

**South African Securitisation Programme (RF) Limited**

(Registration number: 1991/002706/06)

**Annual Financial Statements for the year ended 30 June 2019**

In terms of section 29(1)(e)(ii) of the Companies Act 71 of 2008 as amended, we confirm that these annual financial statements were prepared under the supervision of Angela Pillay CA(SA), Financial Director of Sasfin Bank Limited, and have been audited in compliance with the requirements of sections 29(1)(e)(i) and 30(2)(a) of the Companies Act 71 of 2008 as amended.

South African Securitisation Programme (RF) Limited  
(Registration number: 1191/002706/06)  
Annual Financial Statements for the year ended 30 June 2019

**Corporate details**

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<b>Country of Incorporation and Domicile</b>	South Africa
<b>Directors</b>	D Govender DP Towers E Deiner B Hamse
<b>Registered Office</b>	29 Scott Street Waverley Johannesburg 2090
<b>Postal address</b>	PO Box 95104 Grant Park Johannesburg 2051
<b>Controlling Company</b>	Sasfin Bank Limited
<b>Auditor</b>	PriceWaterhouseCoopers Inc
<b>Company Secretary</b>	Maitland Group South Africa Ltd
<b>Company Registration Number</b>	1991/002706/06
<b>Tax reference number</b>	9864004711
<b>Debt Sponsor</b>	Sasfin Bank Limited
<b>Calculation Agent</b>	Sasfin Bank Limited
<b>Transfer Agent</b>	Sasfin Bank Limited
<b>Paying Agent</b>	Sasfin Bank Limited

## Contents

The reports and statements set out below comprise the Annual Financial Statements presented to the shareholder.

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The following supplementary information does not form part of the Annual Financial Statements and is unaudited:

### **Legal Entity terminology used in this report**

Company:	South African Securitisation Programme (RF) Limited Group: Sasfin Holdings Limited and its subsidiaries
Controlling company:	Sasfin Bank Limited
Group:	Sasfin Holdings Limited and its subsidiaries

South African Securitisation Programme (RF) Limited  
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Directors' Responsibility Statement

The Board of Directors (the Board) of South African Securitisation Programme (RF) Limited (the Company) is responsible for the preparation and fair presentation of the Directors' Report and the Annual Financial Statements of the Company including significant accounting policies and other explanatory notes.

The Annual Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act, 71 of 2008, as amended (Companies Act).

The Board is also responsible for such internal controls as they deem necessary to enable the preparation of these Annual Financial Statements and for maintaining adequate accounting records and an effective system of risk management.

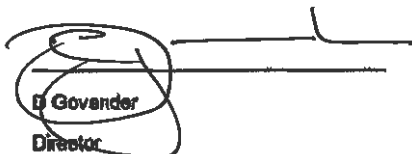
The Company has been established as a structured entity for Sasfin Bank Limited and is deemed to be controlled by Sasfin Bank Limited in accordance with IFRS. Consequently, the day-to-day management and oversight of SASP are the responsibility of Sasfin Bank Limited. The Board therefore place reliance on the management and governance by the Sasfin Group in the execution of its duties and obligations towards SASP.

Based on its own monitoring and oversight as well as assurance obtained from management, the Board is of the view that an effective internal financial control environment exists to support the integrity of the Annual Financial Statements.

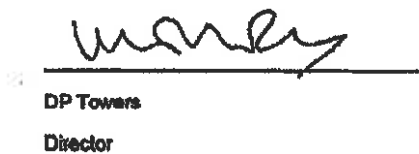
The Board has a reasonable expectation that the Company will have adequate resources to continue in operational existence and as a going concern in the financial year ahead.

It is the responsibility of the independent auditor to report on the fair presentation of the Annual Financial Statements.

The Annual Financial Statements were approved by the Board and are signed on its behalf by:

  
D Govender  
Director

17 September 2019

  
DP Towers  
Director

17 September 2019

South African Securitisation Programme (RF) Limited  
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Company Secretary's Certification

We hereby certify, in terms of section 88(2)(e) of the Companies Act, that South African Securitisation Programme (RF) Limited has filed all returns and notices required by the Companies Act with the Companies and Intellectual Property Commission, for the financial year ended 30 June 2019, and that all such returns notices as are required of a public company are true, correct and up to date.



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Maitland Group South Africa Ltd

17 September 2019

## Directors Report

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The directors have pleasure in submitting their report on the Annual Financial Statements of South African Securitisation Programme (RF) Limited (the Company) for the year ended 30 June 2019.

### **1. Nature of Business**

The company is a securitisation structured entity created solely to acquire equipment finance agreements from the Sasfin Holdings Limited Group of Companies.

### **2. Financial results**

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008. Full details of the financial position, results of operations and cash flows of the Company are set out in these Annual Financial Statements.

### **3. Directorate and Changes to the Board**

The directors of the Company are:

Changes:

D Govender	Non-executive	Appointed	21 February 2019
DP Towers	Non-executive	Appointed	01 November 2011
E Deiner	Non-executive	Appointed	25 April 2017
B Harmse	Non-executive	Appointed	31 January 2013
RDEB Sassoon (British)	Non-executive	Resigned	31 December 2018

### **4. Company Secretary**

Maitland Group South Africa Limited was appointed as Company Secretary on 1 October 2011.

Postal address                      PO Box 781396  
   Sandton  
   Johannesburg  
   2146

Business address                      18 Fricker Road  
   Illovo  
   Johannesburg  
   2196

## **5. Share Capital**

### **Ordinary Share Capital:**

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

### **Preference Share Capital:**

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

## **6. Ultimate Holding Entity**

The company is wholly owned by The South African Securitisation Issuer Owner Trust, a trust set up solely for the purposes of holding the ordinary shares of the company. The trustee of the trust is Maitland Group South Africa Limited.

The company is controlled, administered and managed by Sasfin Bank Limited in accordance with IFRS.

## **7. Dividends**

The company declared, and paid preference share dividends of R45 million (2018: R26 million) during the current financial year.

## **8. Events at the reporting date**

The Company re-financed R364 million of notes in Series 1 and R324 million of notes in Series 3 in August 2019.

## **9. Director's Emoluments**

Three directors of the Board of the directors of the Company are employed by independent external service providers and are remunerated by their respective employers on a separate basis. The remaining director is employed and remunerated by Sasfin Bank Limited. There was no remuneration or benefit paid directly to the directors or by any company within the group, for services provided in their capacity as directors of the company, other than as disclosed in note 20.

## **10. Special Resolutions**

Special resolutions passed during the year are available for inspection.

## **11. Corporate Governance**

The principles of the King Code on Corporate Governance (King IV) as applied to all companies in the Sasfin Group, are equally applied in the governance of the Company. An explanation of how the King IV principles are applied in the Group can be found on the Sasfin website, [www.sasfin.com/investor-relations/#results-and-reports](http://www.sasfin.com/investor-relations/#results-and-reports).

## **Audit Committee**

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### **1. Members of the Audit Committee**

The members of the audit committee are all independent non-executive directors of the company and are:

Members	Experience
B Harmse (Chairman)	Appointed: 17 April 2013
E Deiner	Appointed: 25 April 2017
DP Towers	Appointed: 17 April 2013

The committee is satisfied that the members thereof have the required knowledge and experience as set out in Section 94(5) of the Companies Act, 71 of 2008, Regulation 42 of the Companies Regulations, 2011 and principle 8.55 of King IV.

### **2. Meetings held by the Audit Committee**

The audit committee performs the duties laid upon it by Section 94(7) of the Companies Act 71 of 2008 by holding meetings with the key role players on a regular basis and by the unrestricted access granted to the external auditor.

For the period under review, the Committee met twice on 12 October 2018 and 14 May 2019.

### **3. Specific Functions of the Committee**

#### **Financial Reporting**

- Have regard to all factors and risks that may impact on the integrity of the annual financial statements, including factors that may predispose the Servicer and Administrator to present a misleading picture, significant judgements and reporting decisions made, monitoring or enforcement actions by a regulatory body, any evidence that brings into question previously published information, forward-looking statements or information;
- Review the annual financial statements, interim reports, preliminary or provisional result announcements, summarised integrated information, any trading statements and similar documents;
- Comment on the annual financial statements, the accounting practices and the effectiveness of the internal financial controls;
- Recommend to the Board the engagement of an external assurance provider as may be provided for in the Transaction Documents; being the Memorandum of Incorporation of the company, the trust deed of the legal owner and all contracts, agreements, addendums to contracts and agreements and other memorandums governing the rights and obligations of the company and its counter parties); and
- Recommend the annual financial statements for approval by the Board.



