifies any improvement areas that the Board needs to consider. This is then communicated to the Board at the upcoming Board meetings, and a plan to address these areas is agreed upon and is implemented. The Board then assesses the progress made in each of the areas.

The Board was comfortable with the results of the assessment for the year ended 31 December 2019 for both the Board and the Board sub-committees. The Board is satisfied that it continues to function well and that the directors have fulfilled their responsibilities in accordance with the Board's Term of Reference.

DELEGATION OF AUTHORITY

The Board delegated specific responsibilities to Board sub-committees and management, each with its own Terms of Reference that defines its responsibilities. The committees aim to review their respective Terms of Reference annually and undertake an annual performance evaluation.

The Board confirms that the sub-committees functioned in accordance with the provisions contained in their respective Terms of Reference during the financial period ended 31 December 2019.

The roles and responsibilities of each sub-committee is disclosed on pages 21 to 25.

THE BOARD OF DIRECTORS

(continued)

COMPANY SECRETARY

As the Company Secretary, Guy Harker is accountable to the Board and all directors have access to his advice and services. He maintains a neutral relationship with the Board and is not a director of the RCS Group. The Company Secretary is independent and functionally reports to the Board on matters related to the position of the Company Secretary.

The Company Secretary performs all duties as listed in section 88 of the Companies Act, No. 71 of 2008 ("Companies Act"), however, other duties may be assigned as defined by the Board.

The Board assesses, as part of the annual Board evaluation process, whether the Company Secretary has fulfilled his required obligations and duties. The assessment questionnaire gives the Board the opportunity to not only evaluate the Company Secretary but to raise any concerns they may have.

The Board is confident that the Company Secretary is suitably qualified, competent and an experienced individual who is able to provide the Board with the necessary support to fulfil its purpose and its duties as prescribed by the Companies Act, the King IV Report on Corporate Governance for South Africa and the JSE Debt Listing Requirements.

OVERVIEW

The RCS Group has the following Board sub-committees: Audit and Risk; Social and Ethics; Credit Risk; Asset and Liability and Remuneration Committees. The composition of each committee is reviewed annually. The sub-committees, comprising directors, executives and senior management, deal with specific risks facing the RCS Group, in a structured manner and in accordance with Board-approved Terms of Reference. The sub-committee members are satisfied that they have fulfilled their responsibilities in accordance with the sub-committees' Terms of Reference for the year ended 31 December 2019.

Board and sub-committee attendance

The attendance of directors at Board meetings as well as members and invitees of sub-committees at sub-committee meetings for the reporting period was as follows:

	Board	Board Audit and Risk Committee		Remuneration Committee		Asset and Liability Committee		Social and Ethics Committee		Credit Risk Committee	
		Member	Invitee	Member	Invitee	Member	Invitee	Member	Invitee	Member	Invitee
Number of Meetings	3	3	3	1	1	3	3	2	2	3	3
Edwin Oblowitz	3/3	3/3	-	-	-	-	-	2/2	-	-	3/3
Benoit Cavelier	3/3	-	2/3	1/1	-	1/3	-	1/2	-		2/3
Schalk van der Merwe	3/3	-	3/3	-	-	-	3/3	-	2/2	-	-
Isabelle Perret-Noto*	2/3	2/3	-	-	-	-	-	-	-	-	-
Patrick Miron L'Espinay	3/3	2/3	-	-	-	-	3/3	2/2	-	1/3	1/3
Vikas Khandelwal	2/3	-	2/3	-	-	-	2/3	-	2/2	-	3/3
Regan Adams	3/3	-	3/3	1/1	-	3/3	-	2/2	-	3/3	-
Chris de Wit	3/3	-	3/3	-	1/1	3/3	-	2/2	-	3/3	-
Patrick Alexandre**	1/3	1/3	-	-	-	-	1/3	1/2	-	1/3	-
Guy Harker (Company Secretary)	3/3	-	3/3	-	-	-	3/3	-	2/2	-	3/3
RCS Group Representatives***	-	-	3/3	-	-	-	3/3	-	2/2	-	3/3
Shareholder Representatives***	-	-	3/3	-	1/1	-	3/3	-	2/2	-	3/3
External Auditors	-	-	3/3	-	-	-	-	-	-	-	-
Internal Auditors	-	-	3/3	-	-	-	-	-	-	-	-

*Resigned 19 September 2019.

**Appointed 19 September 2019.

***The representatives attending committee meetings are specialists in their relevant fields.

BOARD AUDIT AND RISK COMMITTEE

Responsibility and Function

The main objectives of the Board Audit and Risk Committee is to assist the Board in respect of the following:

- Commenting on the integrity of the RCS Group's financial statements and accounting practices and overseeing the effectiveness of the internal control function;
- Reviewing, on an annual basis, the expertise, resources and experience of the finance function;
- Overseeing the internal audit function;
- Monitoring, reviewing and providing assurance regarding the effectiveness of the RCS Group's overall internal and enterprise risk management systems pursuant to the shareholder's requirements. This includes overseeing the effectiveness and quality of the internal control framework, the consistency of measurement systems and risk control. For this purpose, the Board Audit and Risk Committee collects all the elements necessary for such assessment from the following independent control functions: Internal Audit, Enterprise Operational Risk, Risk Management Permanent Control, Legal and Compliance;
- Overseeing the effectiveness and quality of the Financial Security Framework according to the shareholder's requirements;
- Reviewing and ensuring that the RCS Group's significant areas of risk are assessed and adequately addressed, including but not limited to:
  -Financial reporting risks;
  -Internal financial controls;
  -Fraud risk; and
  -Information technology risks;
- Assisting the Board in carrying out its information technology governance responsibilities;
- Recommending the appointment of the external auditor and overseeing the external audit process; and
- Maintaining open lines of communication between the Board and the RCS Group's risk management, internal and external auditors and compliance officers.

Key focus areas include:

- Manage cyber security risks;
- Conduct annual evaluations of the internal auditors;
- Focus on the tone at the top, culture, ethics and hotline monitoring;
- Engage in the identification of potential issues;
- Understand plans to address new accounting and regulatory requirements;
- Increase the focus on risk oversight and assessment; and
- Periodically reassess the list of top risks, determining who in management and which Board committee is responsible for each.

THE BOARD COMMITTEES

(continued)

SOCIAL AND ETHICS COMMITTEE

Responsibility and Function

The RCS Group's philosophy is underpinned by the realisation that there is a need to turn wealth into sustainable economic growth and development. Through its business endeavours, the RCS Group seeks to act as a catalyst for development and to make a lasting and important social, economic and environmental contribution to the regions in which the RCS Group operates.

The purpose of the Social and Ethics Committee is to:

- Amongst other things, monitor the RCS Group's social and economic development and fulfil the functions required in terms of the Companies Act of South Africa;
- Monitor and report on the manner and extent to which the RCS Group protects, enhances and invests in the economy, society and the environment in which the RCS Group operates in order to ensure that its business practises are sustainable; and
- Review and consider local economic development opportunities to enable historically disadvantaged South Africans to develop economically and socially.

Key focus areas include:

- Consumer education;
- Further focus on CSR activities in collaboration with BNP Paribas Corporate and Institutional Bank in South Africa;
- Monitoring the employment equity plan;
- Monitoring the impact of the changes to BBBEE;
- Ethics governance;
- Staff wellness;
- Group sustainability; and
- CSR strategy.

CREDIT RISK COMMITTEE

Responsibility and Function

The main responsibilities of the Credit Risk Committee are as follows:

- Oversee the RCS Group's Risk Control Framework;
- Oversee the RCS Group's Risk Appetite Framework which includes the risk appetite statement, risk limits and tolerances;
- Oversee the critical credit risk metrics and the RCS Group's bad debt performance trends;
- Oversee the RCS Group's Risk Policy including formal approval of modifications and tracking the impact of policy and scorecard changes;
- Discuss and challenge credit proposals to make sure they are in accordance with the RCS Group's risk appetite;
- Provide feedback on new products and initiatives affecting the credit risk;
- Discuss and analyse the macro-economic impacts affecting the RCS Group's credit risk;
- Oversee the collection and recoveries performance;
- Analyse and track the cost of risk and the portfolios bad debt provision;
- Oversee the efficiency of the RCS Group's credit decision system, its credit scorecard and the risk tools;
- Oversee the impact of regulatory changes on the credit risk of the RCS Group;
- Report on the data quality and data governance framework;
- Oversee fraud prevention process; and
- Liaison with Audit and Risk Committee on relevant matters.

Key focus areas include:

- Track and follow up policy changes and the impact of regulatory changes;
- Leverage the new behavioural scorecards for the cross-selling of products to existing customers;
- Ensure close tracking of the new loans scorecards implemented at the end of 2017;
- Operational insertion of the IFRS 9 provisioning method;
- Evaluate progress of the data quality project; and
- Surveillance of risk on growth areas like loans and specific new card logs.

THE BOARD COMMITTEES

(continued)

ASSET AND LIABILITY COMMITTEE

Responsibility and Function

The main responsibilities of the Asset and Liability Committee are as follows:

- Liquidity risk management, as guided by BNPP PF, including:
  - -Structural liquidity;
  - -Funding diversification (source and tenor);
  - -Investment requirements; and
  - -Liquidity coverage;
- Interest rate risk management;
- Foreign currency risk management;
- The RCS Group capital management;
- Oversight of Domestic Medium Term Notes Program;
- Monitoring of solvency and liquidity; and
- Funding plans.

Key focus areas include:

- Maintain adequate capital levels;
- Monitor liquidity and funding requirements and related risk diversification; and
- 2020 funding platform.

REMUNERATION COMMITTEE

Responsibility and Function

The Committee has an independent role and governs and approves:

- All remuneration matters in respect of staff, executives and directors;
- Remuneration increases for non-executive directors from time to time;
- Annual cycle base level salary increases in respect of all employees; and
- The aggregate short-term incentive bonus pool and long-term incentive bonus pool.

The Committee further ensures that:

- The RCS Group remunerates executive directors and non-executive directors fairly and responsibly;
- The disclosure of directors' remuneration is accurate, complete and transparent; and
- The RCS Group's overall remuneration philosophy promotes the achievement of the RCS Group's strategic objectives, encourages individual performance and rewards sustainable value creation.

The Committee further performs all the functions necessary to fulfil its role as stated above, including but not limited to the following:

- Reviews the RCS Group's remuneration philosophy and policies for directors and staff;
- Ensures that the remuneration strategy reflects the interests of stakeholders, is comparable to the general remuneration environment in the industry and complies with relevant principles of good corporate governance;
- Considers whether the objectives of the remuneration policy have been achieved;
- Ensures that the ratio of fixed and variable pay, in cash and benefits, is aligned with the RCS Group's strategic objectives;
- Ensures that all benefits, including retirement benefits and other financial arrangements, are justified and correctly valued;
- Selects an appropriate peer group when comparing remuneration levels;
- Advises on the remuneration of independent non-executive directors;
- Oversees the preparation of the remuneration report, to ensure that it:
  - -Provides a clear explanation of how the remuneration policy has been implemented;
  - -Provides sufficient forward-looking information to the Board regarding the fees of non-executive directors; and
  - -Enables the Board to propose to shareholders, for their consideration and approval, a special resolution in terms of section 66(9) of the Companies Act of South Africa.

Key focus areas

Please refer to the Remuneration Committee Report on page 45 for details of the key focus areas of the Remuneration Committee.

SOCIAL & ETHICS REPORT

The Board Social and Ethics Committee is responsible for ensuring, monitoring and reporting in respect of the RCS Group's ethics, responsible corporate citizenship, sustainable development and stakeholder inclusivity. The committee is governed by a formal charter guiding the committee in terms of its objectives, authority and responsibilities. The committee held two meetings during the 2019 financial year.

Feedback to the committee is structured around the BNP approach to CSR activities, which are organised under the following four pillars:

A COMMITTED AND RESPONSIBLE BANK

The Economy
Financing the economy in an ethical manner

Our People
Developing and engaging our people responsibly

The Community
Being a positive agent for change

The Environment
Combating climate change

BNP Paribas Personal Finance have embarked on efforts to further define its Engagement Strategy in order to ensure that engagement is augmented within the RCS Group's mission.

The initial *raison d'être*, to "Promote access to responsible, fair and sustainable consumption", was tested through interviews of both internal and external stakeholders run in nine countries (Brazil, France, Germany, Italy, Portugal, Romania, South Africa, Spain and the UK). The findings indicated that much has already been done in the three fields of engagement: commercial activity (fragile customers, access to credit, green offers); corporate engagement towards environment (monitored countries and involvement in Sustainable Week); regarding employees (HR global agreement and Top Employer awards); and in societal contributions (social inclusion and financial education).

The following initiatives are highlighted for the 2019 financial year under each headline.

ECONOMIC RESPONSIBILITY

Training remains key in ensuring the integrity of our business operations. In 2019, the following mandatory training was held:

Mandatory for all current employees	Mandatory for all new employees
Financial Sanctions & Embargoes	Financial Sanctions & Embargoes
Anti-Money Laundering & Counter-Terrorist Financing	Anti-Money Laundering & Counter-Terrorist Financing
Anti-Bribery & Corruption	Anti-Bribery & Corruption
	Protection of Interests of Clients
	Professional Ethics

We continued to progress the following customer initiatives from 2018:

- 'Fragile Customer' initiatives to accompany customers during a time of distress; and
- Consumer education.

SOCIAL & ETHICS REPORT
(continued)

The LevelUp progamme, which is run in partnership with the TSIBA Ignition Academy, was one of the highlights at RCS in 2019. This formal business development program was aimed at:

- Strengthening and transforming the RCS supply chain;
- Contributing to enterprise and small business development within South Africa; and
- Encouraging staff participation through mentorship and event participation.

Entrepreneurs and business founders engaging with the LevelUp facilitators.

Entrepreneurs and business founders engaging with the LevelUp content.

Entrepreneurs and business founders engaging with the LevelUp facilitators.

RCS Management team at various workshops and training sessions aimed at growing and developing their businesses.

RCS also partnered with TSIBA – a not-for-profit business school offering undergraduate and postgraduate qualifications. Internships were created for their students within our business.

SOCIAL & ETHICS REPORT

(continued)

OUR PEOPLE RESPONSIBILITY

Diversity remains a key topic at RCS. In 2019 significant strides were made to broaden the experience and diversity of our Executive Team. In 2020, this focus will ensure greater representation at all levels of the organisation.

Back (L-R): Stephen Greiff, Leon Jacobs, Glenda Eagar, Lynden Fysh, Sandi Richardson, Jennifer Coetzee and Guy Harker.
Front (L-R): Gavin Lomberg, Balraj Dev, Mariné van Brakel, Robyn Smith, Regan Adams, Deven Moodley and Chris de Wit.

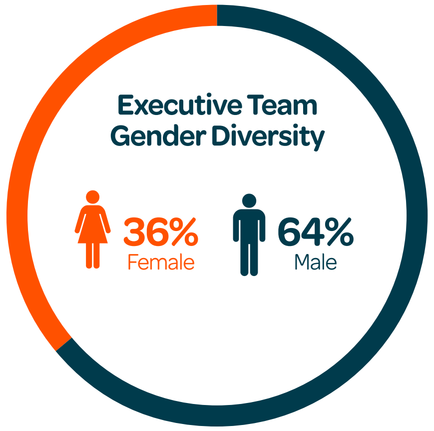
harambee YOUTH EMPLOYMENT ACCELERATOR

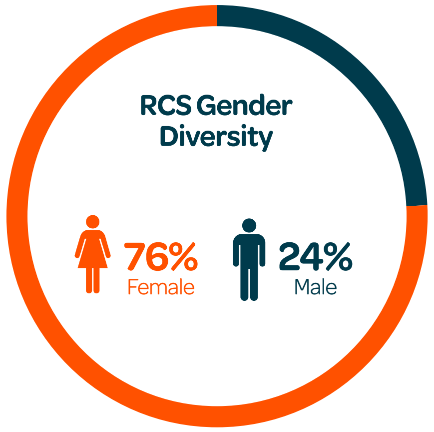
RCS also contributed to addressing the youth unemployment challenge in South Africa. RCS partnered with Harambee, a youth employment accelerator. Harambee sources unemployed youth from within their network to fill entry-level roles within our business.

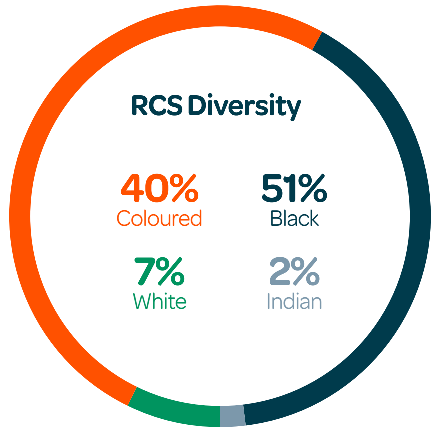
SOCIAL & ETHICS REPORT

(continued)

DIVERSITY AT RCS







top EMPLOYER SOUTH AFRICA 2020 CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

We are proud that RCS retained its position as a Top Employer during 2019.