## External Audit

The Committee is responsible for recommending the appointment of the external auditor and to oversee the external audit process and in this regard the Committee must after consultation with the Servicer and Administrator:

- Nominate the external auditor for appointment by the shareholders;
- Approve the terms of engagement and remuneration for the external audit engagement;
- Monitor and report on the independence of the external auditor in the annual financial statements;
- Define a policy for non-audit services provided by the external auditor in the annual financial statements;
- Pre-approve the contracts for non-audit services to be rendered by the external auditor;
- Ensure that there is a process for the Audit Committee to be informed of any Reportable Irregularities (as identified in the Auditing Profession Act, 2005) identified and reported by the external auditor in respect of the company;
- Review the quality and effectiveness of the external audit process; and
- Consider whether the audit firm and, where appropriate, the individual auditor that will be responsible for performing the functions of auditor, are accredited as such on the JSE list of Auditors and their advisors as required by the JSE Limited Listings Requirements.
- Recommended for re-election PricewaterhouseCoopers Inc (PwC) as the audit firm, with Vincent Tshikrovhokhovho as the engagement partner, for shareholder approval.
- The Committee is satisfied that PwC is independent of the Group, and the partner who is responsible for signing the company's Annual Financial Statements, as set out in section 94(8) of the Companies Act, has the requisite skills and expertise. This included consideration of:
  - The representations by PwC to the Committee including the auditor's suitability assessment in terms of the JSE Listing Requirements.
  - The independence of PwC not being impaired as set out by IRBA as well as other regulatory and internal processes within the audit firm.
  - Policies and controls regarding non-assurance services provided by PwC.

The company's external auditor is PwC Inc. Fees paid for audit and other services are approved by the Committee.

## Internal Audit

The Committee may if deemed necessary interact with the internal audit function of the Servicer and Administrator in as far as same relates to and may impact the company in respect of:

- Financial reporting risks;
- Internal financial controls;
- Fraud risks as it relates to financial reporting; and
- IT risks as it relates to financial reporting.

For clarity, the internal audit function does not report to the Committee, but forms part of the Servicer and Administrator's responsibilities in terms of their relevant appointments and related agreements.

## Combined Assurance

The Committee will, if applicable, ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the Committee should:

- Ensure that the combined assurance received is appropriate to address all the significant risks facing the company; and
- Monitor the relationship between the external assurance providers and the company.

## 4. Financial Risk Management

The company's financial risk management is governed by the financial risk management framework, policies and procedures implemented and maintained by the Sasfin Group.

**5. Annual Confirmations of Key Functions for the year**

**Financial control and financial reporting**

The Committee reviews the Annual Financial Statements, dividend declarations and recommends those to the Board for approval. This role includes an assessment of the accounting policies and key assumptions applied in the preparation of the financial statements, as well as dealing in technical reporting matters. In doing so, the Committee also confirmed compliance of the Annual Financial Statements with IFRS and the JSE Debt Listings Requirements. Further, consideration has been given to the 2017 JSE Proactive Monitoring report to ensure the integrity of the financial information in the Annual Financial Statements. Lastly the Committee confirms that it has assessed and confirms the appropriateness of the going concern basis for the preparation of the Annual Financial Statements and the solvency and liquidity tests in support of financial assistance and distributions.

**The external audit**

During the prior year we put the External Audit out on tender and appointed PwC as our new auditor. The Committee went through a rigorous decision-making process to ensure that audit quality and auditor independence were achieved in this appointment. The Committee has obtained the necessary assurance from the auditors that their independence was not impaired. We also have a strict non-audit services policy in place to guard against any threats to auditor independence.

We are satisfied with our decision and comfortably recommend PwC as audit firm, with Vincent Tshikhovhokhovho as engagement partner, for shareholder approval.

**6. The Audit Committee can confirm that:**

- Resources have been utilised efficiently; and
- The internal controls have been effective in all material aspects throughout the year under review;
- Proper accounting records have been maintained;
- Controls have ensured that the company's assets are safeguarded;
- The skills, independence, audit plan, reporting and overall performance of the external auditor are acceptable, and it recommends their next appointment in 2020.

**7. Annual Financial Statements**

**The committee has:**

- Reviewed and discussed the audited annual financial statements with the external auditor and Directors;
- Reviewed the external auditor's management letter and management's response thereto; and
- Reviewed significant adjustments resulting from external audit queries and any unadjusted audit differences (where applicable).

The audit committee is satisfied with the work performed by the Chief Financial Officer and Financial Director of Sasfin Bank Limited, with which the day-to-day management and oversight of SASP resides.

On behalf of the audit committee



B Harmse

Audit Committee Chairman

17 September 2019



**Independent auditor's report**

To the Shareholders of South African Securitisation Programme (RF) Limited

**Report on the audit of the financial statements**

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**Our opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of South African Securitisation Programme (RF) Limited (the Company) as at 30 June 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa

**What we have audited**

South African Securitisation Programme (RF) Limited's financial statements set out on pages 12 to 62 comprise:

- the statement of financial position as at 30 June 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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**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 financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2016)*, 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.

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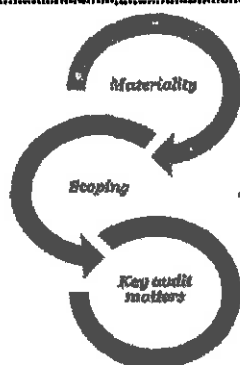
PricewaterhouseCoopers Inc., 4 Lisbon Lane, Waterfall City, Jukskei View, 2090  
Private Bag X36, Sunninghill, 2157, South Africa  
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, [www.pwc.co.za](http://www.pwc.co.za)

Chief Executive Officer: L S Macheta  
The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.  
Reg. no. 1898/012056/21, VAT reg. no. 4950174862.



## Our audit approach

### Overview



#### Overall materiality

- R6 million, which represents 1% of income, which is the aggregate of interest and similar income, fee and commission income, gains on financial instruments and other income.

#### Key audit matters

- Expected credit losses on loans and advances
- Migration of IT systems impacting financial reporting

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<b>Overall materiality</b>	<b>R 6 million</b>
<b>How we determined it</b>	1% of income, which is the aggregate of interest and similar income, fee and commission income, gains on financial instruments and other income.
<b>Rationale for the materiality benchmark applied</b>	We chose income as the benchmark, because, in our view, it is the most suitable benchmark for the Company, due to the fact that the Company has a history of volatile profit before tax numbers and has a higher cost to income ratio in comparison to other profit-oriented businesses. Furthermore, income has remained consistent for the past three years. We chose 1% which is consistent with quantitative materiality thresholds used when using income as the benchmark.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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
<b>1. Expected credit losses on loans and advances</b>	
<p>At 30 June 2019, gross loans and advances amounted to R3, 2 billion against which an expected credit loss (ECL) of R170 million was recognised.</p> <p>Refer to the following accounting policies and notes to the financial statements for details:</p> <ul style="list-style-type: none"> <li>• Note 1.6 A (<i>Financial instruments - Policy under IFRS 9</i>);</li> <li>• Note 2.2 (<i>Critical estimates and judgements - Credit impairment of loans and advances</i>);</li> <li>• Note 7 (<i>Loans and advances</i>); and</li> <li>• Note 23 (<i>Credit risk</i>) including Note 23.3 (<i>Credit loss allowance analysis</i>).</li> </ul> <p>The ECL was calculated by management by applying IFRS 9, <i>Financial Instruments</i> (IFRS 9) which was adopted for the first time on 1 July 2018.</p> <p>In calculating the ECL, the key areas of significant management judgement and estimation included the following:</p> <ul style="list-style-type: none"> <li>• Determining whether evidence exists that there has been a significant increase in credit risk (SICR) since initial recognition of the financial instrument, by considering shifts in calculated behavioral and granting scores, beyond determined thresholds;</li> <li>• Determination of the write-off point. The Company considers the point at</li> </ul>	<p>Our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on loans and advances as follows:</p> <p><b>Evaluation of SICR</b> With the assistance of our valuation experts we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Calculated the impact of SICR, and tested the assumptions and data applied by management in their ECL calculation model; and</li> <li>• Tested the performance of SICR thresholds applied and the resultant transfer rate into stage 2 for SICR. This included benchmarking of the volume of up to date accounts transferred to stage 2 based on history.</li> </ul> <p>No material exceptions were noted.</p> <p><b>Determination of write-off point</b></p> <ul style="list-style-type: none"> <li>• For the lending portfolio, we evaluated management's assessment of historical post write-off recoveries, to determine the point at which there was no reasonable expectation of further recovery and whether it is in compliance with IFRS 9; and</li> <li>• We tested the application of the IFRS 9 write-off principles, including the exclusion of post write-off recoveries from the Loss Given Default (LGD) as determined by management.</li> </ul> <p>We found no exceptions in the determination of the write off point which is in line with the</p>