SOCIAL & ETHICS REPORT
(continued)

WE ALSO LAUNCHED OUR EMPLOYEE VALUE PROPOSITION

FAMILY CULTURE

A positive culture and a fun work environment

We are a business that has become big, but where there is still a sense of family. RCS has a vibrant and diverse culture. There is a sense of family among our teams. You are encouraged to share knowledge, collaborate and work with your colleagues from across the business, at all levels.

BROADER HORIZONS

We offer global context & opportunity

We are part of the BNP Paribas Group. BNP Paribas is 'The Bank for a Changing World', which drives our growth and transformation ambitions. As employees of the Group, we are encouraged to embrace the opportunities afforded to us through this association.

PERSONAL GROWTH

We provide you with opportunities to grow

We promote career development by offering real work opportunities and training that extends beyond classrooms. As employees of a global group, we embrace mobility opportunities. We provide world class tools to empower our employees to drive their personal development.

PERSONAL WELLBEING

We look after you

We provide comprehensive benefits to ensure that our employees are well looked after- long after they leave our team. We care for our employee's wellbeing by offering a variety of convenient, on-site services.

POSITIVE IMPACT

We are a Responsible Corporate that you will be proud to work for

RCS conducts itself ethically, we give back to our community and we contribute to building a better South Africa. Being a responsible employer is important to us but we also believe in making a positive impact to our own communities and broader society. Business ethics are fundamental to us and we are energized when supporting causes we believe in.

RCS maintained positive scores for the 2019 Global People Survey – 90% of employees responded to the survey and an 87% employee engagement score was achieved.

In order to further maintain these scores and to address the need to modernise communication with all staff members, the myRCS App was launched.

SOCIAL RESPONSIBILITY

RCS have a number of long-standing Corporate Social Investment (CSI) partners, which continued during 2019. These include the RCS Gugulethu Athletics Club and the JAG foundation – our flagship initiatives during 2019:

The BNP Paribas RCS Rising Star Tennis initiative

A primary school tennis challenge aimed at boosting tennis in South Africa, it gives children from diverse social backgrounds the opportunity to play tennis. The finals were a culmination of a seven-month competition involving more than 360 schools across South Africa. Kevin Anderson and Lloyd Harris made themselves available at the BNP Paribas RCS Rising Star Tennis initiative at the Arthur Ashe Tennis Centre in Soweto. There they engaged with the children and conducted a clinic.

BNP Paribas, RCS and Tennis South Africa representatives at the press conference to announce the launch of the BNP Paribas RCS Rising Star Tennis initiative. L-R: Yannick Jung, Vikas Khandelwal, Regan Adams, Richard Glover & Jacques Michel.

Young players, coaches and other stakeholders celebrating the launch of the BNP Paribas RCS Rising Star Tennis initiative.

Two young players who participated in the BNP Paribas RCS Rising Star Tennis initiative

A young tennis player in action at the launch of the BNP Paribas RCS Rising Star Tennis initiative.

Whitaker Peace and Development Initiative

The Whitaker Peace and Development Initiative (WPDI) launched in South Africa through the opening of a community centre in Athlone, Cape Town. The five-year programme rolled out in the Cape Flats, in partnership with BNP Paribas Group and RCS. The programme seeks to bring much needed change within the areas deeply affected by gang violence. In November 2019, Forest Whitaker visited Cape Town and spoke of the progress of his WPDI Youth Peacemaker Network. Forest was accompanied by Antoine Sire, the Director of Company Engagement for BNP Paribas. His visit included spending time with our employees.

CEO Regan Adams together with Benson Lugwar and Martha Asayo, Peace Keepers with WPDI in Uganda who attended the launch.

Forest Whitaker speaking to RCS employees when he visited our contact centre.

L-R: Caroline Descombris, WPDI Executive Director; Forest Whitaker, WPDI Founder; Antoine Sire, BNP Paribas Director of Company Engagement; Regan Adams, RCS CEO; Deidre Abrahams, BNP CIB HR; and Vikas Khandelwal, Head of Territory BNP Paribas South Africa.

L-R: Vikas Khandelwal, Head of Territory BNP Paribas South Africa moderating a discussion panel with: Regan Adams, RCS CEO; Forest Whitaker, WPDI Founder; Dan Plato, Executive Mayor, City of Cape Town; and Antoine Sire, BNP Paribas Director of Company Engagement.

The RCS Bursary Programme

The RCS Bursary Programme continues to support the education of our employee's children. The bursary fund continues its positive growth trajectory and for the 2019 academic year 156 bursaries were awarded (up from 143 in 2018).

SOCIAL & ETHICS REPORT
(continued)

ENVIRONMENTAL RESPONSIBILITY

RCS and Startupbootcamp hosted a Future Cities Hackathon on 1 to 2 March 2019. The Future Cities Hackathon focused on encouraging sustainable solutions targeted at three of the UN Sustainable Development goals:

- Clean Water and Sanitation
- Life Below Water
- Suitable Cities and Communities

Grow was awarded the winner of the Hackathon for their solution for scaling sustainable farming.

Volunteering

RCS employees also generously gave of their time to participate in the Two Oceans Aquarium Trash Bash beach cleaning project. This initiative endorses the ethos at BNP Paribas that 'Engagement Starts with Me' and was arranged in solidarity with the BNP Paribas 'One Million Hours to Help' campaign. The RCS Group aims to achieve a collective total of one million hours of voluntary work provided by the group's employees.

CREDIT RISK GOVERNANCE REPORT

OVERVIEW

A number of committees are in place to govern, monitor, measure and mitigate risk, which operate under the RCS Group's approved delegated limits, policies and procedures. The Credit Risk Board sub-committee convenes three times a year, comprising executive and non-executive directors which feeds into the overall company Board committee. In addition to this, a working Credit Risk Forum convenes monthly, which is comprised of all the company executives. An Internal Control Committee ("ICC") convenes three times a year and is the key committee concerning the management of operational risk and the permanent control set up in the company.

The Chief Risk Officer ("CRO") is mandated by the Board to manage the risk and reports directly to the independent group risk function of BNPP. The CRO sets out the credit risk framework appetite and tolerance levels for the company on an annual basis, which is formally approved by the risk sub-board committee and the RCS Group risk function.

The RCS Group credit risk policy is independently validated and complies with the overarching BNP Paribas Personal Finance Risk Policy. The mitigation of risks is assured with a number of policies and procedures which are implemented and regularly controlled. A full operational risk and control framework has been implemented in line with BNP Paribas Personal Finance methodology, including the inclusion of specific risks relating to the local environment. A comprehensive first line of defence has been implemented in all key areas of the business, with the Operational Risk and Control team forming the second line of defence. The third line of defence is assured by the central BNP Paribas Group function Inspection Generale ("IG").

Key areas of focus during the reporting period

Credit risk appetite levels are tracked monthly using detailed key performance indicators. Alerts are immediately raised if risk thresholds are breached, which must result in the immediate implementation of mitigation plans. An annual review of the major enterprise risks is performed and these, together with the mitigation plans, are formally approved by the Audit and Control sub-board committee. Credit risk appetite thresholds are reviewed annually with formal BNP Paribas Central Risk and Credit Forum Approval.

ACTIONS TAKEN TO MONITOR THE EFFECTIVENESS OF RISK MANAGEMENT

Close scrutiny and oversight is applied to the effectiveness of the risk management framework that is in place, through governing committees, independent monitoring by group entities, together with a strong enterprise risk culture developed throughout the business.

Key areas of future focus

Continued maturity of the risk management framework under the new IFRS 9 methodology, embedding the risk culture throughout the organisation and ensuring transparent and effective decision-making leadership to a controlled level of risk appetite.

RISK APPETITE

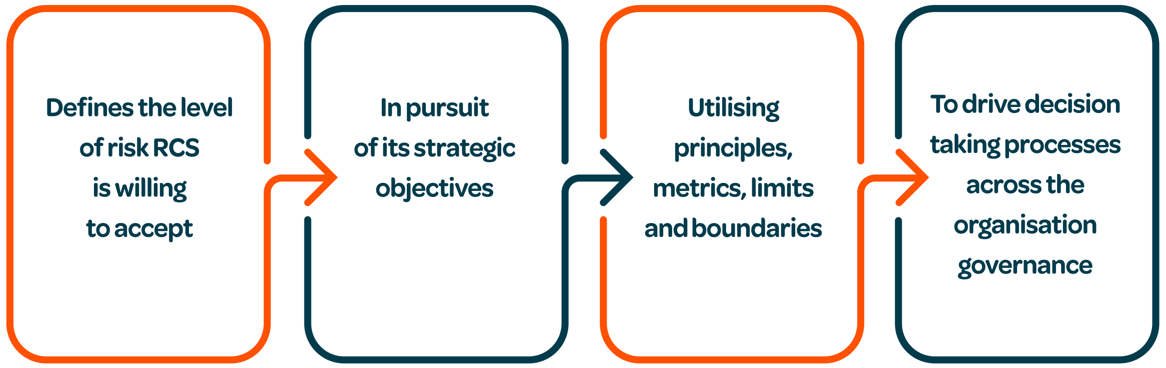
Acceptable risk level in pursuit of strategic objectives and business plans.

RISK APPETITE FRAMEWORK

- Organisation of ERM
- Risk Governance
- Policies and Procedures
- Processes and Technologies

RISK APPETITE STATEMENT

- Principles, Limits and Thresholds
- RAS Governance
- Escalation Process

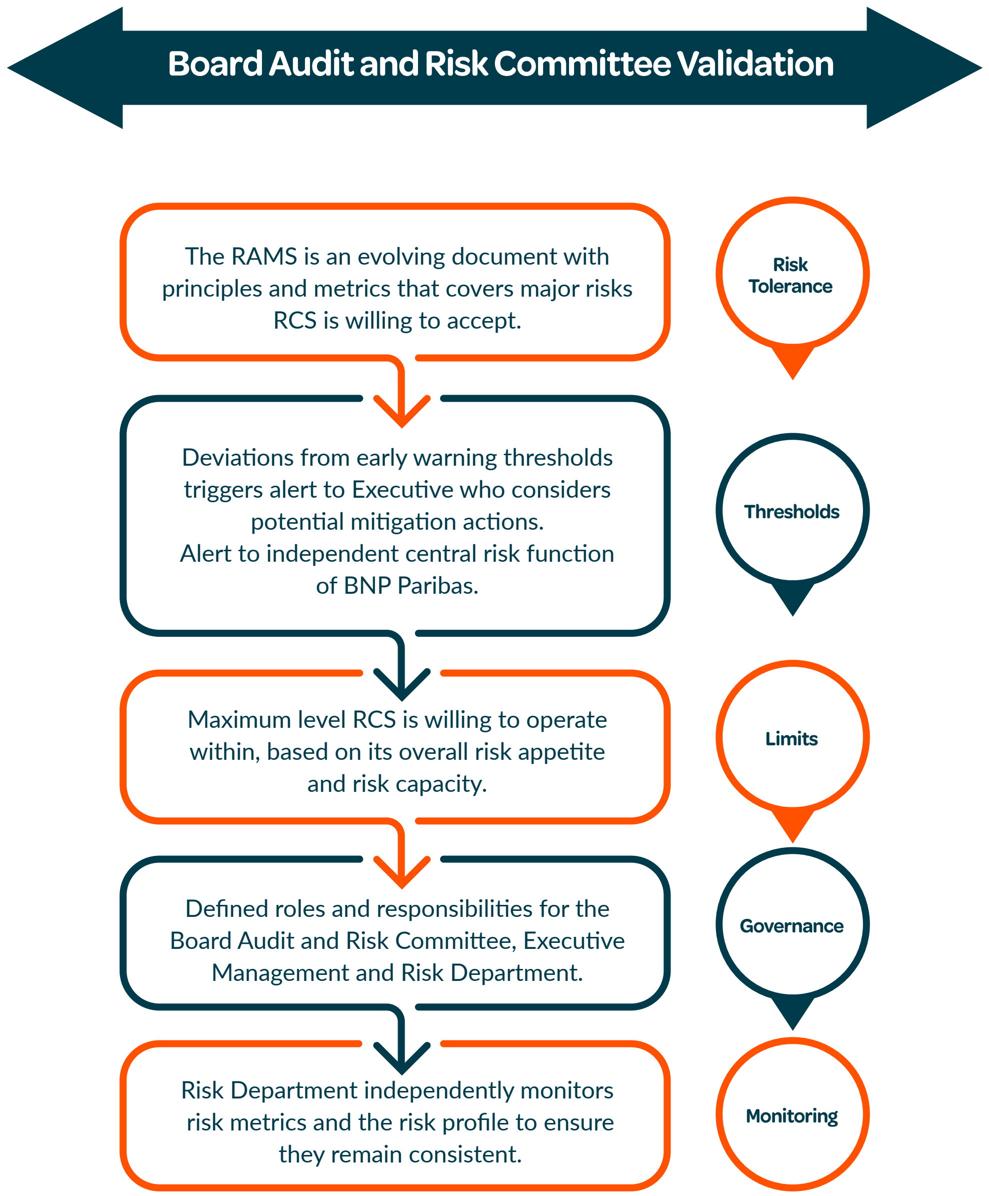


The approach also considers overall internal and external actual and emerging risk, business and regulatory environments in conjunction with the strategic planning process and risk identifications.

CREDIT RISK
GOVERNANCE REPORT
(continued)

RISK APPETITE MANAGEMENT STATEMENT (RAMS)

Thresholds, limits and escalation.



TECHNOLOGY & INFORMATION GOVERNANCE REPORT

OVERVIEW

The Information Technology department's primary objective is to manage IT-related risks, disaster recovery plans and any significant IT initiatives while providing business resilience.

In order to achieve this the department provides support for existing platforms and delivers new technology to foster a robust and sustainable environment for business growth while mitigating associated risks.

This is done in accordance with:

- BNPP Technology Policy;
- The RCS Group Software Development Policy;
- The RCS Group Information Security and User Access Management Policies; and
- The RCS Group Security Incident Response Plan (SIRP).

CONTINUOUS MONITORING OF SECURITY OF INFORMATION

- Event logs recording network activities, exceptions, faults and information security events will be produced, kept and will be regularly reviewed.
- Logging facilities and log information is protected against tampering and unauthorised access.
- System administrator activities are logged and the logs are protected and regularly reviewed.
- The clocks of all relevant information processing systems within the RCS Group or security domain are synchronised to a single reference time source.

The above requirements are in line with the RCS Group Information Security Policy and principles of logging and monitoring of information events.

PROACTIVE MONITORING OF INTELLIGENCE TO IDENTIFY AND RESPOND TO INCIDENTS, INCLUDING CYBERATTACKS

SIRP motivates for security and business teams to integrate their efforts from the perspectives of process, remediation guidelines, contact information, escalation, awareness and communication in times of crisis.

DISPOSAL OF OBSOLETE TECHNOLOGY AND INFORMATION ENVIRONMENTAL IMPACT AND INFORMATION SECURITY

- Electronic equipment is disposed of by an approved e-waste organisation;
- Hard drives are removed and holes are drilled through the drive to render it unusable;
- Retired laptops are sold back to staff, hard drives are wiped and operating systems are reinstalled; and
- Operating systems and associated software versions are continuously verified and updated in accordance with support life cycles.

ETHICAL AND RESPONSIBLE USE OF TECHNOLOGY AND INFORMATION

The RCS Group Acceptable Use Policy outlines the acceptable use of computer equipment. Inappropriate use exposes the RCS Group to risks, including virus attacks and the compromise of network systems and services. The purpose of the Acceptable Use Policy is not to impose restrictions that are contrary to the RCS Group's established culture of openness, trust and integrity, but to protect employees, partners and the organisation from security matters relating to information and the adverse actions by individuals, either knowingly or unknowingly. It is the responsibility of every employee to follow these guidelines and to use equipment and software accordingly.

LEVERAGING OF INFORMATION TO SUSTAIN AND ENHANCE THE ORGANISATION'S INTELLECTUAL CAPITAL

The overall goals for information sustainability are as follows, but are not limited to:

- Establishing controls for protecting the RCS Group's information and information systems against theft, abuse and other forms of harm and loss;
- Motivating administrators and employees to take responsibility for ownership of their knowledge about information security, in order to minimise the risk of security incidents;
- Ensuring that RCS Group is capable of continuing their services even if major incidents occur;
- Ensuring the protection of personal data (privacy);
- Ensuring the availability and reliability of the technology infrastructure and the services supplied and operated by the RCS Group;
- Conforming to principles, methods and frameworks from industry standards for information management: SANS, NIST, COBIT, ITIL, OWASP, TOGAF;
- Ensuring that vendors and strategic partners comply with the RCS Group's information security needs and requirements; and
- Ensuring flexibility and an adequate level of security for accessing information systems remotely.

The above is in line with the RCS Group Information Security and Business Continuity Policies.

TECHNOLOGY & INFORMATION GOVERNANCE REPORT

(continued)

INFORMATION ARCHITECTURE THAT SUPPORTS CONFIDENTIALITY, INTEGRITY AND AVAILABILITY OF INFORMATION

The RCS Group's information security strategy is to safeguard the confidentiality, integrity and availability of information systems to ensure that legislative, operational and contractual requirements are fulfilled that aligns with the RCS Group's business mandate.

Confidentiality:

- To ensure that information is not accessible or disclosed to unauthorised individuals, entities or processes.

Integrity:

- To ensure the safeguarding of the accuracy and completeness of information assets.

Availability:

- To ensure accessibility and use upon demand of information by an authorised entity.

Traceability:

- To ensure adequate logs of data, system actions and associated flows are kept to ensure that RCS can provide proof in the case of incidents or an investigation.

The above is in line with the RCS Group Information Security and User Access Management Policies.

MANAGEMENT OF TECHNOLOGY

The information technology department aims to deliver a technology architecture that enables the achievement of operational and strategic objectives in line with the RCS Group's core purpose, while effectively mitigating associated risks.

COMPLIANCE WITH RELEVANT LAWS

- All relevant legislative, regulatory, contractual requirements and the RCS Group's approach to meet these requirements is explicitly identified, documented and kept up to date where relevant;
- Appropriate procedures are implemented to ensure compliance with legislative, regulatory and contractual requirements related to intellectual property rights and use of proprietary software products;
- Records are protected from loss, destruction, falsification, unauthorised access and unauthorised release, in accordance with legislator, regulatory, contractual and business requirements; and
- Privacy and protection of personally identifiable information is ensured as required in relevant legislation and regulation where applicable.

COMPLIANCE GOVERNANCE REPORT

OVERVIEW

The RCS Group has a dedicated compliance department. The compliance department has an independent and management reporting line to the BNPP PF compliance function and another reporting link to the Chief Executive Officer. The Compliance Committee is a sub-committee of the Board Audit and Risk Committee, which reports directly to the Board of directors of the RCS Group.

Key areas of focus during the reporting period

The RCS Group is committed to a "best in class" compliance culture, with specific focus on legislative and regulatory requirements, as well as ensuring effective and timeous compliance with the relevant new regulations, such as the Amended Credit Life Regulations, Financial Sector Regulatory Act, including the Treating Customers Fairly Outcomes and Protection of Personal Information Act.

ACTIONS TAKEN TO MONITOR THE EFFECTIVENESS OF COMPLIANCE MANAGEMENT

The RCS Group has implemented a Compliance Control Framework in terms of which samples are taken and control testing is performed. In the event that any weaknesses in the Control Framework are identified, an action plan with corrective measures will be implemented. Monitoring of such action plans is reported to management through the established governance structures.

Key areas of future focus:

We will continue to entrench our "best in class" compliance culture and focus on implementing the relevant legislative and regulatory changes.

MATERIAL OR REPEATED REGULATORY PENALTIES

The RCS Group incurred no penalties, nor were any sanctions or fines levied against the RCS Group or any members of its governing body, in the year ended 31 December 2019.

Monitoring and compliance inspections by environmental regulators

The RCS Group has established a Corporate Social Responsibility Committee, with one of the key focus areas being the monitoring of environmental matters. The RCS Group was not subject to any inspections by environmental regulators in the year ended 31 December 2019.

REMUNERATION COMMITTEE REPORT

OVERVIEW OF THE REMUNERATION COMMITTEE REPORT

The remuneration report sets out the RCS Group's Remuneration Policy (the 'Policy') and its implementation during the financial year.

The RCS Group's remuneration philosophy is guided by the RCS Group's remuneration principles:

- Alignment with business strategy – remuneration must be performance driven and contribute to the achievement of the RCS Group's business objectives;
- Supporting the people strategy – remuneration must support the critical human resources objectives of attracting, motivating and retaining a high potential workforce;
- Mix of rewards – remuneration will provide a holistic mix of rewards that achieve different objectives. The guaranteed component of the mix is designed to take into account internal and external equity and reward individuals fairly, based on market information and their individual performance, while the variable component is designed to drive performance over the short- and long-term;
- Consistency – remuneration must drive a level of consistent design across the entire RCS Group and strive to achieve a reasonable level of internal equity for job categories. The principle of consistency should not impede on the need for differentiation where appropriate but does indicate that unfair or discriminatory remuneration practices are not accepted;
- Competitiveness – practices must ensure that remuneration levels are competitive relative to the market, in order to ensure that the organisation attracts and motivates talent and skills;
- Flexibility – the RCS Group acknowledges the need for a degree of customisation across operating businesses within the overarching policy framework. Specific design parameters will be acknowledged as flexible parameters to ensure approaches which are tailored appropriately for different business units;
- Cost control – the RCS Group's remuneration policy assists in controlling costs within the organisation by ensuring that employees' packages are compared to appropriate benchmarks, as well as limiting the organisation's exposure to costs which are beyond its control; and
- Governance – the RCS Group acknowledges the importance of corporate governance and commits to adopting the principles of good governance in the fulfilment of reward activities and provides a framework which is clearly articulated and available to all employees.

Key areas of focus during the reporting period

The RCS Group's key area of focus in the year under review has been to align remuneration practices with market benchmarks, introduce incentive structures that encourage and reward performance in a transparent manner and to align the RCS Group's remuneration practices with the requirements of the sole shareholder, BNP Paribas. Based on the review and alignment, the RCS Group's remuneration policy has remained unchanged in the financial year ended 31 December 2019.

Key areas of future focus

The RCS Group shall continue to focus on flexibility in remuneration and mix of rewards in the forthcoming year to align with global trends in remuneration practices.

Remuneration consultants

The RCS Group uses external remuneration consultants who conduct a number of benchmarking exercises during the year in order to measure job grades accurately and assist in establishing the correct market benchmarks. The Remuneration Committee has assessed the external consultant and considers the external consultant to be independent and objective.

Remuneration policy

The Remuneration Committee has reviewed the Policy and considers the Policy to be appropriate and able to meet its stated objectives.

OVERVIEW OF THE REMUNERATION POLICY

Objectives

The objectives of the Policy are to provide a guiding framework for remuneration that:

- Supports the RCS Group's business strategy;
- Attracts high-calibre, competent people who are aligned to the RCS Group's values;
- Motivates key talent to support the long-term business strategy;
- Retains key employees;
- Encourages optimal performance;
- Promotes positive outcomes; and
- Promotes an ethical culture and responsible corporate citizenship.

The RCS Group's remuneration structures are designed to promote the King IV's 'Fair and Responsible' remuneration principle. The RCS Group has adopted the suggestions contained in the Institute of Directors in Southern Africa's position paper on Fair and Responsible Remuneration.

Elements and design principles of remuneration

The main component of remuneration is the guaranteed remuneration package. All variable compensation components are performance based and based on the successful achievement of individual, team and company targets. Remuneration consists of guaranteed package, short-term incentives, long-term incentives, sales incentives and the All Stars recognition program, and is available to employees dependent on position.

REMUNERATION COMMITTEE REPORT
(continued)

Guaranteed package

All employees receive a guaranteed package that forms the core element of remuneration, reflecting the employee's role and position within the RCS Group and is payable for doing the expected day-to-day job. The guaranteed package forms the basis of the business' ability to attract and retain the required skills and is intended to reward competence, experience, qualification level, as well as the level of involvement in assigned tasks.

In addition, the employees have access to the following benefits:

- Leave;
- Retirement funding;
- Healthcare;
- Disability cover;
- Serious illness cover;
- Death cover;
- Financial wellness program;
- Employee assistance program; and
- Education assistance program.

Long-term incentives

The cash-settled, long-term incentive program is open to senior management and executive employees. The long-term incentive scheme is designed to incentivise employees to grow the business and to support the long-term retention of employees.

The long-term incentive is based on the growth in the profit before tax of the business for allocations made prior to 1 January 2017 and on profit before tax adjusted to the business' targeted capital structure for all allocations made subsequent to 1 January 2017. Long-term incentives allocated to executive employees include a CPI inflation based and return on equity-based hurdles, where payout of long-term incentives are deferred if a hurdle is not met.

Short-term incentive

The cash-settled, short-term incentive is a discretionary program, open to all employees in the RCS Group. The short-term incentive scheme is designed to improve business performance and to allow employees to share in the success of the business.

This plan is linked to the RCS Group's profitability targets and is applied as a factor of the employees' guaranteed remuneration. Short-term incentives are generally paid in April, based on the profitability in the financial year.

All Stars recognition programme

The RCS Group recognises the importance of rewarding employees for behaviours that deliver on the RCS Group's vision and values as well as consistent performance output.

Under the All Stars recognition programme three types of rewards are granted:

- Spotlight awards recognise and reward immediate actions of employees who are contributing to the organisation's overall goals and values.
- BeamTeam awards recognise teams that show extraordinary behaviour and the RCS Group's targets in terms of quality, productivity and adherence.
- Topstar awards recognise top performance annually on an individual and team basis.

Sales incentive programme

The sales incentive scheme is offered to sales and telemarketing employees based on attainment of sales targets. Sales incentives are reviewed regularly by management in order to incentivise behaviour that is consistent with the RCS Group's values.

Collection commission scheme

The collection commission scheme is offered to early stage collection staff on attainment of collection targets. The collection commission scheme considers quality control review scores and is reviewed regularly by management in order to incentivise behaviour that is consistent with the RCS Group's values.

Payments on termination of employment, sign-on, retention and restraint of trade payments

The RCS Group does not make payments on termination of employment or for restraint of trade. The RCS Group's policies allow for sign-on and retention bonuses to be paid under certain circumstances. Sign-on and retention bonuses are subject to approval of the RCS Group's Remuneration Committee.

REMUNERATION COMMITTEE REPORT
(continued)

IMPLEMENTATION REPORT

Executive directors' remuneration

Total remuneration of executive management for the year ended 31 December 2019:

	Remuneration	Provident fund contributions	Total
	R'000	R'000	R'000
Executive directors for services, as employees, to subsidiary companies:			
RF Adams	9 891	466	**10 357**
CP De Wit	4 794	314	**5 108**
M van Brakel (appointed 1 December 2019)	114	16	**130**

Total remuneration of executive management for the year ended 31 December 2018:

	Remuneration	Provident fund contributions	Total
	R'000	R'000	R'000
Executive directors for services, as employees, to subsidiary companies:			
RF Adams	7 319	423	**7 742**
CP De Wit	4 462	282	**4 744**

Non-executive directors' remuneration

Total non-executive directors' remuneration for the year ended 31 December 2019:

	Remuneration	Provident fund contributions	Total
	R'000	R'000	R'000
Non-executive directors for services, as directors, to subsidiary companies:			
SW van der Merwe (Independent)	490	-	**490**
E Oblowitz (Independent)	574	-	**574**

REMUNERATION COMMITTEE REPORT

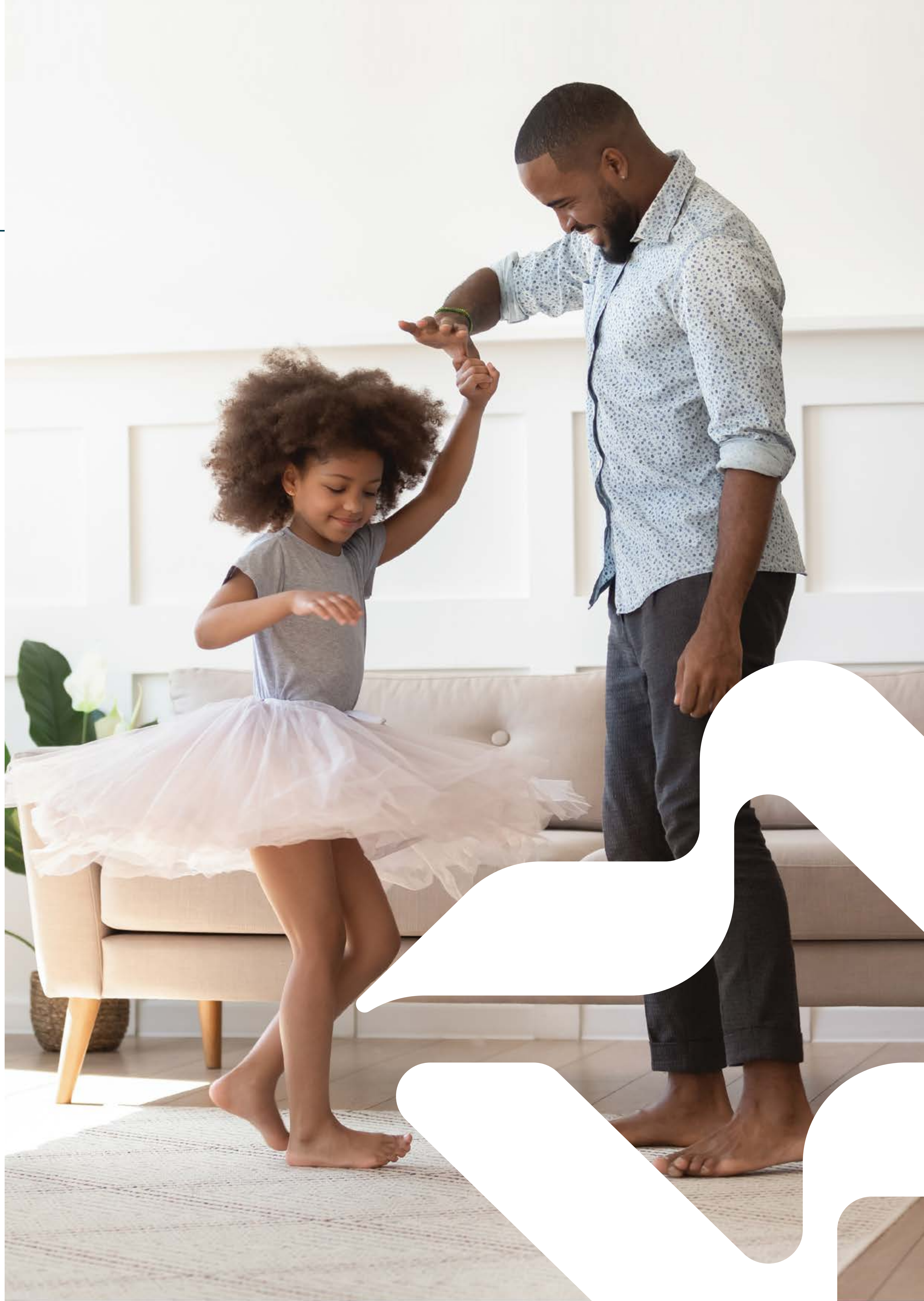
(continued)

Total non-executive directors' remuneration for the year ended 31 December 2018

	Remuneration	Provident fund contributions	Total
	R'000	R'000	R'000
Non-executive directors for services, as directors, to subsidiary companies:			
SW van der Merwe (Independent)	280	-	**280**
E Oblowitz (Independent)	540	-	**540**

Payments made on termination of office and deviations from the remuneration policy

No payments on termination of office and no deviations from the remuneration policy have been made during the current or prior financial year.



KING IV PRINICPLE OUTLINE

The table below provides a brief summary and guidance on the RCS Group's application of the King IV principles, with references to where these are addressed in the integrated supplementary information.

KING IV PRINCIPLE	RCS GROUP EXPLANATION
PRINCIPLE 1 : The governing body should lead ethically and effectively.	The Board of the RCS Group ("the Board") is fully committed to attaining and sustaining the highest standards of corporate governance. The Board is dedicated to continuously fostering a corporate culture that emphasises good corporate governance. For more information regarding the ethical leadership of the Board refer to pages 27 to 35.
PRINCIPLE 2 : The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	The Board determines and sets the tone of the RCS Group, including the principles of ethical business practice. For more information refer to pages 27 to 35 in the Social and Ethics report.
PRINCIPLE 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.	A Social and Ethics Committee, which reports to the Board, has been established. The committee reflects on the RCS Group's commitment to ethical corporate citizenship and the management of stakeholder relationships. For more information refer to pages 27 to 35 in the Social and Ethics report.
PRINCIPLE 4: The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	A strategy session is held annually where the Board and the Operating Board are present. Risk management is monitored by the Board Audit and Risk Committee ("BARC"). The Enterprise Risk Management process ensures that all risks in each area of the business are covered and monitored. The short, medium and long-term strategy for the RCS Group has been delegated to management and is approved by the Board. The Board through the Social and Ethics Committee ensures the strategy is in line with the RCS Group's sustainable development plan and the core values of the business. The Operating Board and management will be held accountable for monitoring the progress of the business and planned initiatives to ensure the strategy is achieved.

KING IV PRINICPLE OUTLINE

(continued)

KING IV PRINCIPLE	RCS GROUP EXPLANATION
PRINCIPLE 5 : The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects.	The BARC reviews and approves the Consolidated Annual Financial Statements including supplementary information, and a recommendation is then made to the Board to approve. The Board ensures that the Consolidated Annual Financial Statements, including supplementary information, include financial information of the highest quality and integrity. In the execution of its duties, the BARC recommends the appointment of the external auditors and is responsible for establishing the terms of engagement as well as monitoring the services provided by the external auditors for both audit and non-audit services. The BARC also assesses the effectiveness of the external auditors' progress against, and fulfilment of the agreed audit plan, including any variation from the plan and provides oversight to the external audit process.
PRINCIPLE 6 : The governing body should serve as the focal point and custodian of the corporate governance in the organisation.	The Terms of Reference have been approved and adopted for the Board and the Board Committees. Although certain functions are delegated to committees, these committees do not have the power to approve but to rather recommend to the Board, unless expressly granted the authority to approve by the Board or by law. For more information regarding the roles and responsibilities of the Board refer to pages 20 to 25 in the Board Committees section of the supplementary information.
PRINCIPLE 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	The composition of the Board is regulated by the shareholder in terms of the Company's Memorandum of Incorporation and is deemed to be adequate and appropriate. The Board Charter will emphasise the responsibility of the Board and ensure that applicable principles are implemented and a high level of compliance maintained. Refer to pages 7 to 18 of the supplementary information for more information.