<p>which there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that there is no realistic prospect of recovering the monies owed;</p> <ul style="list-style-type: none"> <li>• Determining and weighting of assumptions used in the forward-looking economic model. Four forward-looking scenarios are probability-weighted by management to determine the ECL (up-case, expected case, light down and severe down scenarios). The Company validated strategies and utilised the outlook to project future changes in the repo rate. These scenarios are then linked to Probabilities of Default (PDs) and Loss Given Defaults (LGDs) to derive a forward looking ECL;</li> <li>• Determining event driven management ECL overlays. Management adjusts the results produced by the modelled output for events that influence the modelled output, and which are not yet captured by the model; and</li> <li>• Calibrating of the ECL statistical model components (PD, Exposure at Default "EAD", and LGD) used to estimate the timing and amount of the forecasted cash flows based on historical default data, roll rates and recoveries. The Company stratifies aspects such as client risk Company's, time on book, product term, default statuses, industry and rescheduling status. Management judgement is required to consider how historical data is used to project ECL.</li> </ul> <p>We determined the ECL on loans and advances to be a matter of most significance to our current year audit due to the following:</p> <ul style="list-style-type: none"> <li>• the first-time adoption of IFRS 9 by</li> </ul>	<p>principles of IFRS 9.</p> <p><i>Inclusion of forward-looking information and macro-economic variables in the ECL</i></p> <ul style="list-style-type: none"> <li>• With the assistance of our valuation expertise we considered and assessed the assumptions used in the forward-looking economic model, specifically around the forward-looking scenarios used, the macro-economic variable considered as well as the macro-economic outlook. We compared these to our independently obtained actuarial statistics and market data; and</li> <li>• We tested the performance and sensitivity of the forward-looking model in order to evaluate whether the chosen macro-economic factors and model provide a reasonable representation of the impact of macro-economic changes on the ECL results.</li> </ul> <p>No exceptions were noted.</p> <p><i>Assessment of ECL raised for individual exposures</i></p> <ul style="list-style-type: none"> <li>• Where ECL has been raised for individual exposures, we considered the impairment indicators, uncertainties and assumptions made by management in their assessment of the recoverability of the exposure. For a sample of stage 3 exposures, we independently recalculated the impairment losses based on our assessment of the expected cash flows and recoverability of collateral at an individual exposure level;</li> <li>• For collateral held, we inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral; and</li> <li>• The collateral valuation techniques applied by management were evaluated against the Company's valuation guidelines. No material exceptions were noted.</li> </ul>
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<p>the Company;</p> <ul style="list-style-type: none"> <li>• the magnitude of the ECL; and</li> <li>• the degree of judgement and estimation applied by management in determining the ECL.</li> </ul>	<p><i>Calibrating of ECL statistical model components (PD, EAD, LGD)</i></p> <ul style="list-style-type: none"> <li>• We obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information to estimate future cash flows; and</li> <li>• We re-performed the ECL calculation.</li> </ul> <p>Management's results from the ECL model were found to be within the range of our independently calculated ECL.</p>
<p><b>2. Migration of IT systems impacting financial reporting</b></p>	
<p>During the current financial year, three core banking IT systems were migrated into one system. Furthermore, an additional core banking system went live at a similar time. The migration was as a result of the Company's strategic decision to streamline the business processes. The migration significantly impacted the current audit because it took place during the last three months of the financial year.</p> <p>We determined that the migration of IT systems impacting financial reporting to be a matter of most significance to our current year audit due to the fact that it resulted in a significant increase of audit effort to understand and evaluate the appropriateness of management controls over these system implementations and data migration activities.</p>	<p>We obtained and assessed the Company's IT Steering Committee policy and inspected whether the governance approvals were adhered to prior to the systems migration.</p> <p>We obtained an understanding and tested the design and implementation of the relevant management controls relating to the data migration and conversion to a new system.</p> <p>We evaluated the design and tested the operating effectiveness of controls over the key applications, operating systems and databases that were migrated and their related impact on financial reporting.</p> <p>We performed additional substantive procedures to test the completeness and accuracy of the data feeds post-migration into the general ledger. These included, among other procedures, agreeing a sample of the financial data items, line by line and column by column to ensure that the information was correctly mapped from legacy systems to the new system being implemented.</p> <p>Additional substantive testing was performed on specific year-end reconciliations (i.e. custodian statement and bank statements reconciled to the general ledger). No material exceptions were noted.</p>



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#### ***Other information***

The directors are responsible for the other information. The other information comprises the information included in the document titled "South African Securitisation Programme (RF) Limited Annual Financial Statements for the year ended 30 June 2019" which includes Directors' Report, the Audit Committee Report and the Company Secretary's Certification as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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.

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#### ***Responsibilities of the directors for the financial statements***

The directors are responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

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#### ***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the 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 39476 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of South African Securitisation Programme (RF) Limited for 2 years.

*PricewaterhouseCoopers Inc.*  
PricewaterhouseCoopers Inc.  
Director: Vincent Tshikhovhokhovho  
Registered Auditor  
4 Lisbon Lane  
Waterfall City  
2019

19 September 2019

South African Securitisation Programme (RF) Limited  
(Registration number: 1191/002706/06)  
Annual Financial Statements for the year ended 30 June 2019

**STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2019**

	Accounting Policy	Note	2019 R'000	2018 <sup>1</sup> R'000
<b>ASSETS</b>				
Cash and cash balances	1.5	4	318 031	469 658
Trading assets	1.6	5	460	18 258
Other receivables	1.6	6	76 696	55 439
Current taxation asset	1.8		15 588	-
Loans and advances	1.8	7	2 994 501	3 385 762
<b>TOTAL ASSETS</b>			<b>3 405 377</b>	<b>3 909 117</b>
<b>LIABILITIES</b>				
Trading liabilities	1.6	5	4 237	-
Current taxation liability			-	8 738
Trade and other payables		8	23 919	132 362
Debt securities issued	1.6	9	2 753 521	3 115 432
Long-term loans	1.6	10	5 500	5 500
Loans from entities in the group		20.2	345 109	372 498
Deferred tax liability	1.8	11	82 523	76 520
<b>TOTAL LIABILITIES</b>			<b>3 214 809</b>	<b>3 711 050</b>
<b>EQUITY</b>				
Ordinary share capital	1.4	12	100	100
Reserves			190 468	187 880
<b>Total equity</b>			<b>190 568</b>	<b>187 980</b>
<b>TOTAL LIABILITIES AND EQUITY</b>			<b>3 405 377</b>	<b>3 909 030</b>

1-Comparative information has not been restated for the adoption of IFRS 9. Therefore, comparability may not necessarily be achieved.  
Refer to note 1.1.1.

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2019**

	Accounting Policy	Note	2019 R'000	2018 <sup>1</sup> R'000
Interest and similar income	1.7	14	482 274	478 184
Interest income calculated using the effective interest method			484 311	471 700
Other interest income			(2 037)	6 484
Interest and similar expense		15	(298 935)	(300 601)
Interest expense calculated using the effective interest method	1.7		(298 935)	(300 601)
<b>NET INTEREST INCOME</b>			<b>183 339</b>	<b>177 583</b>
<b>NON-INTEREST EXPENSE</b>			<b>(54 085)</b>	<b>(33 091)</b>
Fee and commission income		16.1	2 992	4 318
Fee and commission expense		16.1	(183 679)	(155 067)
Gains and losses on financial instruments	1.7		-	(484)
Other Income		16.2	126 602	118 142
<b>TOTAL INCOME</b>			<b>129 254</b>	<b>144 492</b>
Impairment charges on loans and advances	1.8 & 2.2.1		(69 658)	(20 408)
<b>NET INCOME AFTER IMPAIRMENTS</b>			<b>60 596</b>	<b>124 086</b>
<b>OPERATING COSTS</b>			<b>(5 819)</b>	<b>(5 315)</b>
Secretarial Costs		17.1	(193)	(214)
Other operating expenses		17.2	(5 426)	(5 101)
<b>PROFIT BEFORE INCOME TAX</b>			<b>54 977</b>	<b>118 771</b>
Income tax expense	1.8	18	(14 936)	(33 208)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>			<b>40 041</b>	<b>85 563</b>
<b>PROFIT ATTRIBUTABLE TO:</b>			<b>40 041</b>	<b>85 598</b>
Ordinary Shareholders			(4 959)	59 598
Preference shareholders			45 000	26 000

*1-Comparative information has not been restated for the adoption of IFRS 9. Therefore, comparability may not necessarily be achieved.  
Refer to note 1.1.1.*

South African Securitisation Programme (RF) Limited  
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**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2019**

	Ordinary share capital and premium R'000	Distributable reserves R'000	Total ordinary shareholders' equity R'000	Preference share capital and premium R'000	Total shareholders' equity R'000
<b>BALANCE AT 30 JUNE 2017</b>	100	138 282	138 382	-	138 382
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	-	59 598	59 598	-	59 598
Profit for the year	-	59 598	59 598	26 000	111 598
<b>TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY</b>					
Dividends to preference shareholders	-	(26 000)	(26 000)	(26 000)	(52 000)
Dividends to ordinary shareholders	-	-	-	-	-
<b>BALANCE AT 30 JUNE 2018</b>	100	167 880	167 980	-	167 980
Changes on initial application of IFRS 9 (refer to note 1.1.1)	-	(2 454)	(2 454)	-	(2 454)
<b>RESTATED BALANCE AT 1 JULY 2018<sup>1</sup></b>	100	165 426	165 526	-	165 526
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	-	(4 958)	(4 958)	-	(4 958)
Profit for the year	-	40 042	40 042	45 000	85 042
<b>TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY</b>					
Dividends to preference shareholders	-	(45 000)	(45 000)	(45 000)	(90 000)
<b>BALANCE AT 30 JUNE 2019</b>	100	160 468	160 568	-	160 568

<sup>1</sup>-Comparative information has not been restated for the adoption of IFRS 9. Therefore, comparability may not necessarily be achieved.  
Refer to note 1.1.1.

South African Securitisation Programme (RF) Limited  
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**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2019 R'000	2018 R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers	19.1	618 081	600 681
Cash paid to customers, employees and suppliers	19.2	(488 233)	(462 593)
<b>CASH INFLOW FROM OPERATING ACTIVITIES</b>	19.3	<b>129 848</b>	<b>138 088</b>
Taxation paid	19.4	(82 306)	3 615
Dividends paid	19.5	(45 000)	(26 000)
<b>CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>		<b>52 542</b>	<b>115 703</b>
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES</b>		<b>(204 169)</b>	<b>32 682</b>
(Increase)/Decrease in loans and advances		299 097	(676 999)
(Increase)/Decrease in trading assets		11 586	(8 505)
(Decrease)/Increase in other receivables		(109 408)	42
Increase/(Decrease) in long-term funding		-	47 720
Increase /(Decrease) in funding under repurchase agreements and interbank		(30 622)	-
Increase/(Decrease) in trading liabilities		4 237	-
Increase/(Decrease) in debt securities		(361 911)	605 704
(Decrease)/Increase in trade and other payables		(17 148)	64 720
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>(151 627)</b>	<b>148 385</b>
Cash and cash equivalents at beginning of the year		469 658	321 273
<b>Cash and cash equivalents AT THE END OF THE YEAR</b>		<b>318 031</b>	<b>469 658</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the Annual Financial Statements are set out below.

#### 1.1 Basis of Preparation

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretation Committee, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act, 71 of 2008, as amended, and the JSE Debt Listings Requirements.

The directors assess the Group and Company's future performance and financial position on a continuous basis and have no reason to believe that the Group and Company will not be a going concern in the reporting period ahead. Consequently the Consolidated and Separate Annual Financial Statements have been prepared on the going concern basis.

The Company has, in the preparation of the Annual Financial Statements, consistently applied the accounting policies with those applied in the previous financial year, unless otherwise stated.

##### 1.1.1 Adoption of new and amended standards for the first time in the current financial year

The following standards, interpretations and amendments have been adopted without effecting the Company's previously reported financial results, disclosures or accounting policies and did not impact the Company's results upon transition:

- IFRS 15 Revenue from Contracts with Customers (IFRS 15) – IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services. This standard contains a single model that applies to all contracts with customers and two approaches to recognising revenue namely at a point in time or over time. IFRS 15 details a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The adoption of IFRS 15 for the year commencing 1 July 2018 did not have a significant impact, since the standard does not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Company. Accordingly, the impact on the comparative information is limited to new disclosure requirements.
- IFRIC 22 Foreign Currency Transactions and Advance Considerations (IFRIC 22) – When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates is not clear on how to determine the transaction date for translating the related item. This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The Company adopted IFRIC 22 for the year commencing 1 July 2018. The adoption did not have a significant impact on the Company.

The adoption of IFRS 9 Financial Instruments (IFRS 9) had a material impact on the Company's results upon transition. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) and is applied for the first time by the Company for the year commencing 1 July 2018.

# ACCOUNTING POLICIES continued

The following is a summary of the main differences between IFRS 9 and IAS 39:

- Changes to the classification and measurement of financial assets. The classification and measurement of financial assets are determined by the business model applied by the Company in managing its financial assets and the contractual cash flow characteristics of the financial assets;
- Moving from an incurred loss impairment model under IAS 39, to an expected credit loss (ECL) impairment model under IFRS 9; and
- Changes in the hedge accounting requirements and the application thereof

Refer "IFRS 9 adoption" for more detail.

## IFRS 9 adoption

The Company has elected to adopt IFRS 9 retrospectively without restating comparatives i.e. restating opening retained income on 1 July 2018, the effective date. Consequently, the comparative information (as previously reported for the year ended 30 June 2018) are presented in accordance with the requirements of IAS 39, with current and future reporting periods presented in terms of IFRS 9.

## Classification and Measurement

As indicated in the below table, the changes to the classification and measurement of financial assets and financial liabilities did not have a significant impact on the Company, apart from the increase in the credit loss allowance related to Loans and Advances and the related deferred tax impact.

IFRS 9 Transition adjustment on 1 July 2018							
	IAS 39 Classification	IFRS 9 Classification	IAS 39 30 June 2018 R'000	ECL R'000	Classification and Measurement R'000	Total IFRS 9 Adjustment R'000	IFRS 9 1 July 2018 R'000
<b>ASSETS</b>							
Loans and advances	Amortised cost	Amortised cost	3 365 762			(3 408)	3 362 354
<b>TOTAL ASSETS</b>			3 365 762	-	-	(3 408)	3 362 354
IFRS 9 Transition adjustment on 1 July 2018							
	IAS 39 Classification	IFRS 9 Classification	IAS 39 30 June 2018 R'000	ECL R'000	Classification and Measurement R'000	Total IFRS 9 Adjustment R'000	IFRS 9 1 July 2018 R'000
<b>LIABILITIES</b>							
Deferred tax liability	Outside scope	Outside scope	76 520			(954)	75 566
<b>TOTAL LIABILITIES</b>			76 520	-	-	(954)	75 566
<b>EQUITY</b>							
Reserves	Outside scope	Outside scope	197 881			(2 454)	195 427
<b>TOTAL EQUITY</b>			197 881	-	-	(2 454)	195 427
<b>TOTAL LIABILITIES AND EQUITY</b>			274 401	-	-	(3 408)	270 993



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# ACCOUNTING POLICIES continued

## IFRS 9 adoption continued

### Expected credit loss impairment model

The Company has elected not to apply the simplified approach to its finance lease receivables.

The allowance account for credit losses is determined with reference to the following:

- Stage 1: 12-month expected credit losses for those financial assets where there has not been a significant increase in credit risk since initial recognition.
- Stage 2: Lifetime expected credit losses for those financial assets where there has been a significant increase in credit risk on a collective basis.
- Stage 3: Lifetime expected credit losses for all credit impaired financial assets.

A significant increase in credit risk considers the impact of forward-looking economic information that is readily available as well as the aging of the debt. Refer note 1.6A. It also considers the impact of forward-looking economic information that is readily available and where relevant.

The change from an incurred loss model under IAS 39 to an ECL model under IFRS 9 resulted in an increase in the impairment loss allowance account (i.e. provision for credit losses) of R3.408m, with a deferred tax impact of R0.954m on 1 July 2018. The ECL model also includes financial guarantees issued, which was previously recognised in accordance with IAS 37 Provisions. Management has applied assumptions, judgements and estimates in developing the ECL model, based on historical experience and other factors that are believed to be reasonable. Refer note 2 for further information.

### Impairment loss allowance for -

	Loans and advances under IAS 39 on 30 June 2018:						Loans and advances and financial guarantees under IFRS 9 on 1 July 2018:				IFRS 9 transition adjustment
	Portfolio	Special mention	Substandard	Doubtful	Loss	Total	Stage 1	Stage 2	Stage 3	Total	
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Equipment Finance	19 040	1 677	486	3 871	98 480	123 564	18 308	3 660	93 487	115 455	(8 109)
Capital Equipment Finance	162	625	-	-	-	787	1 847	1	4 594	6 442	5 655
Total	19 202	2 302	486	3 871	98 480	124 361	20 155	3 661	98 081	121 897	(2 464)

**ACCOUNTING POLICIES continued**

**1.2 Currencies**

**1.2.1 Functional and Presentation Currency**

The Financial Statements are presented in South African Rand (ZAR) and all amounts, unless otherwise indicated, are stated in thousands of ZAR (R'000).

The Company operates in the Republic of South Africa with a functional currency of ZAR.

**1.3 Leases**

**1.3.1 Company as the lessor**

Rental, lease and instalment sale contracts are financing transactions, with rentals and instalments receivable, less unearned finance charges, being reflected as Loans and Advances in the Statement of Financial Position.

Finance income is recognised over the term of the lease using the effective interest method.

**1.4 Share Capital**

**1.4.1 Ordinary Share 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 tax.

Dividends are accounted for as distributions from equity in the period in which they are payable to shareholders.