KING IV PRINICPLE OUTLINE

(continued)

KING IV PRINCIPLE	RCS GROUP EXPLANATION
PRINCIPLE 8 : Committees of the governing body.	Terms of Reference in respect of each Board sub-committee have been approved and adopted. The Terms of Reference for each committee outline the roles and responsibilities and are deemed adequate and appropriate. The Terms of Reference for each committee is reassessed annually. Refer to pages 20 to 25 and 68 to 69 for more information on the Board Committees.
PRINCIPLE 9 : The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.	On an annual basis, formal assessments are conducted on the effectiveness of the Board and Board Committees. Refer to pages 17 to 18 for more information regarding the performance evaluations of the board of directors.
PRINCIPLE 10: The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and effective exercise of authority and responsibilities.	For more information on the delegation of responsibilities to management and corporate governance services to the Company Secretary, please refer to page 18. The CEO succession plan and notice period has been disclosed on page 14.
PRINCIPLE 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.	The Board assumes the responsibility for the governance of risk. The BARC will assist the Board by providing an objective and independent review on the Company's finance, accounting, control mechanisms and risk governance framework. For more information refer to the Credit Risk Governance Report on page 36.

KING IV PRINICPLE OUTLINE

(continued)

KING IV PRINCIPLE	RCS GROUP EXPLANATION
PRINCIPLE 12 : The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.	The Board understands the importance, relevance and inherent risks in IT governance and is responsible for such risks. The BARC fulfils an oversight role regarding financial reporting risk, internal financial controls and IT risks as they relate to financial reporting. The broader IT portfolio is included in the Board agenda. IT is aligned and forms an integral part in the performance objectives of the RCS Group. Focus is created through the ICT Security and Risk Office, which is responsible for information security, ICT Risk management and ICT audits. Refer to the Technology and Information Governance Report on pages 40 to 43.
PRINCIPLE 13 : The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that it supports the organisation being ethical and a good corporate citizen.	The directors fully understand the appropriate applicable laws, rules and regulations and how compliance risk affects the reputation of the Company. Compliance is an identified risk and will be addressed as an agenda item at each Board meeting, thereby positioning the Board to adapt to changes in the regulatory environment. Refer to the Compliance Governance Report on page 44 for more information.
PRINCIPLE 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	The Remuneration policy has been approved by the Board. Refer to the Remuneration Committee Report on pages 45 to 50.

KING IV PRINICPLE OUTLINE

(continued)

KING IV PRINCIPLE	RCS GROUP EXPLANATION
PRINCIPLE 15 : The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for the internal decision-making and of the organisation's external reports.	The BARC ensures the combined assurance model being assurance coverage obtained from management, internal assurance providers and external assurance providers is applied to provide a coordinated approach with regard to risk management and reports to the Board. Refer to the BARC Report on pages 68 to 69 for more information.
PRINCIPLE 16 : In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.	The Terms of Reference for the Social and Ethics Committee set out the roles and responsibilities of the committee for managing stakeholder relationships. These roles and responsibilities are deemed adequate and appropriate. Refer to the Social and Ethics Report on pages 27 to 35 for more information.

20 YEARS OF MAKING IT POSSIBLE

RCS marked its 20th Anniversary this year. We used this significant milestone to celebrate our unique culture and thank our people, and particularly our longest-serving employees for all that they have done to make RCS the business that it is today.

We ran an internal campaign over several months which celebrated 20 years of RCS by exploring all the things that make RCS unique as a business: our family culture, that RCS is a fun place to work, that we are optimistic in our outlook and passionate about what we do. We also explored: our focus on innovation, the partnerships that are the foundation of our business and what it means to make it possible. RCS employees participated in monthly activations where they recorded videos relating to the theme we were exploring, these were then shared on our the myRCS app and on screens in our buildings. Employees won prizes on a monthly basis for engaging and participating and a lot of fun was had at the activations each month. At the end of the year, the campaign culminated in one of our employees winning R 20 000.

CEO Regan Adams with Charlene Wentzel – winner of the 20 year grand prize.

Members of the executive team and long-serving staff celebrating 20 years of RCS at the year-end function.

Our longest-serving employees, some of who have been with RCS for more than 18 years.

Screens in our buildings featuring videos from our 20 year campaign and facts about our history.

CONTENTS

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the consolidated financial statements of BNP Paribas Personal Finance South Africa Limited and its subsidiaries (hereafter referred to as the "RCS Group"), comprising the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit and loss, other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act of South Africa, 2008 ("the Act"). In addition, the directors are responsible for preparing the directors' report.

The directors are responsible for such internal control as the directors determine necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the RCS Group to continue as a going concern and have no reason to believe that the RCS Group will not be a going concern in the foreseeable future.

The auditor is responsible for reporting on whether the consolidated financial statements are fairly presented in accordance with IFRS and the Act.

APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the RCS Group, as set out in pages 76 to 81 and 101 to 135, were approved by the board of directors on 30 April 2020 and were signed by:

M van Brakel
Chief Financial Officer
30 April 2020

COMPANY SECRETARY STATEMENT

I hereby confirm, in my capacity as company secretary of BNP Paribas Personal Finance South Africa Limited, that for the year ended 31 December 2019, the company has filed all required returns and notices in terms of the Act and that all such returns and notices are, to the best of my knowledge and belief true, correct and up to date.

GS Harker
Company Secretary
30 April 2020

THE DIRECTORS' REPORT

The directors have pleasure in presenting their report for the year ended 31 December 2019:

1. BUSINESS ACTIVITIES

The RCS Group is an operationally independent consumer finance business that provides a broad range of financial services under its own brand and in association with a number of retail entities in South Africa, Namibia and Botswana. The Cards business unit offers various utility card products through participating merchant outlets, while the Loan business unit offers individuals unsecured loans and insurance products (for more detail on these segments refer to note 3 of the consolidated financial statements).

2. SUBSIDIARY COMPANIES

The RCS Group constitutes BNP Paribas Personal Finance South Africa Limited and its subsidiaries, RCS Botswana Proprietary Limited, RCS Cards Proprietary Limited, RCS Collections Proprietary Limited, RCS Home Loans Proprietary Limited and RCS Investment Holdings Namibia Proprietary Limited (for more detail on these subsidiaries refer to note 23 of the consolidated financial statements).

3. GENERAL REVIEW OF OPERATIONS

The results for the year ended 31 December 2019 are described in the accompanying consolidated financial statements. No other facts or circumstances require further comment in the opinion of the directors.

4. COMPLIANCE

RCS Cards Proprietary Limited is a registered credit provider (NCR registration number NCRCP 38) and a registered service provider with the Financial Services Board (FSB registration number 44481). RCS Home Loans Proprietary Limited is a registered credit provider (NCR registration number NCRCP 65).

5. CORPORATE GOVERNANCE

The board of directors endorse the Code of Corporate Practices and Conduct as required by King IV. For the financial year ended 31 December 2019, the directors are satisfied that the RCS Group applies King IV. The board of directors comprises only one independent non-executive director and the chairman of the board of directors is a non-executive director. Subsequent to the year end, but by the date of this report, there was a change in status of another non-executive director who has become an independent non-executive director. The board of directors is, however, satisfied that the independence principle contained in King IV is applied given the following factors:

- BNP Paribas Personal Finance South Africa Limited is a wholly owned subsidiary of the multi-national banking and financial services group, BNP Paribas Société Anonyme, a company listed on the Paris stock exchange;
- the majority non-executive directors are senior executives of the shareholder appointed by it and not involved in the day-to-day operations;

THE DIRECTORS' REPORT

(continued)

5. CORPORATE GOVERNANCE (CONTINUED)

- the independent non-executive director also serves as the Board Audit and Risk Committee Chairman and Chairman of the Social and Ethics Committee; and
- BNP Paribas Personal Finance South Africa Limited's board of directors has a limited number of executive directors.

6. EVENTS AFTER THE REPORTING PERIOD

After the date of the reporting period, but before the financial statements were authorised for issue, the RCS Group acquired ABSA's stake in the Edcon store card portfolios in South Africa and Namibia. The value of the gross book purchased is R4.7 billion with a transaction effective date of 1 February 2020. The purchase was financed by means of external funding, and an equity injection from BNP Paribas Personal Finance Société Anonyme. Management believes that sufficient and appropriate measures have been put into place to address any business distress and other impacts related to this transaction caused by the aforementioned COVID-19 pandemic.

The COVID-19 outbreak occurred at a time close to the end of 2019, but the World Health Organisation only characterised it as a pandemic on 11 March 2020. The governments of South Africa and Botswana have introduced various measures to combat the outbreak, including travel restrictions, quarantines, business closures and other venues and a national lockdown. These measures will affect our retail partners' operations through store closures and supply chain disruptions. At the same time, fiscal and monetary policies are being relaxed to sustain the economy, and while these government responses and their corresponding effects are still evolving, there is not yet sufficient certainty on the scale of damage this outbreak will have made to the local and global economies.

The audited annual financial statements as at 31 December 2019 were prepared on a going concern basis, and this series of events does not provide any evidence of conditions that existed at the conclusion of the 2019 financial year end that impact the financial statements or the going concern basis of preparation. In terms of IAS 10 Events after the reporting period, non-adjusting post balance sheet events are events after the reporting period that are indicative of a condition that arose after the reporting period ended 31 December 2019. It was concluded that the declaration of COVID-19 as a pandemic is such an event. Management believes that the outbreak may negatively impact the businesses' profitability for the 2020 financial year. This will depend on several elements including the financial health of our customers and retail partners and the efficiency of the governmental and financial support they will benefit from.

As detailed in notes 1.4, 5 and 27, when measuring expected credit loss, the RCS Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. There is currently no historic credit data that can accurately predict the impact of COVID-19. While the effect of these events is largely unpredictable as the pandemic is still spreading globally, management expects that these events will affect the level of expected credit losses and the valuation of assets. The default rates and default recovery rates used in the measurement of expected credit loss provisions could be significantly impacted due to repayment delays and requests to extend loan repayments.

These negative impacts will be mitigated by increased scrutiny and active credit risk management during this period. The commentary in this paragraph is applicable to both the valuation of assets as at year end and those assets acquired post year end. It is however not possible to make an accurate estimate of the full financial effect of this pandemic for the year ahead as the virus's infection rate and impact on macro-economic conditions is unknown and fluid.

The Board has assessed the funding available to the group and is satisfied that sufficient and appropriate funding is available for a period of at least twelve months from the date of the approval of these audited annual financial statements.

The directors are not aware of any other matters or circumstances arising between the end of the financial year and the date of approval of these financial statements that may materially affect the amounts and disclosure contained in the financial statements.

7. DIRECTORS

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

EXECUTIVE DIRECTORS	
RF Adams (Chief Executive Officer)	South African
CP De Wit (Deputy Chief Executive Officer)	South African
M van Brakel (Chief Financial Officer) (Appointed 1 Dec 2019)	South African
NON-EXECUTIVE DIRECTORS	
BPS Cavelier	French
I Perret-Noto (Resigned 19 Sep 2019)	French
PJJ Alexandre (Appointed 19 Sep 2019)	Belgian
VSK Khandelwal	French
P Miron L'Espinay	French
SW van der Merwe (Independent)	South African
E Oblowitz (Lead Independent)	South African

THE DIRECTORS' REPORT

(continued)

8. COMPANY SECRETARY

The company secretary at the date of this report is GS Harker.

9. BUSINESS/REGISTERED ADDRESS

Business address	RCS Building Golf Park Raapenberg Road Mowbray 7700
Postal address	PO Box 6523 Parow East Cape Town 7501

10. HOLDING COMPANY

The RCS Group's immediate holding company is BNP Paribas Personal Finance Société Anonyme incorporated in France. The ultimate shareholder is BNP Paribas Société Anonyme, incorporated in France and listed on the Paris stock exchange.

The financial statements for BNP Paribas Personal Finance South Africa Limited are presented in a separate set of financial statements.

11. AUDITORS

The independent auditing firm Deloitte & Touche was provided unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the Board, and has audited the consolidated financial statements. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate. Deloitte & Touche's audit report is presented on pages 70 to 74.

BOARD AUDIT AND RISK COMMITTEE REPORT

The RCS Board Audit and Risk Committee is an independent statutory committee appointed by the board of directors in terms of the Act. The committee comprises one independent non-executive director, who is also the chairman of the Board Audit and Risk Committee, and two non-executive directors. The Board Audit and Risk Committee met three times during the year ended 31 December 2019. In addition, the chairman of the Board Audit Committee held various meetings with representatives from the internal and external auditors during the year under review.

The committee's responsibilities include statutory duties in terms of the Act as well as the JSE regulations and requirements. The committee also applies the applicable principles of the King IV Report on Corporate Governance for South Africa. The committee's terms of reference are determined by a board-approved charter. The committee conducted its affairs in compliance with, and discharged its responsibilities in terms of, its charter for the year ended 31 December 2019.

The committee performed, inter alia, the following duties during the year under review:

- Satisfied itself that the external auditor is independent of the RCS Group, as set out in section 94(9) of the Act;
- Assessed the policy and controls that address the provision of non-audit services by the external auditor, and the nature and extent of such services rendered during the financial year under review;
- Determined the tenure of the external audit firm and, in the event of the firm having been involved in a merger or acquisition, including the tenure of the predecessor firm;
- Obtained confirmation regarding the rotation of the designated external audit partner and assessed the appropriateness of the appointment of Michael van Wyk as the designated external audit partner;
- Evaluated significant changes in the management of the organisation during the external audit firm's tenure which may mitigate the attendant risk of familiarity between the external auditor and management;
- In consultation with executive management, agreed to the terms, audit plan and budgeted fees for the 31 December 2019 financial year;
- Reviewed and monitored the adequacy and effectiveness of the RCS Group's enterprise-wide risk management policies, processes and mitigating strategies;
- Provided a forum for discussing business risk and control issues and developed recommendations for consideration by the Board;
- Monitored the governance of information technology and the effectiveness of the RCS Group's information systems;
- Approved the nature and extent of non-audit services that the external auditor may provide;
- Satisfied itself, based on the information and explanations supplied by management and obtained through discussions with the independent external auditor and internal auditors, that the system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements;
- Reviewed the accounting policies and the consolidated audited financial statements for the year ended 31 December 2019 and, based on the information provided to the committee, considers that the RCS Group complies, in all material respects, with the requirements of the Act and IFRS;

- Reviewed the audit report of the external auditor, which includes the key audit matter;
- Assessed significant matters in relation to the annual financial statements, ensured that these were adequately and appropriately addressed;
- Assessed the RCS Group internal audit function in terms of independence, resources and authority to enable it to effectively discharge its duties;
- Approved the internal audit plan as well as any amendments thereto;
- Met with the external and internal auditors, separately and together, without management being present;
- Evaluated the quality of the external audit, with reference to audit quality indicators such as those that may be included in inspection reports issued by external audit regulator;
- Satisfied itself that the RCS Group financial director and the finance function has appropriate expertise, resource complement, experience and competence;
- Considered as part of the approval of the audited annual financial statements any accounting treatments, significant unusual transactions, or accounting estimates and judgements that could be contentious; and
- Reviewed management's assessment of going concern and sustainability and made a recommendation to the Board that the going concern concept is appropriate and that it be adopted by the RCS Group.