Ordinary share capital of the Company purchased by the Company, is recognised as a reduction in equity at the amount of consideration paid, including directly attributable costs, net of tax.

**1.4.2 Preference Share Capital as Equity**

Preference share capital is classified as equity if it is non-redeemable, or it is redeemable only at the Company's option or if dividends payable are discretionary at the option of the Company.

Incremental costs directly attributable to the issue of preference shares are recognised as a deduction from equity, net of tax.

Preference dividends are accounted for as distributions from equity when they become payable to shareholders

**1.5 Cash and Cash Balances**

Cash and cash balances as reflected on the Statement of Cash Flows comprise:

**1.5.1 Cash and Cash Balances**

Cash and cash balances are available for use by the Company unless otherwise stated and are accounted for at amortised cost in the Annual Financial Statements.

**ACCOUNTING POLICIES continued**

**1.6 Financial Instruments**

Since the Company has elected not to restate comparative information with the adoption of IFRS 9, the accounting policies applicable to both the current and comparative reporting periods have been included below for ease of reference.

**A. Financial Instruments - Policy under IFRS 9 (current and future periods)**

Financial instruments, as reflected on the Statement of Financial Position, include all financial assets, financial liabilities, derivative instruments and financial guarantee contracts issued, excluding investments in subsidiaries, associated companies and joint ventures.

Financial assets are recognised on the date on which the Company commits to purchase the asset. Financial liabilities are recognised on the date on which the Company becomes party to the contractual provisions of the financial liability.

Financial instruments are initially recognised at fair value.

Transaction costs directly attributable to the acquisition of a financial asset or financial liability are recognised in profit or loss for financial instruments measured at fair value through profit or loss and for all other financial instruments, against the financial instrument.

Subsequent to initial measurement, financial instruments are either measured at fair value through profit or loss, or amortised cost, based on the business model in terms of which the financial instruments are acquired and managed, as well as the contractual cash flow characteristics thereof.

**Classification and Measurement of Financial Assets**

Financial assets are classified and measured based on the Company's business model for managing it and the contractual cash flow characteristics of the financial assets. IFRS 9 eliminated the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Financial assets held by the Company in a business model that has the objective of holding the financial assets to collect contractual cash flows, and the contractual terms of the financial asset leads to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are classified and measured as "measured at amortised cost".

Financial assets held by the Company in a business model that has the objective of realising cash flows through the sale of the assets and/or that is managed on a fair value basis, including those held for trading, are classified and measured as "fair value through profit or loss" (FVTPL).

**Business model assessment**

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level since this best reflects the way the business is managed, and information is provided to management. The following information is considered:

- the stated policies and objectives for the portfolio and the practical implementation of those policies. Specifically, whether management's strategy focuses on earning contractual interest revenue, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising profits and cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company management;
- the risks that affect the performance of each portfolio and the strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. Information about sales activity is considered as part of the overall assessment of how the Company stated objective for managing the financial assets is achieved and how cash flows are realized.

## ACCOUNTING POLICIES continued

### 1.6 Financial Instruments continued

#### Classification and Measurement of Financial Assets continued

Financial assets that are held for trading (i.e. acquired for the purpose of selling in the short term) and those that the Company has elected to designate as at FVTPL are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

#### Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing those financial assets.

#### Impairment

The Company recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see note 23).

For lease receivables, the Company has elected, in accordance with the allowed accounting policy choice in IFRS 9, to apply the general model for measuring loss allowance, as explained above.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments for which a lifetime ECL is recognised and which are credit-impaired, are referred to as 'Stage 3 financial instruments'.

## ACCOUNTING POLICIES continued

### 1.6 Financial Instruments continued

#### Classification and Measurement of Financial Assets continued

##### Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover (refer to note 23 – credit risk policy).

The key inputs for the measurement of ECL are the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD) or
- Time to Default (TTD)
- Expert judgement referred to below.

ECL is a "three stage" model for calculating impairment losses, based on changes in credit quality since initial recognition namely:

- Stage 1 includes Exposures that have not had a SICR (Significant Increase in Credit Loss) since initial recognition. For these financial instruments, ECL is calculated based on the relevant 12-month PD, TTD and EAD.
- Stage 2 includes Exposures that had a SICR since initial recognition, but do not have objective evidence of impairment. For these financial instruments, ECL is calculated based on the relevant lifetime PD, TTD and EAD.
- Stage 3 includes Exposures for which there are objective evidence of impairment at the reporting date. For these financial instruments, ECL is calculated based on a lifetime PD, TTD and EAD. The Financial Instrument must be classified as in "Stage 3", when it is credit-impaired.

An expert judgment approach is used to determine the LGD for the Capital Equipment Finance portfolios. This approach determines the expected loss for Stage 3 exposures based on an anticipated salvage calculation. The value of the anticipated salvage used in the determination of the ECL of credit impaired financial instruments is calculated taking the following factors into account:

- Realisable market value of security (e.g. stock, equipment, property) (after taking account of costs associated with such sale).
- Stage and nature of legal process.
- Wherewithal of debtor to pay based on available credit data (e.g. financial statements, cash flows, 3rd party credit bureau reports).
- Any supporting suretyships or guarantees.
- Financial standing / reputation of the client Company and or related parties.
- Any recourse / warranty claim against a supplier or any other 3rd party.
- Any applicable insurance claim.
- Any negotiated settlement agreements.
- Timing of expected recoveries.

## **ACCOUNTING POLICIES continued**

### **1.6 Financial Instruments continued**

#### **Significant Increase in Credit Risk (SICR)**

The Company defines a SICR for the loans and advances as follows:

- When a debtor is flagged as High Care; or
- Once an account becomes past due/arrears for more than 7 days and up to and including 30 days.

Clients in High Care are those that have shown signs of financial pressure because of the industry in which they operate and/or based on the available financial information, are experiencing financial difficulty.

#### **Default and Curing (IFRS 9)**

For purposes of calculating the ECL, the Company views a financial asset as in default and hence in Stage 3 (i.e. credit impaired), when the borrower becomes 90 days overdue on its contractual payments. In addition, the following qualitative factors are also considered to determine whether a debtor is in default:

- the debtor's business is subject to labour disputes or unresolved management problems that may affect its business, production or profitability;
- the debtor is experiencing delays or other unplanned adverse events results in cost overruns likely to require loan restructuring;
- the increase in the debtor's borrowings is not in proportion to the growth of the debtor's business;
- the debtor is experiencing difficulty with repaying obligations with other creditors; and
- indications that a debtor would enter into provisional or final liquidation or business rescue.

When a debtor has been classified as a credit-impaired (Stage 3), it can be cured to Stage 1 subject to the debt being:

- up to date, and
- 3 consecutive payments paid on or before due date.

Should the debtor be defined as a "High Care" account, it will cure to Stage 2 and not Stage 1. Also, should the client still represent a SICR, curing may only take place to stage 2.

For Distressed Restructured loans that were in default, there must be at least 6 consecutive monthly payments under the revised terms, in order to cure.

#### **Write Off**

Loans and advances as well as debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that there is no realistic prospect of recovering the monies owed. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the Statement of Comprehensive Income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

## ACCOUNTING POLICIES continued

### 1.6 Financial Instruments continued

#### Presentation of Allowance for ECL in the Statement of Financial Position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component.

#### Classification and Measurement of Financial Liabilities, including Financial Guarantee Contracts issued

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

#### Derecognition of financial assets and financial liabilities

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

#### Amortised Cost

Amortised cost financial assets and financial liabilities are measured at the amount determined on initial recognition, less principal repayments and cumulative amortisation using the effective interest method, and any difference between the initial amount and the maturity amount, and for financial assets, adjusted for any expected credit loss allowance.

#### Financial Instruments at Fair Value through Profit or Loss

The Company has designated financial assets and financial liabilities at fair value through profit or loss where it eliminates or significantly reduces an accounting mismatch which would otherwise arise. The Company further classifies financial assets and financial liabilities at fair value through profit or loss when the business model is such that these financial assets and financial liabilities are managed and measured on a fair value basis.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, with fair value gains and losses reported in non-interest income, apart from those related to interest rate swaps.

The fair value gains and losses on interest rate swaps are included in net interest income. Interest income and interest expense on debt instruments classified as at fair value through profit or loss are reported as such in profit or loss.

## **ACCOUNTING POLICIES continued**

### **1.6 Financial Instruments continued**

#### **B. Financial Instruments - Policy under IAS 39 (comparative information)**

Financial instruments, as reflected on the Statement of Financial Position, include all financial assets, financial liabilities and derivative instruments, excluding investments in subsidiaries, associated companies and joint ventures.

Financial assets are recognised on the date on which the Company commits to purchase the asset. Financial liabilities are recognised on the date on which the Company becomes party to the contractual provisions of the financial liability.

Financial instruments are initially recognised at fair value.