E Oblowitz
Board Audit and Risk Committee Chairman
30 April 2020

To the Shareholder of BNP Paribas Personal Finance South Africa Limited.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of BNP Paribas Personal Finance South Africa Limited (the Group) set out on pages 76 to 81, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit and loss, consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
IMPAIRMENT OF CARD AND LOAN RECEIVABLES	
Card and loan receivables, after providing for impairment, accounts for 87% of the total assets of the Group that are due to be recovered through instalments as a result of credit granted to customers. The allowance for impairment is measured through an expected credit loss (ECL) model. The measurement of ECL reflects a probability-weighted outcome, the time value of money and forward-looking information. The Group measures ECL by projecting the probability of write-off, exposure at write-off, timing of when write-off is likely to occur and loss given write-off. The ECL is calculated by multiplying these components together. The impairment of card and loan receivables is material to the consolidated financial statements in terms of its magnitude, the level of subjective judgement applied by the directors and the effect that it has on the Group's credit risk management processes and operations. This has resulted in this matter being identified as a matter of most significance in the audit of the consolidated financial statements.	In evaluating the impairment of the card and loan receivables we assessed the calculation model prepared by the directors and performed various procedures, including the following: • Obtained an understanding of the various assumptions used, the impairment modelling, and data management processes, systems and methodologies. • Evaluated, in conjunction with our credit and modelling specialists, the impairment methodology applied against the requirements of IFRS 9: Financial instruments. • Our specialists evaluated that the impairment methodology developed has been appropriately applied in the underlying impairment modelling. • Our specialists independently recoded certain elements of the impairment model relating to probability of write-off, exposure at write-off and loss given write-off to evaluate the accuracy thereof in the model. • Assessed the Group's adjustments to model outcomes for reasonability by evaluating it against the requirements of IFRS 9, historical trend data and independent macro-economic data published, as appropriate. Specific attention was also given to the following areas: - Data used in the impairment model was reconciled to the source system; - With assistance from our IT specialist team we tested the business rules applied for the critical IFRS 9 modelling fields; and - Evaluation of the appropriateness of the disclosures included in the consolidated financial statements in accordance with the requirements of IFRS 7: Financial Instruments: Disclosure. Based on our audit work performed we found the directors' impairment to be reasonable and the disclosures included in the consolidated financial statements, as set out in notes 1.4, 1.6, 5 and 27, to be appropriate.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "RCS Group Audited Consolidated Annual Financial Statements for the year ended 31 December 2019" and the document titled "BNP Paribas Personal Finance South Africa Limited Audited Separate Annual Financial Statements for the year ended 31 December 2019", which includes the Directors' Report, the Board Audit and Risk Committee's Report and the Company Secretary Statement as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and "The RCS Group Consolidated Annual Financial Statements 2019 including Supplementary Information", which is expected to be made available to us after that date. 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 and will 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 we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

THE INDEPENDENT AUDITOR'S REPORT
(continued)

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

We also provide the Board Audit and Risk Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of BNP Paribas Personal Finance South Africa Limited for 4 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: MA van Wyk
Partner
30 April 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Notes	31 December 2019 R'000	31 December 2018 R'000
ASSETS			
Cash and cash equivalents	4	702 757	594 420
Card and loan receivables	5	10 687 720	8 993 668
Other receivables	6	105 335	92 110
Financial asset at fair value through profit and loss	7	177 302	167 853
Taxation		120 056	59 413
Deferred taxation	8	207 592	173 854
Property and equipment	9	136 666	42 780
Intangible assets	10	78 285	56 193
Goodwill	11	56 855	56 855
Total assets		**12 272 568**	**10 237 146**
EQUITY			
Stated capital	13	1 736 636	1 736 636
Retained income		1 237 588	794 408
Foreign currency translation reserve		3 155	5 013
Total equity		**2 977 379**	**2 536 057**
LIABILITIES			
Trade and other payables	14	545 366	456 234
Funding	15	8 749 823	7 244 855
Total liabilities		**9 295 189**	**7 701 089**
Total equity and liabilities		**12 272 568**	**10 237 146**

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

for the year ended 31 December 2019

	Notes	31 December 2019 R'000	31 December 2018 R'000
Interest earned	17	2 186 801	1 893 981
Interest expense		(629 425)	(520 208)
Net interest income		**1 557 376**	**1 373 773**
Other income	18	1 068 388	985 194
Transaction fee expense		(186 690)	(214 934)
Net trading income		**2 439 074**	**2 144 033**
Operating costs		(976 884)	(944 351)
Cost of risk		(896 259)	(705 301)
Profit before taxation	19	**565 931**	**494 381**
Taxation	20	(93 612)	(89 659)
Profit for the year		**472 319**	**404 722**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Note	31 December 2019 R'000	31 December 2018 R'000
Profit for the year		472 319	**404 722**
Other comprehensive (loss)/income, net of taxation			
Foreign currency translation differences		(1 858)	2 125
Other comprehensive (loss)/income for the year		(1 858)	**2 125**
Total comprehensive income for the year		470 461	**406 847**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for year ended 31 December 2019

	Note	Stated capital R'000	Foreign currency translation reserve R'000	Retained income R'000	Total equity attributable to parent R'000
Balance at 1 January 2018		**1 936 636**	**2 888**	**389 686**	**2 329 210**
Total comprehensive income for the year		(200 000)	2 125	404 722	206 847
Profit for the year		-	-	404 722	404 722
Distribution of capital		(200 000)	-	-	(200 000)
Other comprehensive income		-	2 125	-	2 125
Balance at 31 December 2018		**1 736 636**	**5 013**	**794 408**	**2 536 057**
Changes on initial application of IFRS 16	2.1	-	-	(29 139)	(29 139)
Restated balance at 1 January 2019		**1 736 636**	**5 013**	**765 269**	**2 506 918**
Total comprehensive income for the year		-	(1 858)	472 319	470 461
Profit for the year		-	-	472 319	472 319
Distribution of capital		-	-	-	-
Other comprehensive income		-	(1 858)	-	(1 858)
Balance at 31 December 2019		**1 736 636**	**3 155**	**1 237 588**	**2 977 379**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	Notes	31 December 2019 R'000	31 December 2018 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised in operations	21	(1 130 934)	(1 223 171)
Taxation paid	22	(176 695)	(33 916)
Net cash outflow from operating activities		**(1 307 629)**	**(1 257 087)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(20 034)	(12 325)
Acquisition of intangible assets		(43 452)	(28 844)
Proceeds from disposal of property and equipment		326	141
Net cash outflow from investing activities		**(63 160)**	**(41 028)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from funding		4 903 549	7 371 117
Repayment of funding		(3 398 581)	(5 806 256)
Payment of lease liabilities		(25 842)	-
Distribution of capital		-	(200 000)
Net cash inflow from financing activities		**1 479 126**	**1 364 861**
Net increase in cash and cash equivalents		108 337	66 746
Cash and cash equivalents at beginning of the year		594 420	527 674
Cash and cash equivalents at end of the year	4	**702 757**	**594 420**

1.PRESENTATION OF FINANCIAL STATEMENTS

The holding company, BNP Paribas Personal Finance South Africa Limited, is a company domiciled in South Africa. The consolidated financial statements as at, and for the year ended, 31 December 2019 comprise the Group and its subsidiaries (together referred to as the "RCS Group"). The Company has foreign subsidiaries operating in Namibia and Botswana.

The consolidated financial statements are prepared in accordance with IFRS and the requirements of the the Act.

The accounting policies have been consistently applied with those adopted in the prior financial year, except as noted in note 2.

1.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on the basis that the RCS Group is a going concern and on the historical cost basis or the fair value basis, where expressly indicated as such.

The consolidated financial statements were authorised for issue by the board of directors on 30 April 2020.

1.2 FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in South African Rands which is BNP Paribas Personal Finance South Africa Limited's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

1.3 BASIS OF CONSOLIDATION

Subsidiaries

The financial statements of subsidiaries are prepared for a consistent reporting period using consistent accounting policies.

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

The RCS Group controls an entity when the RCS Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the RCS Group. They are consolidated until the date that control ceases.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the RCS Group are eliminated in full on consolidation.

1.3 BASIS OF CONSOLIDATION (CONTINUED)

The RCS Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a gain on bargain purchase is recognised immediately in the statement of profit and loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the RCS Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Jointly controlled operations

A jointly controlled operation is a joint arrangement carried on by each operator using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the RCS Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the RCS Group incurs and its share of the income that it earns from the joint operation.

1.4 USE OF ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in conformity with IFRS, requires management and/or directors to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and projections and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

ACCOUNTING POLICIES
for the year ended 31 December 2019 (continued)

1.4 USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Estimates and judgements made in applying the RCS Group's accounting policies, that potentially have a significant effect on the amounts recognised in the consolidated financial statements relate to the following:

Significant judgements and estimates

Card and loan receivables are disclosed net of any accumulated impairment losses.

Significant increase in credit risk

In assessing whether the credit risk of an asset has significantly increased the RCS Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Measurement of expected credit losses

When measuring expected credit loss (ECL) the RCS Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given write-off is an estimate of the loss arising on write-off. Probability of write-off constitutes a key input in measuring ECL. Probability of write-off is an estimate of the likelihood of write-off over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Refer to notes 5 and 27 for further explanation.

Debt intervention overlay

Included in the allowance for impairment, as disclosed in note 5, is a specific overlay for the debt intervention bill signed into law in 2019. The overlay is calculated by using historic data of specific accounts that would qualify for the debt restructuring actions outlined in the bill and factoring in the likelihood of the customer applying. The likelihood of a customer applying is based on historic data of RCS customers that have applied for debt review. This is the best information the RCS Group currently has available of customers applying for a debt restructuring or intervention process and accordingly deemed an appropriate proxy for the likelihood of customers potentially applying for intervention under the bill.

Events after the reporting period

Based on management's assessment, there is currently not enough historic data on the shifts in consumer data as a result of the COVID-19 pandemic; together with the uncertainty of the economic impact of the pandemic, it is management's judgement that no financial impact can currently be reliably estimated.

1.4 USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

Other judgements and estimates

Goodwill

The RCS Group reviews goodwill for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. Impairment reviews are performed by projecting future cash flows, based upon budgets and plans and making appropriate assumptions about rates of growth and discounting these using a rate that takes into account prevailing market interest rates and the risks inherent in the business. If the present value of the projected cash flows is less than the carrying value of the underlying net assets and goodwill, an impairment charge is recognised in the statement of comprehensive income. This calculation requires the exercise of significant judgement by management. If the estimates prove to be incorrect or performance does not meet expectations, which affects the amount and timing of future cash flows, goodwill may become impaired in future periods. Goodwill is disclosed in note 11.

Property, equipment and intangible assets

The allocation of useful lives of items of property, equipment and intangible assets is dependent on judgement. These allocations are done based on past experience and period over which future economic benefits will be derived.

1.5 SEGMENTAL REPORTING

An operating segment is a component of the RCS Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the RCS Group's other components. Operating segments' operating results are reviewed regularly by the Board, identified as the chief operating decision-maker, to make decisions about resources to be allocated to the segment and assess its performance and for which internal financial information is available.

The operating segments have been split into two main segments, Cards and Loans. To determine what qualifies for these segments the nature of the product offered and the risk profile of the product is considered.

Segment results that are reported to the Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire equipment and intangible assets.

Amounts reported in the RCS Group segmental analysis are measured in accordance with IFRS.

1.6 FINANCIAL INSTRUMENTS

A financial instrument is recognised when the RCS Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised if the RCS Group's contractual rights to the cash flows from the financial assets expire or if the RCS Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, being the date that the RCS Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the RCS Group's obligations specified in the contract expire or are discharged or cancelled.

Non-derivative financial instruments

Non-derivative financial instruments recognised on the statement of financial position include cash and cash equivalents, card, loan and other receivables, funding and trade and other payables.

Initial measurement

Financial instruments are initially recognised at fair value. For those instruments not measured at fair value through profit or loss, directly attributable transaction costs are included on initial measurement.

Non-derivative financial instruments

Subsequent to initial recognition, these instruments are measured as set out below:

Financial assets

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and amounts held on deposit at financial institutions and measured at amortised cost.

Card and loan receivables

Card and loan receivables are classified and measured at amortised cost using the effective interest method, less accumulated impairment losses. An impairment allowance is made for card and loan receivables, which are estimated to be impaired at the reporting date. The significant judgements included in estimating the allowance is included in note 1.4.

Other receivables

Other receivables are carried at amortised cost using the effective interest rate method less accumulated impairment losses.

ACCOUNTING POLICIES

for the year ended 31 December 2019 (continued)

1.6 FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets measured at fair value through profit and loss

Per the reinsurance contracts with the respective insurance cell captives the insurance risk lies with the cell captive and therefore the RCS Group is not exposed to insurance risk. The reinsurance contract issued in cell captive arrangements are classified as financial assets and are designated for measurement at the fair value with the movement in the fair value being recognised in profit and loss.

Expected credit loss impairment model

Credit loss allowances are measured on each reporting date according to a three-stage ECL impairment model:

- Stage 1 – From initial recognition of a financial asset until the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the next 12 months.
- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset.
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses will be recognised.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the RCS Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition.

The RCS Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due however, other factors are also considered in making this determination. The main consideration being relative changes in the probability-weighted probability of default since origination.

(ii) Definition of default

The Group considers that default has occurred when a financial asset is more than 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

ACCOUNTING POLICIES
for the year ended 31 December 2019 (continued)

1.6 FINANCIAL INSTRUMENTS (CONTINUED)

Non-derivative financial instruments (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a write-off or past due event; or
(c) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the RCS Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss. Except in exceptional cases where an earlier write off is appropriate (such as death, insolvency and account fraud), RCS implements a write-off point of 8 years after transfer to recoveries collection agencies.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of write-off, loss given write-off (i.e. the magnitude of the loss if there is a write-off), and the exposure at write-off. The assessment of the probability of write-off and loss given write-off is based on historical data adjusted by forward-looking information as described above. As for the exposure at write-off, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date; together with unutilised credit lines adjusted for the likelihood of utilisation before write-off.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the RCS Group in accordance with the contract and all the cash flows that the RCS Group expects to receive, discounted at the original effective interest rate. Collection costs on future cash flows are not taken into account in the estimation of expected credit losses.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

1.6 FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities

Trade and other payables and funding

Trade and other payables and funding are recognised at amortised cost comprising original debt less principal repayments and amortisation.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the RCS Group has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.7 PROPERTY AND EQUIPMENT

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are recognised net within "operating costs" in the income statement.

Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the RCS Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in the statement of comprehensive income as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

ACCOUNTING POLICIES

for the year ended 31 December 2019 (continued)

1.7 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation (continued)

The estimated depreciation rates for the current and comparative periods are as follows:

• Computer hardware	33%
• Furniture and fittings	16% – 20%
• Leasehold property	10%
• Motor vehicles	20%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Depreciation of an item of property and equipment commences when the item is available for use.

1.8 GOODWILL

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised, but tested annually for impairment and when there is an indication of impairment.

1.9 INTANGIBLE ASSETS

Intangible assets that are acquired by the RCS Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the statement of comprehensive income as incurred.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the ability to measure reliably the expenditure attributable to the intangible asset during its development; and
- the technical feasibility of completing the intangible asset.

ACCOUNTING POLICIES
for the year ended 31 December 2019 (continued)

1.9 INTANGIBLE ASSETS (CONTINUED)

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in the statement of comprehensive income in the period in which it is incurred. Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Computer software

Computer software acquired by the RCS Group is stated at historical cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The annual rate for the amortisation is 33% on general software and 10% for the customer acquisition system.

The above amortisation rates are consistent with the comparative period. Amortisation methods, useful lives and residual values are reassessed at each reporting date.

1.10 NON-FINANCIAL ASSETS IMPAIRMENT

The carrying values of the RCS Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to goodwill and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.11 LEASES

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the Group's incremental borrowing rate. The incremental borrowing rate is calculated using the average interest rate of long term funding currently drawn.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability whenever there are changes to the lease term or lease payments payable or when the lease contract is modified. The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the lease term and the depreciation starts at the commencement date of the lease.

1.12 STATED CAPITAL AND RESERVES

Stated capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any taxation effects.

Foreign currency translation reserve

Gains and losses arising on translation of the assets, liabilities, income and expenses of foreign operations are recognised directly in equity as a foreign currency translation reserve.

1.13 DIVIDENDS

Dividends and the related withholdings tax are accounted for in the period when the dividend is declared. Dividends declared on equity instruments after the reporting date, and the related withholding taxation thereon, are accordingly not recognised as liabilities at the reporting date.

1.14 INTEREST EARNED

Revenue comprises interest income. Interest is recognised on a time-proportion basis taking account of the principal outstanding and the effective interest rate over the period to maturity when it is probable that such income will accrue to the RCS Group.

1.14 INTEREST EARNED (CONTINUED)

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or (where appropriate) a shorter period, to the amortised cost of a financial asset.

1.15 INTEREST EXPENSE

Interest expense comprises interest which has been incurred on borrowings, including the lease liability. All borrowing costs are recognised in profit or loss.

1.16 OTHER INCOME

Collection income

Collection income is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. Collection income is recognised when charged to the customer's account once a collection intervention has taken place on the outstanding balance.

Merchant commission income

Commission income is recognised when the related transaction on which the commission is earned has been concluded.

Insurance commission income

Insurance Commission income is recognised on a monthly basis when the insurance premium is charged to a customer's account on behalf of the insurance cell captive.

Service and initiation fee income

Service fee income is recognised on a monthly basis when charged to a customer's account. The performance obligation is met monthly.

Initiation fee is charged to a customer on initiation of the account and recognised as part of the effective interest rate of the financial asset.

Dividend received

The dividend relates to the dividend declared by the insurance cell captive and is recognised when declared.

ACCOUNTING POLICIES
for the year ended 31 December 2019 (continued)

1.17 TAXATION

Income taxation expense comprises current and deferred taxation.

Income taxation expense is recognised in the statement of comprehensive income except to the extent that it relates to a transaction that is recognised directly in other comprehensive income or in equity, in which case it is recognised in other comprehensive income or equity as appropriate.

Current taxation is the expected taxation payable/receivable, calculated on the basis of taxable income for the period, using the taxation rates enacted or substantively enacted at the reporting date, and any adjustment of taxation payable/receivable for previous periods.