Transaction costs directly attributable to the acquisition of a financial asset or financial liability are recognised in profit or loss for financial instruments measured at fair value through profit or loss and, for all other financial instruments, against the financial instrument.

Subsequent to initial measurement, financial instruments are either measured at fair value through profit or loss, or amortised cost.

#### **Financial Instruments at Fair Value through Profit or Loss**

Financial instruments at fair value through profit or loss consist of instruments held-for-trading and those financial instruments that the Company has elected to designate at fair value through profit or loss.

Financial instruments at fair value are classified as held for trading if they are acquired or incurred for the purpose of selling or repurchasing in the short term. Financial assets and liabilities held for trading are measured at fair value. Gains or losses on held for trading financial assets and liabilities are recognised in profit or loss.

The Company has designated financial assets and liabilities at fair value through profit or loss for:

- Financial assets or liabilities that are managed, evaluated and reported internally on a fair value basis; or
- Where it eliminates or significantly reduces an accounting mismatch which would otherwise arise or
- Financial assets or liabilities that contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, with fair value gains and losses reported in non-interest income, apart from those related to interest rate swaps.

The fair value gains and losses on interest rate swaps are included in net interest income. Interest income and interest expense on financial instruments designated at fair value through profit or loss are reported as such in profit or loss.

#### **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, with interest income and impairment losses recognised in profit or loss.

#### **Measurement**

##### ***Amortised Cost***

Amortised cost financial assets and financial liabilities are measured at the amount determined on initial recognition, less principal repayments and cumulative amortisation using the effective interest rate method, and any difference between the initial amount and the maturity amount, less any cumulative impairment losses.



## **ACCOUNTING POLICIES continued**

### **1.6 Financial Instruments continued**

#### **B - Financial Instruments - Policy under IAS 39 (comparative information) continued**

##### **Financial Instruments at Fair Value through Profit or Loss continued**

### **Borrowings**

Borrowings are recognised initially at fair value, generally being their issued proceeds, net of directly attributable transaction costs incurred, and are subsequently measured at amortised cost with interest recognised over the period of the borrowing, using the effective interest rate method, in profit or loss.

### **Derecognition**

Financial instruments are derecognised on the date when the Company commits to selling a financial asset or redeeming a financial liability.

The Company derecognises a financial asset when:

- The contractual rights to the cash flows arising from the financial asset have expired or have been forfeited; or
- It transfers the financial asset, including, substantially, all the risks and rewards of ownership of the asset; or
- It neither transfers nor retains, substantially, all the risks and rewards of ownership of the asset, and no longer retains control of the asset.

A financial liability is derecognised when the contractual obligations are discharged, cancelled, transferred or have expired.

The difference between the derecognised carrying amount of a financial asset or financial liability and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### **Offsetting Financial Instruments and Related Income (IAS 39 and IFRS 9)**

Financial assets and liabilities are set-off and reported net in the Statement of Financial Position only when there is a legally enforceable right to do so and there is an intention and ability to settle or realise the asset or liability on a net basis or simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Company of similar transactions such as in the Company's trading activity

#### **1.6.1 Derivative Financial Instruments and Hedge Accounting (IAS 39 and IFRS 9)**

A derivative is a financial instrument that changes value in response to an underlying variable, requires little or no initial net investment, and is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value.

Gains and losses from changes in the fair value of derivatives that are classified as held for trading are recognised in profit or loss.

#### **1.6.2 Impairment of Financial Assets (IAS 39)**

The Company annually assesses financial assets not at FVTPL for impairment. Impairment occurs where there is objective evidence that a loss event has occurred after the initial recognition of the financial asset(s) and that the loss event has an impact on the future cash flows of the financial asset(s) that can be measured reliably.

**ACCOUNTING POLICIES continued**

**1.6 Financial Instruments continued**

**B - Financial Instruments - Policy under IAS 39 (comparative information) continued**

**Financial Instruments at Fair Value through Profit or Loss continued**

**Financial Assets carried at Amortised Cost**

Impairment is calculated as the difference between the carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the financial asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss.

**Financial Assets carried at Cost**

Financial assets carried at cost comprise unquoted equity instruments not carried at fair value, as fair value cannot be reliably measured, or derivative assets linked to or to be settled by delivery of an unquoted equity instrument.

Impairment is recognised on financial assets carried at cost where cost of the financial asset exceeds the present value of estimated future cash flows arising from the financial asset.

Impairment losses recognised on financial assets carried at cost are not reversed.

**1.7 Revenue**

**1.7.1 Net Interest Income**

Net interest income comprises interest income less interest expense as well as the fair value gains and losses on interest rate swaps.

Interest income and interest expense on financial instruments and finance lease receivables are recognised using the effective interest method.

The effective interest rate is the rate that discounts future cash payments or receipts over the expected life of the financial instrument to the carrying amount of the financial instrument and finance lease receivables.

In calculating the effective interest rate, the Company estimates expected cash flows considering all contractual terms of the financial instrument and finance lease receivables, excluding future credit losses but including all fees paid or received, transaction costs and all other premiums or discounts between parties to the contract.

From 1 July 2018, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Before 1 July 2018, interest income on impaired financial assets was recognised as interest in suspense in the Statement of Financial Position, as part of the specific impairments on loans and advances.

The effective interest rate is established on initial recognition of the financial instrument and finance lease receivables and not subsequently revised.

**ACCOUNTING POLICIES continued**

**1.7 Revenue continued**

**1.7.1 Non-Interest Income**

Non-interest income comprises evergreens, settlement profits and sundry income.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a service to a customer.

Fee and commission income including administration fees. Fee and Commission income is recognised net of any trade discounts, volume rebates and amounts received on behalf of third parties such as Value Added Tax. Furthermore, when the Company is acting as an agent amounts collected on behalf of the principal are not recognised as revenue. Performance fees can be variable and recognition is constrained until such time that it is highly probable that a significant reversal in the amount of revenue recognised will not occur and the services related to the transactions have been completed under the terms of the contract.

**1.8 Taxation**

Income and capital gains tax comprise current and deferred taxation and are recognised in profit or loss.

**1.8.1 Current Tax**

Current tax, comprising income tax and capital gains tax, is calculated on taxable income for the year based on current tax legislation.

**1.8.2 Deferred Tax**

Deferred tax comprising deferred income tax and deferred capital gains tax is calculated using the Statement of Financial Position method against which existing tax legislation is applied to temporary differences between the tax and accounting bases of assets and liabilities.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets are reviewed for recoverability at each reporting date.

Deferred tax resulting on items accounted for directly in the Statement of Changes In Equity or Statement of Comprehensive Income are recognised in the Statement of Changes in Equity and Statement of Comprehensive Income respectively.

Deferred tax is not recognised on:

- The initial recognition of goodwill;
- The initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits and losses; and
- Investments in subsidiaries and joint ventures where the Company controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Deferred tax assets are recognised on tax losses to the extent that it is probable that future taxable profits will be earned.

**ACCOUNTING POLICIES continued**

**1.9 Commitments and Contingent Liabilities**

**Series Guarantee and Series Indemnity**

The Series Security SPV has guaranteed the Issuer's obligation to the Noteholders and the other Series Secured Creditors in terms of the Series Guarantee. The Issuer has, in terms of the Series Indemnity, indemnified the Series Security SPV in respect of claims made against the Series Security SPV under the Series Guarantee. In terms of the Series Issuer Security Agreement, the Issuer's obligation to the Series Security SPV under the Series Indemnity has been secured by: (i) a pledge and (ii) a pledge and cession in securitatem debiti, of the Series Assets relating to this Series, in favour of the Series Security SPV.

**Legal Proceedings**

Sasfin Bank Limited and the Company have instituted a claim relating to an alleged breach of a counterparty's obligations under various equipment and software leases. Management is confident about the prospects of recovery and is satisfied that the debtor is adequately impaired. The counterparty is defending the claim and has raised a counter-claim of approximately R58 million in respect of money already paid, for which it seeks a refund. The Company is vigorously defending this counter-claim.

It is not yet possible to reliably estimate the possible outcome of this matter at this point in time.

Sasfin Bank Limited and the Company have instituted a claim of approximately R10 million for a refund of moneys which was collected pursuant to an extant judgement which was subsequently rescinded and referred to trial. Management regards the money as having been owed and is also resisting this claim vigorously.

In addition, the company is exposed to certain actual and potential claims in the ordinary course of its business, none of which are individually material. Based on information presently available and an assessment of the probability of these claims, the Directors are satisfied that the company has adequate provisions and/or insurance cover to meet such claims. As such, management is not expecting any of these to have a material adverse effect on the company.

**2. CRITICAL ESTIMATES AND JUDGEMENTS**

The preparation of the Annual Financial Statements in accordance with IFRS requires management to make certain judgements, estimates and assumptions in its calculation of the carrying value of assets and liabilities and the reported amounts of profit or loss.

The assumptions, judgements and estimates used are based on historical experience and other factors that are believed to be reasonable.

Assumptions, judgements and estimates are reviewed on an ongoing basis, with revisions recognised in the period in which the revision was made, or in future periods if applicable.

**CRITICAL ESTIMATES AND JUDGEMENTS continued**

**2.1 Credit Impairment of Loans and Advances (refer note 8 and note 21)**

**A. Credit Impairment – IFRS 9 (current and future periods)**

The change from "incurred loss" to an "expected loss" model in accordance with IFRS 9, resulted in an extensive project to update and build new credit models to incorporate these changes. The final decrease in the allowance for expected credit loss was R2.454 million, slightly worse than the initial estimate of R5.971 million. This downward revision was as a result of the re-calibration of key input metrics, enhanced data quality and the inclusion of forward-looking information.

The Company assesses its loans and advances portfolio for impairment on a monthly basis using the expected loss model.

The Company applies judgement in the manner in which it defines and applies SICR, which is the driver in dividing the loans and advances portfolios between Stage 1, Stage 2 and Stage 3, with -

- Stage 1: 12-month expected credit losses for those financial assets where there has not been a significant increase in credit risk since initial recognition.
- Stage 2: Lifetime expected credit losses for those financial assets where there has been a significant increase in credit risk on a collective basis.
- Stage 3: Lifetime expected credit losses for all credit impaired financial assets.

Refer accounting policy note 1.12 for more information on SICR.

The Company further applies judgement in determining the inputs used in the ECL model, i.e. the PD, LGD, EAD and TTD that are used to determine the ECL for each of Stage 1, Stage 2 and Stage 3.

Given the forward-looking nature of the ECL model, estimates are also made and included in the ECL model for the Company's macro-economic outlook. One of the key macro-economic elements are changes to the prime

The Company considers various scenarios regarding the expected change in the prime interest rate over a 5 year period and attaches a probability to the likelihood of each scenario occurring. In the event of a mild economic downturn, the Company expects the prime interest rate to increase by 0.5% over 5 years. In this instance the ECL allowance will be R1.315 million higher than when no forward-looking information is incorporated in the ECL model. In the event of a severe economic downturn, the Company expects the prime interest rate to increase by 0.75% over 5 years. In this instance the ECL allowance will be R5.942 million higher than when no forward-looking information is incorporated in the ECL model. When a probability weighted approach is followed, taking into account all possible scenarios and the probability of occurring, the ECL allowance will be R0.846 million higher than when no forward-looking information is incorporated in the ECL model.

In addition, the Company applies "expert judgement", as referred to in accounting policy 1.6, to further refine the credit loss allowance. The adjustments based on expert judgement is subject to CLEC review and oversight.

The Group further applies judgement in determining the inputs used in the ECL model, i.e. the PD, LGD, EAD and TTD that are used to determine the ECL for each of Stage 1, Stage 2 and Stage 3.

Given the forward-looking nature of the ECL model, estimates are also made and included in the ECL model for the Group's macro-economic outlook. One of the key macro-economic elements are changes to the prime interest rate. For each of the scenarios listed below, the average values of the factors over the next 12 months, and over the remaining forecast period are provided.

	Up case		Expected		Lite down		Severe down		Probability weighted	
	12 months	Life time	12 months	Life time	12 months	Life time	12 months	Life time	12 months	Life time
	%	%	%	%	%	%	%	%	%	%
<b>Factors</b>										
Change in prime interest rate	-0.75	-0.75	0.25	0.25	0.50	0.50	0.75	0.75	0.2725	0.2725
Probability of Default	1.60	23.48	1.68	27.13	1.83	28.05	2.26	28.96	1.79	27.21
	R'000		R'000		R'000		R'000		R'000	
Impact on ECL	(2 876)		(1 601)		681		6 829		170 254	

**CRITICAL ESTIMATES AND JUDGEMENTS continued**

**B. Credit Impairment – IAS 39 (comparative Information)**

**2.1.1 Performing Loans and Advances**

The Company assesses its performing loan portfolio for impairment on a monthly basis using the incurred loss approach. The recoverable amount of performing loans is calculated on a portfolio basis, based on historical loss ratios, industry and Company-specific economic and other conditions.

Impairment is recognised as the difference between the discounted estimated future cash flows (the recoverable amount) on the performing loan portfolio and its carrying amount. The future cash flows used to calculate the recoverable amount excludes consideration of any anticipated future credit losses. The discount rate is the financial assets original effective interest rate.

Generally, a period of time will elapse between the occurrence of an impairment event and evidence of the impairment becoming evident, the 'emergence period'. The Company has provided for incurred but not reported (IBNR) losses which recognise potential losses on its portfolio of loans and advances that have not yet been evidenced. The IBNR provision is calculated with reference to modelling parameters which include the probability of default (PD), the loss given the default (LGD) and emergence period interest rate.

**2.1.2 Non-performing Loans and Advances**

Non-performing loans comprise loans where there is evidence of impairment as a result of one or more past events or impairment triggers that have occurred since initial recognition.

Loans and advances are individually impaired where the Company has identified objective evidence of a default event, such as being due but unpaid for a period of 90 days or more or where loan covenants have been breached. Estimates of future cash flows on individually impaired loans and advances are based on historical loss experience for assets with similar credit risk characteristics after considering the estimated recoverability of security in the Company's possession.

The methodology used in determining impairments on non-performing Equipment Finance and Capital Equipment Finance loans and advances involves modelling expected cash flows and recoverability of security. These inputs are reviewed on a regular basis with reference to historical experience.

**2.2 Fair Value (refer note 21 )**

Fair value is the price that would be realised on the sale of an asset or paid to transfer a liability on an arm's-length basis to an unrelated party.

The Company measures the fair value of a financial instrument using its quoted price in an active market. A market is regarded as active if transactions for the financial instrument take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The most accurate fair value of a financial instrument at initial recognition is normally the transaction price less the fair value of the consideration given or received. If the Company determines that the fair value of a financial instrument (measured at amortised cost) at initial recognition differs from the transaction price, and the fair value is evidenced neither by a quoted price in an active market for an identical financial instrument nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value with the difference between the fair value at initial recognition and the transaction price recognised in profit or loss over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

'Bid' prices in an active market are used to measure financial assets held at fair value, while 'ask' prices in an active market are used to measure financial liabilities held at fair value.

Financial asset portfolios, that are exposed to market risk and credit risk, are measured on the basis of a price that would be received when selling a net long position for a particular risk exposure.

Financial liability portfolios, that are exposed to market risk and credit risk, are measured on the basis of a price that would be paid to transfer a short position for a particular risk exposure. Market risk and credit risk portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

## CRITICAL ESTIMATES AND JUDGEMENTS continued

### 2.2 Fair Value (refer note 2.1) continued

The fair value of a demand deposit will not be less than the amount payable by the Company on demand, discounted from the first date on which the amount could be required to be paid.

The fair value of financial instruments that are not quoted in active markets or trade infrequently with little price transparency, requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions, and other risks affecting the specific instrument, and is determined by using valuation techniques which are validated and independently reviewed by qualified and experienced senior personnel within and external to the Company.

The Company's valuation methodologies comprise:

- Price/earnings multiple valuation methodology;
- Recent transaction prices and comparison with similar instruments;
- Net asset value;
- Discounted cash flow or earnings; and
- Black-Scholes.

Assumptions and inputs used in the valuation methodologies comprise:

- Risk-free interest rate;
- Benchmark interest rates;
- Credit spreads; and
- Liquidity and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices, and expected price volatilities and correlations.

Fair value estimates obtained from models are adjusted for factors such as liquidity risk or model uncertainties that the Company believes an independent market participant would take into account when pricing a valuation.

### Fair Value Hierarchy

#### Valuation Models

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Transfers between levels are recognised at the end of the reporting period during which the change has occurred.

### 2.3 Current and Deferred Taxation (refer note 11 and note 18)

The Company is subject to direct and indirect taxation charges. There are elements of uncertainty and resultant judgement involved in the ultimate determination of these tax balances and charges. Should the final outcome differ to that initially calculated, the impact is accounted for in the period in which this outcome is known.

Deferred tax assets are reviewed at each reporting date for recoverability. These assets are reduced to the extent that it is no longer probable that the deferred tax asset will be realised. The significant management assumptions in determining these probability assessments to determine the deferred tax assets recoverability are the relevant entity budgets and forecasts.

**CRITICAL ESTIMATES AND JUDGEMENTS continued**

**2.4 Statement of cash flows – allocation of funding between operating and financing activities**

Management applies significant judgement to determine which portion, if any, of changes in long-term funding relates to the operating activities of the Banking Group i.e. granting funding to clients, and which to funding the investing activities of the Company.

**3. STANDARDS/INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

There are new or revised Accounting Standards and Interpretations in issue that are not yet effective for the year ended 30 June 2019, and have not been applied in preparing these Consolidated and Separate Annual Financial Statements. The Company does not plan to adopt these standards early.