Deferred taxation is recognised in respect of temporary differences between the taxation base of an asset or liability and its carrying amount. Deferred taxation is not recognised for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and temporary differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred taxation is measured at the taxation rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred taxation assets are recognised for all deductible temporary differences and assessed losses to the extent that it is probable that taxable profit will be available against which such deductible temporary differences and assessed losses can be utilised. Deferred taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

Deferred taxation assets and liabilities are off-set if there is a legally enforceable right to off-set current taxation liabilities and assets, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current taxation liabilities and assets on a net basis, or their taxation assets and liabilities will be realised simultaneously.

ACCOUNTING POLICIES
for the year ended 31 December 2019 (continued)

1.18 EMPLOYEE BENEFITS

Short-term employee benefits

The cost of all short-term employee benefits are recognised in the statement of comprehensive income during the period in which the employee renders the related service.

The accruals for employee entitlements to wages, salaries, annual and sick leave represent the amount which the RCS Group has a present obligation to pay as a result of employees' services provided to the reporting date. The short-term benefits have been calculated at undiscounted amounts based on current wage and salary rates.

Defined contribution plans

The holding Company and its subsidiaries contribute to the following defined contribution plans:

Post-employment benefits

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension, provident and retirement funds are recognised as an employee benefit expense in the statement of comprehensive income as the related service is provided. Prepaid contributions are recognised as an asset to the extent that cash refund or a reduction in future payments is available.

Medical aid schemes

The RCS Group contributes to medical aid schemes for the benefit of permanent employees and their dependants. The contributions to the schemes are recognised in the consolidated statement of comprehensive income as the related service is provided.

1.19 FOREIGN CURRENCIES

Foreign currency transactions

Transactions in currencies other than the entity's functional currency are translated at the rates of exchange ruling on the transaction date.

Monetary assets and liabilities denominated in such currencies are translated at the rates ruling at the reporting date.

Non-monetary assets and liabilities denominated in such currencies are translated using the exchange rate at the date of the transaction.

Foreign currency gains and losses arising on translation are recognised in profit or loss.

Foreign operations

As at the reporting date, the assets and liabilities of foreign operations in Botswana are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and the income and expenses are translated at the average rate for the year.

Gains and losses arising on translation of the assets, liabilities, income and expenses of foreign operations are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

The RCS Group is not required to translate the financial position and results of the operations in Namibia as the exchange rate between the Namibian Dollar and the Rand is 1:1.

2. NEW STANDARDS AND INTERPRETATIONS

2.1 NEW AND AMENDED IFRS THAT ARE EFFECTIVE FOR THE CURRENT YEAR

Impact of initial application of IFRS 16 Leases

In the current year, the RCS Group adopted IFRS 16: Leases. IFRS 16 introduces new requirements with respect to lease accounting with significant changes by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low-value assets. The RCS Group does not have any short-term or low-value leases.

The RCS Group has not chosen the full retrospective application of IFRS 16 in accordance with IFRS 16:C5(a). Consequently, the RCS Group has not restated the comparative information.

The RCS Group made use of the practical expedient available on transition of IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

Applying IFRS 16 for all leases, the RCS Group:

a) recognises right-of-use assets and lease liabilities in the notes to the consolidated statement of financial position, initially measured at the present value of future lease payments;
b) recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
c) recognises lease payments within financing activities in the consolidated statement of cash flow and eliminating interest (on the lease liability) in the calculation of cash utilised in operations.

The RCS Group has recognised R113.2 million of right-of-use assets, R153.6 million of lease liabilities and a deferred tax asset of R11.4 million upon transition to IFRS 16. The difference of R29 million is recognised in retained earnings.

2. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

Lease liability calculation based on cumulative catch up approach	R'000
Operating lease commitments at 31 December 2018	203 093
Effect of discounting (at an incremental borrowing rate of 8.4%)	(49 450)
Lease liability recognised at 1 January 2019	**153 643**

2.2 NEW AND REVISED IFRS STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

At the date of authorisation of these financial statements, the RCS Group has not applied the following relevant new and revised IFRS Standards that have been issued but are not yet effective:

New materiality definition	Definition of Material (Amendments to IAS 1 and IAS 8)
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS
IAS 1 amendments on classification	Classification of Liabilities as Current or Non-Current

The directors do not expect that the adoption of the amendments listed above will have a material impact on the financial statements of the RCS Group in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

3. OPERATING SEGMENTS

'The RCS Group has two reportable segments, as described below, which are the RCS Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each strategic business unit, the RCS Group's executive directors and business executives ("RCS Group Management") review internal management reports on a monthly basis. The following summary describes the operations in each of the RCS Group's reportable segments:

- Cards segment – credit card, general utility card and private label card products offered to consumer delivered via participating merchant outlets in South Africa, Namibia and Botswana and their related insurance products;
- Loans segment – short-term, medium-term and auto loans offered to consumers and related insurance products provided to individuals; and
- All other segments include BNP Paribas Personal Finance South Africa Limited, RCS Home Loans Proprietary Limited, RCS Collections Proprietary Limited and include once-off corporate costs.
  - BNP Paribas Personal Finance South Africa Limited acts as the external funding vehicle for the RCS Group. Commercial paper and bonds are issued via this entity (see note 15).
  - RCS Home Loans Proprietary Limited's operations include the servicing of home loans.
  - RCS Collections Proprietary Limited is a registered debt collector.

None of these segments meet any of the quantitative thresholds for determining reportable segments in the current or previous financial years. The RCS Group's external customers and assets are predominantly situated in South Africa, and no single customer comprises 10% or more of revenue for the RCS Group.

Information regarding the results of each reportable segment is included on pages 102 to 103. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the RCS Group management. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

3. OPERATING SEGMENTS (CONTINUED)

31 December 2019	Cards	Loans	Other	Total
	R'000	R'000	R'000	R'000
Interest earned	1 489 185	697 616	-	2 186 801
Interest expense	(459 828)	(169 174)	(423)	(629 425)
Net interest income	**1 029 357**	**528 442**	**(423)**	**1 557 376**
Inter-segmental income	(24 867)	(9 957)	34 824	-
Other income	834 133	231 781	2 474	1 068 388
Profit before taxation	427 902	125 982	12 047	565 931
Depreciation and amortisation	43 298	17 337	-	60 635
Fair value adjustment of financial asset	6 747	2 702	-	9 449
Interest on lease liability	(9 193)	(3 681)	-	(12 874)
Capital expenditure	45 333	18 152	-	63 485
Segment assets	8 544 633	3 421 434	306 501	12 272 568
Segment liabilities	(6 693 742)	(2 680 302)	(78 855)	(9 452 899)

Geographical Information	South Africa	Botswana	Namibia	Total
	R'000	R'000	R'000	R'000
Interest earned	2 125 322	48 522	12 957	2 186 801
Other income	1 034 231	25 062	9 095	1 068 388
Non-current assets	271 806	-	-	271 806

Non-current assets exclude those relating to financial instruments and deferred tax assets.

3. OPERATING SEGMENTS (CONTINUED)

	Cards	Loans	Other	Total
31 December 2018	**R'000**	**R'000**	**R'000**	**R'000**
Interest earned	1 279 399	614 582	-	1 893 981
Interest expense	(393 439)	(140 361)	13 592	(520 208)
Net interest income	**885 960**	**474 221**	**13 592**	**1 373 773**
Inter-segmental income	-	-	32 555	32 555
Other income	790 850	192 991	1 353	985 194
Profit before taxation	322 532	158 366	13 483	494 381
Depreciation and amortisation	30 774	10 986	-	41 760
Capital expenditure	29 953	11 223	-	41 176
Segment assets	7 396 362	2 771 336	69 448	10 237 146
Segment liabilities	(5 536 639)	(2 074 518)	(89 932)	(7 701 089)

Geographical information	South Africa	Botswana	Namibia	Total
	R'000	R'000	R'000	R'000
Interest earned	1 849 377	32 709	11 895	1 893 981
Other income	959 921	16 381	8 892	985 194
Non-current assets	155 828	-	-	155 828

Non-current assets exclude those relating to financial instruments and deferred tax assets.

4. CASH AND CASH EQUIVALENTS

	31 December 2019 R'000	31 December 2018 R'000
Bank balances	702 757	594 419
Cash on hand	-	1
	702 757	**594 420**

The RCS Group has no restricted cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

5. CARD AND LOAN RECEIVABLES

	31 December 2019 R'000	31 December 2018 R'000
Active cards and loan receivables		
Gross	11 493 510	9 827 407
Less: allowance for impairment	(1 365 489)	(1 227 752)
Net active card and loan receivables	**10 128 021**	**8 599 655**
Card and loan receivables handed over to recoveries collection agencies		
Gross	4 066 704	2 600 385
Less: allowance for impairment	(3 507 005)	(2 206 372)
Net cards and loan receivables handed over to recoveries collection agencies	**559 699**	**394 013**

Card and loan receivables handed over to recoveries collection agencies relate to customer accounts that have reached a certain level of contractual delinquency and are no longer actively managed operationally. These customers are still collected upon by collection recovery agencies.

	31 December 2019 R'000	31 December 2018 R'000
Total card and loan receivables		
Gross	15 560 214	12 427 792
Less: allowance for impairment	(4 872 494)	(3 434 124)
Net card and loan receivables	**10 687 720**	**8 993 668**
Analysis of card and loan receivables by type		
Card and private label receivables	7 631 801	6 626 195
Personal loan receivables	3 055 919	2 367 473
	10 687 720	**8 993 668**

Card and private label receivables consist of a number of individual unsecured revolving card accounts as well as amounts due for services delivered on credit. The accounts attract variable and fixed interest rates, and terms vary from revolving to 36 months. The average effective interest rate for the year under review is 18.88% (31 December 2018: 19.60%).

Personal loan receivables are comprised of a number of individual unsecured loans. The personal loans are charged at fixed interest rates and terms vary from 12 to 60 months. The interest rate on each loan is determined when the loan is initially advanced on the basis of the risk profile of the customer. The average effective interest rate for the year under review is 24.46% (31 December 2018: 26.58%).

The RCS Group's management of, and exposure to, market and credit risk is disclosed in note 27.

5. CARD AND LOAN RECEIVABLES (CONTINUED)

The RCS Group monitors the ageing of its card and loan receivables on a contractual basis.

The movement in the allowance for impairment in respect of card and loan receivables during the year was as follows:

	31 December 2019 R'000	31 December 2018 R'000
Active card and loan receivables		
Balance at beginning of year	1 227 752	709 571
Change on initial application for IFRS 9	-	341 295
Allowance for impairment raised	195 251	210 404
Impairment loss recognised	(57 514)	(33 518)
Balance at end of year	**1 365 489**	**1 227 752**
As percentage of gross card and loan receivable book	11.88%	12.49%
Card and loan receivables handed over to recoveries collection agencies		
Balance at the beginning of the year	2 206 372	-
Change on initial application IFRS 9	-	1 956 936
Allowance for impairment raised	1 300 633	505 308
Impairment loss recognised	-	(255 872)
Balance at the end of the year	**3 507 005**	**2 206 372**
As percentage of gross card and loan receivable book	86.30%	84.85%
Total cards and loan receivables		
Balance at the beginning of the year	3 434 124	709 571
Change on initial application IFRS 9	-	2 298 231
Allowance for impairment raised	1 495 884	715 712
Impairment loss recognised	(57 514)	(289 390)
Balance at the end of the year	**4 872 494**	**3 434 124**
As percentage of gross card and loan receivable book	31.31%	27.63%

Customers that are not past due, and who have a good payment history with the RCS Group, make up 79.28% of net card and loan receivables (31 December 2018: 85.74%). No card and loans receivables written off during the year are subject to enforcement activity (31 December 2018: R nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

5. CARD AND LOAN RECEIVABLES (CONTINUED)

The following table details the risk profile of the active card and loan receivables based on the RCS Group's provision matrix.

	December 2019 Active cards and loan receivables			
	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
Gross active card and loan receivables	8 273 756	2 380 874	838 880	11 493 510
Allowance for impairment	(317 840)	(628 179)	(419 470)	(1 365 489)
Net active card and loan receivables	**7 955 916**	**1 752 695**	**419 410**	**10 128 021**
Provision %	4%	26%	50%	12%

Card and loan receivables handed over to recoveries collection agencies are measured at stage 3 with a provision percentage of 86% (31 December 2018: 85%).

	December 2018 Active cards and loan receivables			
	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
Gross active card and loan receivables	7 095 329	1 879 311	852 767	9 827 407
Allowance for impairment	(369 098)	(469 180)	(389 474)	(1 227 752)
Net active card and loan receivables	**6 726 231**	**1 410 131**	**463 293**	**8 599 655**
Provision %	5%	25%	46%	12%

5. CARD AND LOAN RECEIVABLES (CONTINUED)

Geographical concentration of customers

The RCS Group's operating activities are situated in South Africa, Namibia and Botswana. The geographical concentration of credit granted during the year was as follows:

	31 December 2019	31 December 2018
Botswana	1.29%	2.56%
Eastern Cape	5.89%	5.81%
Free State	4.07%	3.84%
Gauteng	38.48%	36.21%
KwaZulu-Natal	13.69%	14.29%
Limpopo	4.42%	4.15%
Mpumalanga	10.71%	11.40%
Namibia	0.72%	1.31%
North West	2.25%	1.97%
Northern Cape	1.90%	2.58%
Western Cape	16.58%	15.88%
	100.00%	**100.00%**

6. OTHER RECEIVABLES

	31 December 2019 R'000	31 December 2018 R'000
Other receivables	89 282	79 045
Prepayments	16 053	13 065
	105 335	**92 110**

Other receivables consist mainly of corporate debtors of R30.1 million (31 December 2018: R16.1 million), RCS Homeloans joint operation loan account of R25 million (31 December 2018: R2.5 million) and lease deposits of R7.4 million (31 December 2018: R7.4 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

7. FINANCIAL ASSET MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

Unlisted investment		
- Investment in insurance cell captives	177 302	167 853

The risk structure per product is as follows:

Guardrisk Insurance Company Limited (RCS Cards Proprietary Limited Cell no. 160)
The RCS Group sells short-term income protection insurance on behalf of Guardrisk to its customers. The RCS Group bears 100% of the reinsurance risk for all products.

Guardrisk Life (RCS Cards Proprietary Limited Cell no. 78)
The RCS Group sells long-term insurance policies with death benefits on behalf of Guardrisk to its customers. The RCS Group bears 100% of the reinsurance risk for all products.

Centriq Life Insurance Company Limited
The RCS Group sells long-term insurance policies with death benefits on behalf of Centriq Life Insurance to its customers. The RCS Group bears 100% of the reinsurance risk for all products.

The financial asset consists of the following components:

Reconciliation of financial assets measured at fair value through profit and loss

Balance at beginning of year	167 853	116 422
Increase based on shareholders funds of the cell captive	9 449	51 431
Balance at end of year	**177 302**	**167 853**

The valuation is performed on a recurring basis based on the value of the underlying assets carried in the respective insurance cell captives and is a Level 2 fair value measurement. There are no significant assumptions or judgements exercised in determining the fair value, as the assets carried comprise mostly cash balances. There are no transfers between levels.

8. DEFERRED TAXATION

	31 December 2019 R'000	31 December 2018 R'000
Deferred tax asset	**207 592**	**173 854**

Based on management's forecast, the RCS Group expects to generate sufficient future taxable profits to utilise the deferred tax asset recognised as at 31 December 2019.

Reconciliation of deferred tax asset:		
At beginning of the year	173 854	109 270
Movement recognised in profit and loss:		
- Provisions	(11 599)	(322)
- Assessed loss	121	-
- Capital allowances	(79)	(584)
- Allowance for impaired card and loan receivables	33 871	2 054
- Unrealised gain	68	116
Movement recognised in equity:		
- Right of use asset and lease liability	11 356	-
- Allowance for impaired card and loan receivables	-	63 320
Balance at end of year	**207 592**	**173 854**

The balance at the end of the year comprises temporary differences relating to:

- Provisions	26 782	38 382
- Assessed loss	121	-
- Capital allowances	146	225
- Right of use asset and lease liability	11 356	-
- Allowance for impaired card and loan receivables	168 957	135 086
- Unrealised loss	231	161
	207 592	**173 854**

9. PROPERTY AND EQUIPMENT

	31 December 2019			31 December 2018		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Computer hardware	82 817	(58 896)	23 921	64 700	(49 727)	14 973
Furniture and fittings	62 306	(51 061)	11 245	61 988	(43 498)	18 490
Right of use asset	167 821	(74 692)	93 129	-	-	-
Leasehold property	9 243	(4 970)	4 273	9 243	(4 046)	5 197
Motor vehicles	13 351	(9 254)	4 098	12 595	(8 475)	4 120
	335 538	**(198 872)**	**136 666**	**148 526**	**(105 746)**	**42 780**

Reconciliation of carrying amounts:

	Carrying amount at beginning of year	Adoption of IFRS 16	Additions	Disposals	Depreciation	Carrying amount at end of year
31 December 2019	R'000	R'000	R'000	R'000	R'000	R'000
Computer hardware	14 973	-	18 117	-	(9 169)	23 921
Furniture and fittings	18 490	-	318	-	(7 563)	11 245
Right of use asset	-	113 148	-	-	(20 019)	93 129
Leasehold property	5 197	-	-	-	(924)	4 273
Motor vehicles	4 120	-	1 599	(20)	(1 601)	4 098
	42 780	**113 148**	**20 034**	**(20)**	**(39 276)**	**136 666**
31 December 2018	R'000	R'000	R'000	R'000	R'000	R'000
Computer hardware	16 493	-	10 596	(141)	(11 975)	14 973
Furniture and fittings	25 832	-	185	-	(7 527)	18 490
Leasehold property	6 121	-	-	-	(924)	5 197
Motor vehicles	4 197	-	1 544	-	(1 621)	4 120
	52 643	-	12 325	(141)	(22 047)	42 780

Each lease generally imposes a restriction that the right-of-use asset can only be used by the RCS Group. The RCS Group is prohibited from selling or pledging the underlying leased assets as security. There are no restrictions on the title of all the other property and equipment items and none have been pledged as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

10. INTANGIBLE ASSETS

	31 December 2019			31 December 2018		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
Computer software	183 810	(105 525)	78 285	140 358	(84 165)	56 193
	183 810	**(105 525)**	**78 285**	**140 358**	**(84 165)**	**56 193**

Reconciliation of carrying amounts:

	Carrying amount at beginning of year	Additions	Amortisation	Carrying amount at end of year
31 December 2019	R'000	R'000	R'000	R'000
Computer software	56 193	43 452	(21 360)	78 285
	56 193	**43 452**	**(21 360)**	**78 285**
31 December 2018				
Computer software	47 062	28 844	(19 713)	56 193
	47 062	**28 844**	**(19 713)**	**56 193**

11. GOODWILL

	31 December 2019 R'000	31 December 2018 R'000
Goodwill	56 855	56 855

Goodwill acquired through business combinations has been allocated to three individual cash-generating units:

Cash-generating unit		
General Purpose Card Division	12 917	12 917
Personal Loan Division	36 481	36 481
MDD Private Label Card Division	7 457	7 457
	56 855	**56 855**

Goodwill is tested annually for impairment and when there is an indication of impairment. The recoverable amount of the cash-generating units are based on the value in use, determined by a calculation which covers a five-year forecast period. The cash flows have been discounted at a rate of 12% (31 December 2018: 12%) based upon a conservative WACC used in the impairment model. Significant assumptions applied when reviewing the goodwill impairment are that future profits were estimated using historical information and approved budgets, anticipated growth in advances or turnover and expectations of future interest rates. The most significant assumption in the future profits is an annual growth rate of 18% to 20% in the gross receivables balance, as this figure drives the key elements of the profit and loss. The terminal growth rate assumed for the period beyond five years was 2% (31 December 2018: 2%), based on discounted historic growth rates.

Based on this assessment management is of the opinion that for all of the cash-generating units the value in use exceeds the carrying amount and therefore no impairment is recognised.

12. RELATED PARTIES

	31 December 2019 R'000	31 December 2018 R'000
Ultimate shareholder		
BNP Paribas Société Anonyme	**100%**	**100%**

Related party transactions

Amounts owing to BNP Paribas Société Anonyme, South Africa Branch		
Funding and interest owing	1 373 304	719 093

The funding lines are unsecured and bear interest at a variable rate linked to the relevant JIBAR for the term of the funding.

Transactions with BNP Paribas Société Anonyme		
Commitment and guarantee fees payable	(12 808)	(12 309)

Commitment fees are payable for the unutilised portion of the standby liquidity facility. Guarantee fees are payable for the drawn guaranteed funding.

Transactions with BNP Paribas Société Anonyme, South Africa Branch		
Interest expense	(77 407)	(72 362)
Transactions with BNP Paribas Personal Finance Société Anonyme		
Management fees payable	(15 787)	(12 564)

Interest of directors in contracts

No directors directly or indirectly hold any shares in BNP Paribas Personal Finance South Africa Limited. No directors have any interest in contracts that are in contravention of section 75 of the Act.

Loans to directors

No loans have been made to directors (31 December 2018: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

12. RELATED PARTIES (CONTINUED)

	31 December 2019 R'000	31 December 2018 R'000
Directors' and key management compensation		
Directors' emoluments		
Executive directors' fees	15 595	11 781
Non-executive directors' fees	1 064	820
	16 659	**12 601**

Key management compensation

Key management personnel are those having authority and responsibility for planning, directing and controlling activities, directly or indirectly, including any director of the RCS Group. Directors and executives of the RCS Group have been classified as key management personnel. No key management personnel had a material interest in any contract of significance with any RCS Group company during the period under review.

Remuneration paid to key management personnel are as follows:		
Short-term benefits	24 069	17 818
Post-retirement benefits	2 386	1 384
Total remuneration	**26 455**	**19 202**

13. STATED CAPITAL

Authorised		
80 000 (31 December 2018: 80 000) Ordinary Shares of no par value	-	-
Issued		
40 000 (31 December 2018: 40 000) Ordinary Shares of no par value	1 736 636	1 736 636

There were no movements in the number of shares during the current and prior year.

After the date of the reporting period, but before the financial statements were authorised for issue, no distribution was declared to the shareholder (31 December 2018: R200 million).

14. TRADE AND OTHER PAYABLES

	31 December 2019 R'000	31 December* 2018 R'000
Trade payables	253 795	292 861
Other payables	95 476	106 689
Lease liability	140 616	-
Manpower costs accruals	53 454	52 308
VAT payable	2 025	4 376
	545 366	**456 234**

The lease liability has been discounted at an incremental borrowing rate of 8.4%. An interest charge of R12.9 million on the lease liability has been recognised in the statement of profit and loss.

*Disclosure of trade and other payables have been updated with respect to the comparative year through separately disclosing trade payables, other payables and manpower costs accruals based on the underlying nature to enhance the understandability.

15. FUNDING

By maturity		
Demand to one month	575 000	213 200
One to three months	1 000 000	450 000
Three months to one year	2 828 770	2 281 667
More than a year	4 346 053	4 299 988
	8 749 823	**7 244 855**
By nature		
Domestic medium-term note programme (a)	3 875 000	3 400 000
Term funding (b)	4 874 823	3 844 855
	8 749 823	**7 244 855**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

15. FUNDING (CONTINUED)

(a) The domestic medium-term notes are denominated in Rands, have a nominal value of R3 875 million (31 December 2018: R3 400 million), are unsecured and bear interest at variable interest rates linked to the three- month JIBAR. Maturity as at the reporting date is as follows: R165 million within demand to one month, R450 million within one to three months, R1 310 million within three months to one year and R1 950 million after more than one year (31 December 2018: R115 million within demand to one month, R150 million within one to three months, R1 035 million within three months to one year and R2 100 million after more than one year).

(b) Term funding is denominated in Rands and Pula, unsecured and bears interest at variable interest rates. Maturity as at the reporting date is as follows: R410 million within demand to one month, R550 million within one to three months, R1 519 million within three months to a year and R2 396 million after more than one year (31 December 2018: R98.2 million within demand to one month, R300 million within one to three months, R1 246 million within three months to a year and R2 201 million after more than one year).

16. LEASES, COMMITMENTS AND CONTINGENT LIABILITIES

Leases

The RCS Group occupies the following leased properties:

Liberty Grande

This is a property leased from Precious Prospect Trading 50 Proprietary Limited.

Mowbray Business Park

This is a property leased from Acucap Investments Proprietary Limited.

Capital commitments		
Authorised (Not contracted)	43 216	41 176

The RCS Group has sufficient cash funding and resources to finance the authorised capital commitments.

17. INTEREST EARNED

	31 December 2019 R'000	31 December 2018 R'000
Card receivables	1 489 185	1 279 399
Loan receivables	697 616	614 582
	2 186 801	**1 893 981**

18. OTHER INCOME

Collection income	59 670	52 027
Insurance cell captives dividend received	209 895	127 749
Fair value adjustment	9 449	51 431
Insurance commission	101 349	74 575
Merchant commission	55 889	56 957
Service and initiation fee income	626 701	617 258
Other income	5 435	5 197
	1 068 388	**985 194**

19. PROFIT BEFORE TAXATION

Included within profit before taxation are the following items:		
Auditor's remuneration-external	2 195	2 240
Outsourcing fees	24 567	35 725
Donations	2 114	2 089
Legal fees	670	1 481
Manpower costs:		
- Salaries	380 748	352 499
- Directors' emoluments	15 629	12 601
Premises costs	43 982	49 258

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

20. TAXATION

	31 December 2019 R'000	31 December 2018 R'000
Income taxation recognised in profit and loss:		
South African current taxation:		
- Current year	114 290	85 417
- Prior year overprovision	(3 888)	-
Non-South African current taxation:		
- Current year	4 448	4 717
- Withholding taxation	1 202	789
	116 052	**90 923**
Deferred taxation:		
- Current year	(22 440)	(1 264)
	93 612	**89 659**
Reconciliation of the taxation expense		
Standard taxation rate	28.0%	28.0%
Non-deductible expenditure	0.1%	0.2%
Non-taxable income:		
– Fair value adjustment	(0.5%)	(2.9%)
– Cell captive dividend	(10.4%)	(7.2%)
– Other	(0.3%)	(0.1%)
Prior year current taxation overprovision	(0.7%)	-
Withholding taxation	0.4%	0.2%
Current year's taxation charge as a percentage of profit before taxation	**16.6%**	**18.2%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019 (continued)

21. CASH UTILISED IN OPERATIONS

	31 December 2019 R'000	31 December 2018 R'000
Profit before taxation	565 931	494 381
Adjustments for:		
- Amortisation of intangible assets	21 360	19 713
- Depreciation of property and equipment and ROU asset	39 276	22 047
- Foreign currency exchange differences	(1 858)	2 125
- Profit on sale of equipment	(306)	-
- Interest on lease liability	12 874	-
- Fair value adjustment though profit and loss	(9 449)	(51 431)
Changes in working capital:		
- Increase in card and loan receivables	(1 694 052)	(1 686 131)
- Increase in other receivables	(13 225)	(61 040)
- (Decrease)/increase in trade and other payables	(51 485)	37 165
	(1 130 934)	**(1 223 171)**

22. TAXATION PAID

Taxation receivable at beginning of year	59 413	116 420
Current taxation charge	(116 052)	(90 923)
Taxation receivable at end of year	(120 056)	(59 413)
	(176 695)	**(33 916)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

23. SUBSIDIARIES

Details of the RCS Group's subsidiaries are as follows:

	Place of incorporation and operation	Portion of ownership interest and voting power held	Principal activity
Name of subsidiary			
RCS Botswana Proprietary Limited	Botswana	100%	Retail credit
RCS Cards Proprietary Limited	South Africa	100%	Retail credit
RCS Collections Proprietary Limited	South Africa	100%	Collections
RCS Home Loans Proprietary Limited	South Africa	100%	Home loans
RCS Investment Holdings Namibia Proprietary Limited	Namibia	100%	Retail credit

24. INTEREST IN JOINT OPERATIONS

RCS Home Loans Proprietary Limited, a 100% held subsidiary of BNP Paribas Personal Finance South Africa Limited, has a joint operation partnership with SA Home Loans Proprietary Limited. The joint operation offers home loans to qualifying customers, which is in line with the RCS Groups' business of providing credit to customers. A summary of the results of the joint operation for the current and prior financial years are as follows:

	31 December 2019	31 December 2018
Proportion of ownership interest and voting power held	50%	50%
	R'000	R'000
Current assets	13 011	13 812
Current liabilities	16 025	14 753
Income	752	1 289
Expenditure	2 040	475
Profit and loss	-	814
Total comprehensive (loss)/income	(1 288)	814

The joint operation is not material to the RCS Group.

25. EMPLOYEE BENEFITS

Retirement funds

Alexander Forbes Retirement Annuity: Defined contribution plan

All permanent employees of RCS Botswana Proprietary Limited under normal retirement age are required to be members of the Alexander Forbes Retirement Annuity. The employees and the employer make equivalent contributions in respect of the retirement annuity benefits. In addition, the employer contributes to death and disability benefits, reinsurance, and administration and management costs.

Sanlam Pension Fund: Defined contribution plan

In the 2019 financial year, the RCS Group changed its employee pension fund from the Liberty Pension Fund: Defined contribution plan to the Sanlam Pension Fund: Defined contribution plan. Certain employees and the employer make equivalent contributions in respect of pension fund benefits to the Sanlam Pension Fund. In addition, the employer contributes to death and disability benefits, reinsurance, and administration and management costs.

Sanlam Provident Fund: Defined contribution plan

In the 2019 financial year, the RCS Group changed its employee pension fund from the Liberty Pension Fund: Defined contribution plan to the Sanlam Pension Fund: Defined contribution plan. The Sanlam Provident Fund, which is governed by the provisions of the Pension Funds Act No. 24 of 1956, is a defined contribution plan. It provides comprehensive retirement and associated benefits for members and their dependants. Certain permanent employees of the RCS Group, excluding those that are employed by RCS Botswana Proprietary Limited and RCS Investment Holdings Namibia Proprietary Limited, may be members of the provident fund. The employer pays 14% contributions in respect of provident fund benefits. In addition, the employer contributes to death and disability benefits, reinsurance, and administration and management costs. As at 31 December 2019, the Pension Funds Act section 14 transfer was not yet finalised.

Sanlam Retirement Annuity: Defined contribution plan

All permanent employees of RCS Investment Holdings Namibia Proprietary Limited under normal retirement age are required to be members of retirement annuities managed by Sanlam. The employees and the employer make equivalent contributions in respect of retirement annuity benefits. In addition, the employer contributes to death and disability benefits, reinsurance, and administration and management costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

25. EMPLOYEE BENEFITS (CONTINUED)

	Number of members		Contributions	
	31 December	31 December	31 December	31 December
Summary per fund	2019	2018	2019	2018
			R'000	R'000
Alexander Forbes Retirement Annuity	8	9	93	57
Sanlam Retirement Annuity	12	13	56	58
Sanlam Provident Fund	1 420	1 292	33 022	27 418
Sanlam Pension Fund	7	8	145	138
	1 447	**1 322**	**33 316**	**27 671**

Medical aid schemes

BOMaid: Defined contribution plan

All permanent staff of RCS Botswana Proprietary Limited are required to become members of the medical plans of their choice offered by BOMaid. Total membership currently stands at 1 (31 December 2018: 1) principal members. The total payments amounted to R24 600 (31 December 2018: R12 516). The RCS Group has no obligation to fund medical aid contributions for current or retired employees.

Discovery Health: Defined contribution plan

Certain permanent staff of RCS Cards Proprietary Limited and RCS Home Loans Proprietary Limited are required to become members of the medical plans of their choice offered by Discovery Health. Total membership currently stands at 934 (31 December 2018: 789) principal members. The total payments amounted to R28 million (31 December 2018: R23 million). The RCS Group has no obligation to fund medical aid contributions for current or retired employees. All permanent staff of RCS Collections Proprietary Limited are required to become members of the medical plans of their choice offered by Discovery Health. Total membership currently stands at 126 (31 December 2018: 126) principal members. The total payments amounted to R3.0 million (31 December 2018: R3.0 million). The RCS Group has no obligation to fund medical aid contributions for current or retired employees.

Sanlam Primary Health Care

The RCS medical benefit policy was updated with effect from 1 June 2019 as a result of adding a mandatory Sanlam Primary Healthcare product to current benefits for certain permanent staff of RCS Card Proprietary Limited. These included certain employees earning under R10 000 per month. During 2020, this will be extended to all employees earning under R10 000 per month. Total membership currently stands at 417 (31 December 2018: 0) principal members. The total payments amounted to R1.1 million (31 December 2018: 0). The RCS Group has no obligation to fund primary healthcare contributions for current or retired employees.

26. EVENTS AFTER THE REPORTING PERIOD

After the date of the reporting period, but before the financial statements were authorised for issue, the RCS Group acquired ABSA's stake in the Edcon store card portfolios in South Africa and Namibia. The value of the gross book purchased is R4.7 billion with a transaction effective date of 1 February 2020. The purchase was financed by means of external funding and an equity injection from BNP Paribas Personal Finance Sociètè Anonyme. Management believes that sufficient and appropriate measures have been put into place to address any business distress and other impacts related to this transaction caused by the COVID-19 pandemic.

The COVID-19 outbreak occurred at a time close to the end of 2019, but the World Health Organisation only characterised it as a pandemic on 11 March 2020. The governments of South Africa and Botswana have introduced various measures to combat the outbreak, including travel restrictions, quarantines, business closures and other venues and a national lockdown. These measures will affect our retail partners' operations through store closures and supply chain disruptions. At the same time, fiscal and monetary policies are being relaxed to sustain the economy, and while these government responses and their corresponding effects are still evolving, there is not yet sufficient certainty on the scale of damage this outbreak will have made to the local and global economies.

The audited annual financial statements as at 31 December 2019 were prepared on a going concern basis, and this series of events does not provide any evidence of conditions that existed at the conclusion of the 2019 financial year end that impact the financial statements or the going concern basis of preparation. In terms of IAS 10 Events after the reporting period, non-adjusting post balance sheet events are events after the reporting period that are indicative of a condition that arose after the reporting period ended 31 December 2019. It was concluded that the declaration of COVID-19 as a pandemic is such an event. Management believes that the outbreak may negatively impact the businesses' profitability for the 2020 financial year. This will depend on several elements including the financial health of our customers and retail partners and the efficiency of the governmental and financial support they will benefit from.

As detailed in notes 1.4, 5 and 27, when measuring expected credit loss, the RCS Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. There is currently no historic credit data that can accurately predict the impact of COVID-19. While the effect of these events is largely unpredictable as the pandemic is still spreading globally, management expects that these events will affect the level of expected credit losses and the valuation of assets. The default rates and default recovery rates used in the measurement of expected credit loss provisions could be significantly impacted due to repayment delays and requests to extend loan repayments. These negative impacts will be mitigated by increased scrutiny and active credit risk management during this period. The commentary in this paragraph is applicable to both the valuation of assets as at year end and those assets acquired post year end. It is however not possible to make an accurate estimate of the full financial effect of this pandemic for the year ahead as the virus's infection rate and impact on macro-economic conditions is unknown and fluid.

26. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

The Board has assessed the funding available to the RCS Group and is satisfied that sufficient and appropriate funding is available for a period of at least twelve months from the date of the approval of these audited annual financial statements.

The directors are not aware of any other matters or circumstances arising between the end of the financial year and the date of approval of these financial statements that may materially affect the amounts and disclosure contained in the financial statements.

27. RISK MANAGEMENT

Overview
The RCS Group has exposure to risks from its use of financial instruments.

The RCS Group business model focuses primarily on providing unsecured credit while trying to minimise or avoid all other risk types. The RCS Group views risk as an inherent part of running a successful business. Risk is not only mitigated but is also analysed and investigated for opportunities. Successful risk management therefore entails understanding which risks can enhance shareholder value and which risks are incidental and potentially value destroying.

The RCS Group's risk management policies are established to identify and analyse the risks faced by the RCS Group to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the RCS Group's activities. The RCS Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The RCS Group board of directors has overall responsibility for the establishment and oversight of the RCS Group's risk management framework. The Board has established the Board Audit and Risk Committee ("BARC"), the Asset and Liability Committee ("ALCO"), the RCS Internal Risk and Audit Forum, the Credit Risk Committee and the Social and Ethics Committee. As a statutory Board committee, the BARC is responsible for monitoring the internal and external audit functions and regulatory compliance for the RCS Group. The ALCO Committee is responsible for developing and monitoring all affairs pertaining to liquidity risk, interest rate risk, foreign currency risk and capital adequacy risk. The RCS Internal Risk and Audit Forum is responsible for developing and monitoring the company's risk management policies, as well as the audit, accounting, internal control and financial reporting practices. The Credit Risk Committee is responsible for developing and monitoring credit risk within the RCS Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

27. RISK MANAGEMENT (CONTINUED)

The Social and Ethics Committee is responsible for monitoring the RCS Group's social and economic development. These committees formally report to the board of directors on its activities two to four times per annum. The risk management process established by the holding company continues and feeds into the risk management process established by the RCS Group . The holding company's risk management process is in turn managed by the BARC.

The following subcommittees comprising directors, executives and senior management have been established to deal with the following risks facing the company:

(a) ALCO – liquidity, interest rate, foreign currency, and capital adequacy risk
(b) BARC – financial, internal control, governance, technology, operational and reputational risk
(c) Compliance Forum – legal and compliance risk
(d) Credit Risk Committee – credit risk
(e) Social and Ethics Committee – social and economic development

Credit risk
The risk on cash and cash equivalents is managed through dealing with well-established financial institutions with high credit standing. The risk arising on card, loan and other receivables is managed through a stringent policy on the granting of credit limits, continual review and monitoring of these limits. The risk on amounts owing from the RCS Group companies are managed through monitoring the value of the amounts due and ensuring regular settlement thereof.

The RCS Group does not consider there to be any significant concentration of credit risk in respect of which adequate impairment has not been raised for the financial assets detailed below, in regard to the credit risk exposure.

The RCS Group does not require collateral in respect of card and loan receivables.

The RCS Group establishes an allowance for impairment that represents its estimate of expected losses in respect of card and loan receivables. The allowance is calculated using a model developed in conjunction with the RCS Group's shareholders and external experts. Management considers evidence from various sources, internal and external, not yet evident in the mathematical models, such as the macroeconomic environment and portfolio maturity, to inform their judgement of the required levels of impairment and whether to add a further management layer over the statistical model output, in order to adopt a prudent and a conservative approach. The board of directors believe that card and loan receivables balances are being measured fairly.

27. RISK MANAGEMENT (CONTINUED)

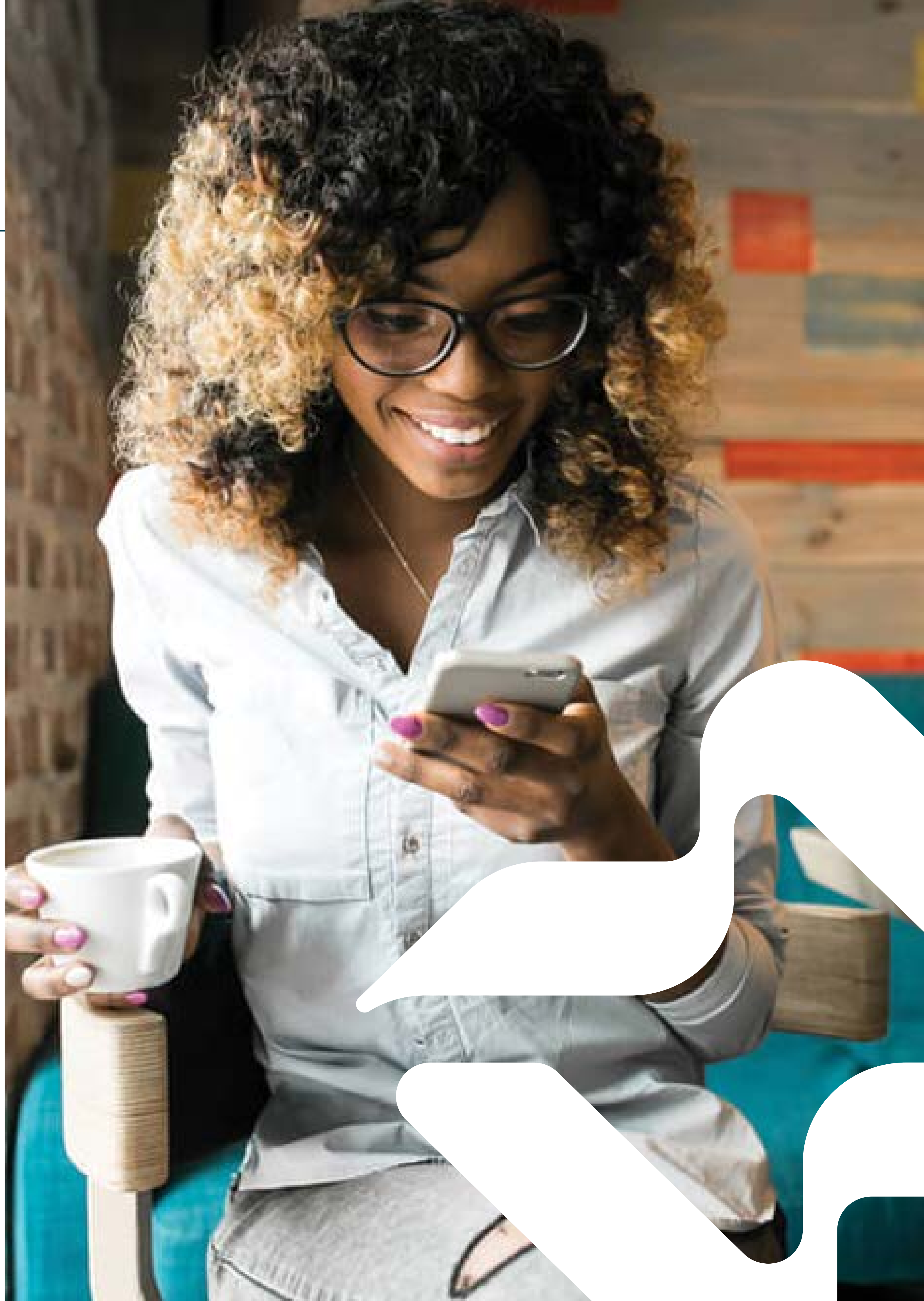
Credit risk exposure

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The maximum exposure to credit risk at the reporting date is:

	31 December 2019 R'000	31 December 2018 R'000
Cash and cash equivalents	702 757	594 420
Card and loan receivables	10 687 720	8 993 668
Other receivables	89 282	79 045
Financial asset at fair value through profit or loss	177 302	167 853
	11 657 061	9 834 986

Regulatory compliance

The RCS Group adopts a zero tolerance for non-compliance, acts swiftly and decisively when such matters are initially identified and has processes, internal controls and governance procedures in place to drive and monitor this. These processes and procedures include operational, executive and board of director level compliance forums, with conduct of internal audits, disciplinary and quality assurance processes, incident reporting and complaints registers that are maintained, followed up and timeously resolved.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

27. RISK MANAGEMENT (CONTINUED)

Liquidity risk

The RCS Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the RCS Group's reputation and financial standing with the investor community.

This risk is managed through cash flow forecasts, stress testing scenarios on cash flow, the optimisation of daily cash management and by ensuring that adequate and term-appropriate borrowing facilities are maintained. The objective is to have positive liability to asset term matching with liabilities carrying longer terms than the underlying book assets. The RCS Group has shareholder facilities in place to mitigate the roll over risk of funding in issue. The company monitors and evaluates funding on an active basis to ensure that the company can oblige to its commitments made to borrowers. Management is of the view that the RCS Group has access to sufficient affordable sources of funding to manage roll over risk, asset liability mismatch situations and to withstand a stressed cash flow scenario within compliance ranges and with remote risk of default. In terms of its Memorandum of Incorporation, the RCS Group's borrowing powers are unlimited.

The RCS Group has available unutilised bank facilities to the value of R1.41 billion (31 December 2018: R2.24 billion) and in addition has shareholder liquidity facilities of R1.5 billion (31 December 2018: R1.5 billion) at the end of the financial year.

Liability cash flows are presented on an undiscounted basis.

27. RISK MANAGEMENT (CONTINUED)

Contractual maturities

The table below analyses liabilities of the RCS Group into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date, including interest:

	Carrying amount	Demand to one month	One to three months	Three months to one year	More than one year	Total
	R'000	R'000	R'000	R'000	R'000	R'000
31 December 2019						
Liabilities						
Non-derivative financial liabilities						
Funding	(8 749 823)	(576 725)	(1 018 635)	(2 983 915)	(5 251 630)	(9 774 566)
Lease liability	(140 616)	(2 710)	(5 420)	(25 108)	(143 521)	(176 759)
Trade and other payables	(349 271)	(204 345)	(46 850)	(34 293)	(63 783)	(349 271)
	(9 239 710)	(783 780)	(1 070 905)	(3 043 316)	(5 458 934)	(10 356 935)
31 December 2018						
Liabilities						
Non-derivative financial liabilities						
Funding	(7 244 855)	(213 901)	(458 272)	(2 398 932)	(5 172 525)	(8 243 630)
Trade and other payables	(445 573)	(259 467)	(26 435)	(83 621)	(76 050)	(445 573)
	(7 690 428)	**(473 368)**	**(484 707)**	**(2 482 553)**	**(5 248 575)**	**(8 689 203)**

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the RCS Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The RCS Group transacts in the local currency, Namibian Dollar and Botswana Pula. No foreign currency risk management exists relating to transactions in Namibian Dollar, as the exchange rate is one to one to the South African Rand. The RCS Group does not use forward exchange contracts to hedge its currency risk as assets held in a foreign currency, such as Botswana Pula, comprise less than 3% of the total assets of the RCS Group. Accordingly, the results of the RCS Group is not sensitive to changes in the exchange rate between the South African Rand and the Botswana Pula.

27. RISK MANAGEMENT (CONTINUED)

Interest rate risk

The RCS Group is exposed to interest rate risk as it both borrows and lends funds.

Profile

At the reporting date the interest rate profile of the RCS Group's interest-bearing financial instruments was:

	Interest rate		Carrying value	
	31 December 2019 %	31 December 2018 %	31 December 2019 R'000	31 December 2018 R'000
Fixed rate instruments				
Card and loan receivables	24.4	24.0	4 353 069	3 404 504
Financial assets			**4 353 069**	**3 404 504**
Variable rate instruments				
Card receivables	18.8	18.6	6 334 651	5 589 164
Bank balances	6.1 – 9.8	6.2 – 9.3	702 757	594 420
Financial assets			**7 037 408**	**6 183 584**
Fixed rate instruments				
Funding	7.4 – 8.2	8.1	1 368 770	500 000
Variable rate instruments				
Funding	7.4 – 8.5	7.6 – 9.0	7 381 053	6 744 855
Financial liabilities			**8 749 823**	**7 244 855**

Fair value sensitivity analysis for fixed rate instruments

The RCS Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates for the duration of the financial period would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The sensitivity analysis reflects the impact of a rate change immediately following the reporting date for all assets and liabilities accounted for at the reporting date. The analysis is performed on the same basis as for the comparative period.

27. RISK MANAGEMENT (CONTINUED)

Cash flow sensitivity analysis for variable rate instruments (continued)

	Profit or (loss) 100 bp increase R'000
31 December 2019	
Variable rate financial assets	66 105
Variable rate financial liabilities	(79 973)
Cash flow sensitivity net	**(13 868)**
31 December 2018	
Variable rate financial assets	59 052
Variable rate financial liabilities	(64 624)
Cash flow sensitivity net	**(5 572)**

A decrease of 100 basis points in interest rates for the duration of the financial period would have the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Capital management

Capital management is performed at a group level for the RCS Group and its subsidiaries. The objective is to maintain sufficient levels of capital to support the ongoing sustainability and viability of the business. Capital is retained in the business for the following main objectives:

(a) to provide a certain amount of cover or buffer should unexpected losses take place either due to market or operational risks;
(b) to provide a certain amount of cover or buffer should unexpected losses take place due to credit risks;
(c) to support the level of debt in the business as a first loss position and thereby to achieve a particular credit rating on the debt in the business;
(d) as a tool that could be increased or decreased to ensure maintenance of an appropriate credit rating level in the future; and
(e) to facilitate the necessary asset growth objectives in the business.

It is the responsibility of the ALCO and the Board to determine the appropriate level of capital taking into account the risks within the various lines of business and the types of assets held within these business areas.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)

27. RISK MANAGEMENT (CONTINUED)

Capital management (continued)

The Board considers, amongst others, the following factors when determining the level of capital required to be held within a division and against a particular class of assets:

(a) the historical losses that have taken place on the disposal of assets, bad debt write off and other operational losses;
(b) a view on factors going forward that could cause an asset or category of assets to be obsolete or have a reduction in value;
(c) concentration risks on asset classes, market sectors or particular customers should be considered and certain maximum exposure levels from a line of business and the RCS Group's perspective will be determined;
(d) review the strategic portfolio of businesses and ensure that capital is allocated to achieve required returns whilst maintaining a balanced portfolio with no line of business attracting an inappropriate amount of the capital;
(e) the length of track record that the business has in terms of using and managing a particular asset class and portfolios within that asset class; and
(f) review and benchmarking against local and international peers in the financial services, non-banking and banking sectors where applicable.

The ALCO reviews capital adequacy three times per annum. The Board reviews the capital policy on an annual basis and make any amendments to the requirements in its consideration of and prior to making a final dividend declaration.

Financial assets and liabilities not measured at fair value

The carrying amount of card and loan receivables, after consideration of allowance for impairment, is based on estimated future cash flow receipts discounted at the effective interest rate which is market-related. Accordingly, the carrying amount is deemed to approximate fair value.

The carrying amount of funding approximates fair value as the funding bears interest at market-related interest rates.

Other receivables, trade and other payables, and cash and cash equivalents, are short term in nature and accordingly carrying amounts reasonably approximates fair value. Trade and other payables that are longer term in nature are not material, and accordingly the carrying amount is not deemed to significantly differ from the fair value.

28. DIRECTORS' REMUNERATION

Executive remuneration is determined by the remuneration committee, with the majority of the members being non-executive directors. The base pay and variable pay is determined by benchmarking of remuneration policies in the industry and taking into consideration the complexity of the role and size of the company.

	Remuneration	Provident fund contributions	Total
	R'000	R'000	R'000
31 December 2019			
Executive directors for services, as employees, to subsidiary companies			
RF Adams	9 891	466	**10 357**
CP De Wit	4 794	314	**5 108**
M van Brakel	114	16	**130**
Non-executive directors for services, as directors, to subsidiary companies			
SW van der Merwe (Independent)	490	-	**490**
E Oblowitz (Independent)	574	-	**574**
Total	**15 863**	**796**	**16 659**
31 December 2018			
Executive directors for services, as employees, to subsidiary companies			
RF Adams	7 319	423	**7 742**
CP De Wit	4 462	282	**4 744**
Non-executive directors for services, as directors, to subsidiary companies			
SW van der Merwe (Independent)	280	-	**280**
E Oblowitz (Independent)	540	-	**540**
Total	**12 601**	**705**	**13 306**

The executive directors are the prescribed officers of the company

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including Supplementary Information
(Registration number 2000/017884/06)