These will be adopted in the period that they become mandatory unless otherwise indicated. These include the following Standards and Interpretations that have been issued, with an indication of the estimated impact on the future financial statements of the Company:

Pronouncement	Title and details:	Effective Date
Amendment to IFRS 9	<p><b>Prepayment Features with Negative Compensation – Amendments to IFRS 9</b></p> <p>In terms of IFRS 9, debt instruments can be measured at amortised cost or at fair value through other comprehensive income, subject to the contractual cash flows being "solely payments of principle and interest" on the principal amount outstanding (SPPI) and the instrument is an appropriate business model for that classification. This to IFRS 9 clarifies that a financial asset passes the SPPI criteria irrespective of the event or circumstances that resulted in the termination of the contracts and regardless of which party pays or receives the reasonable compensation for the early termination of contract.</p> <p>This amendment to IFRS 9 is not expected to have a significant on the recognition and measurement of financial assets the Company in accordance with IFRS 9.</p>	Annual periods beginning on or after 1 January 2019.
IFRS 17	<p><b>Insurance Contracts</b></p> <p>IFRS 17 replaces the current standard on insurance contracts, IFRS 4. It creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS. Amongst others, IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows, taking into uncertainty relating to insurance contracts. The financial an entity will reflect the time value of money in estimated required to settle incurred claims. Insurance contracts are further required to be measured based only on the obligations created by contracts. An entity will also be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums.</p> <p>These amendments are not expected to have an impact on the Company.</p>	Annual periods beginning on or after 1 January 2021.
IFRS 16	<p><b>Leases</b></p> <p>IFRS 16 replaces IAS 17 <i>Leases</i> and related interpretations. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract – the customer or lessee and the supplier or lessor.</p> <p>IFRS 16 includes a single model for lessees which will result in leases being included in the Statement of Financial Position. No significant changes have been included for lessors. IFRS 16 also new disclosure requirements for both lessees and lessors</p> <p>These amendments are not expected to have an impact on the Company.</p>	Annual periods beginning on or after 1 January 2019.



**ACCOUNTING POLICIES continued**

**3. STANDARDS/INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)**

Pronouncement	Title and details	Effective date
IFRS 10 and IAS 28	<p><i>Sale or contribution of assets between an investor and its associate or joint venture.</i></p> <p>The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3, Business Combinations.</p> <p>Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investor's interest in the associate or joint venture is recognised, determining the tax.</p> <p>The definition of business is key to determining the extent of the gain to be recognised.</p> <p>These amendments are not expected to have an impact on the Company.</p>	<p>Effective date is deferred by the IASB indefinitely. Adoption is still permitted.</p>
IFRIC 23	<p><i>Uncertainty over Income Tax Treatments</i></p> <p>This standard clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the Annual Financial Statements.</p> <p>IFRIC 23 does not introduce any new disclosures but reinforces to comply with existing disclosure requirements about:</p> <ul style="list-style-type: none"> <li>• judgements made;</li> <li>• assumptions and other estimates used; and</li> <li>• the potential impact of uncertainties that are not reflected.</li> </ul> <p>The Company does not expect IFRIC 23 to have a significant measurement of tax in the Annual Financial Statements.</p>	<p>Annual periods beginning on or after 1 January</p>
Amendments to IAS 19	<p><i>Plan Amendment, Curtailment or Settlement</i></p> <p>This amendment addresses the accounting for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period.</p> <p>The amendment is not expected to have an impact on the Company.</p>	<p>Annual periods beginning on or after 1</p>
Amendments to IAS 28	<p><i>Long-term interests in associates and joint ventures</i></p> <p>This amendment clarifies that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture, to which the equity method is not applied. It therefore implies that the expected credit loss model in IFRS 9 applies to such long-term interests.</p> <p>The amendment is not expected to have a significant impact on Company.</p>	<p>Annual periods beginning on or after 1 January 2019.</p>

All standards and interpretations relevant to the Company will be adopted at their effective date

South African Securitisation Programme (RF) Limited  
(Registration number: 1191/002706/06)  
Annual Financial Statements for the year ended 30 June 2019

	2019 R'000	2018 R'000
<b>4 CASH AND CASH EQUIVALENTS</b>		
Funds on call	99 079	67 102
Notice deposits	216 952	402 558
	<b>316 031</b>	<b>469 658</b>

The bank accounts owned by the company are ceded as security for the notes -please refer note 9 and note 1.9.

	Financial Assets		Financial Liabilities	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
<b>5 TRADING ASSETS AND LIABILITIES</b>				
Derivatives	460	18 258	4 237	-
	<b>460</b>	<b>18 258</b>	<b>4 237</b>	<b>-</b>

<b>6 OTHER RECEIVABLES</b>		
Other receivables	17 880	3 718
Receivables from group entities	58 817	51 721
	<b>76 697</b>	<b>55 439</b>

	Total R'000	Less than 1 year R'000	Between 2 and 5 years R'000
<b>7 LOANS AND ADVANCES</b>			
30 June 2019			
Gross investment in leases	3 658 408	1 677 474	1 980 934
Equipment finance	3 447 156	1 561 163	1 885 993
Capital Equipment Finance	211 252	116 311	94 941
Less Unearned finance income	(493 553)	(174 464)	(319 089)
Equipment finance	(464 191)	(161 629)	(302 562)
Capital Equipment Finance	(29 362)	(12 835)	(16 527)
Net investment in leases	3 164 855	1 503 010	1 661 845
Equipment finance	2 982 965	1 399 534	1 583 431
Capital Equipment Finance	181 890	103 476	78 414
Loans and advances before impairments	3 164 855		
Credit loss allowance (Refer note 23.3)	(170 254)		
Net loans and advances	2 994 601		

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	Total R'000	Less than 1 year R'000	Between 2 and 5 years R'000
<b>7 LOANS AND ADVANCES</b>			
<b>30 June 2018</b>			
Gross investment in leases	4 114 782	1 848 925	2 465 836
Equipment finance	3 923 940	1 557 416	2 366 523
Capital Equipment Finance	190 822	91 509	99 312
Less Unearned finance income	(624 649)	(212 635)	(412 014)
Equipment finance	(595 417)	(201 263)	(394 154)
Capital Equipment Finance	(29 232)	(11 372)	(17 860)
Net investment in leases	3 490 113	1 436 292	2 053 822
Equipment finance	3 328 523	1 356 154	1 972 369
Capital Equipment Finance	161 590	80 138	81 453
Loans and advances before expected credit losses	3 490 113		
Impairments (refer note 42.3)	(124 351)		
Impairments for non-performing loans and advances	(105 149)		
Impairments for performing loans and advances	(19 202)		
<b>Net loans and advances</b>	<b>3 365 762</b>		

The notes are secured by a cession of rentals and equipment underlying the instalment finance assets as well as the bank accounts owned by SASP - refer to notes 4, 9 and 1.9.

**8 TRADE AND OTHER PAYABLES**

	2019 R'000	2018 R'000
Value Added Taxation	9 271	580
Audit fees and other services	500	-
Accounts payable	2 050	-
Payables to group entities	8 456	63 003
Other payables	3 642	-
Interest bearing seller advances	-	67 737
Accruals	-	1 042
	<b>23 919</b>	<b>132 362</b>

**9 DEBT SECURITIES ISSUED**

**Category analysis**

Rated *	2 753 521	3 115 432
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Floating rate notes are secured by a cession of rentals and equipment, underlying instalment finance assets and bank accounts in the name of SASP. All notes are placed with South African investors. The debt securities in issuance are rated by Global Credit Ratings Co. Refer note 23.

\* There are various ratings on the debt securities. These ratings are available, on request, at the registered address of the Group.

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<b>9 DEBT SECURITIES ISSUED continued</b>	<b>2019 R'000</b>	<b>2018 R'000</b>
<b>Held at amortised cost</b>		
<b>Class A notes (SLRA1)</b> Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.73000%. Scheduled maturity date is 15 September 2019.	261 985	261 878
<b>Class A notes (SLRA2)</b> Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.98000%. Scheduled maturity date is 15 September 2021.	279 248	279 156
<b>Class A notes (SLRA3)</b> Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.50000%. Scheduled maturity date is 15 November 2020.	360 980	360 862
<b>Class A notes (SLRA4)</b> Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.75000%. Scheduled maturity date is 15 November 2020.	126 434	126 382
<b>Class A notes (LRFA2)</b> Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.80000%. Scheduled maturity date is 20 November 2019.	282 886	282 736
<b>Class A notes (ERS3A17)</b> Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.39000%. Scheduled maturity date is 17 August 2018.		183 860
<b>Class A notes (ERS3A20)</b> Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.50000%. Scheduled maturity date is 17 August 2018.		178 833
<b>Class A notes (ERSA21)</b> Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.84000%. Scheduled maturity date is 17 August 2020.	156 719	156 870
<b>Class A notes (ERSA23)</b> Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.75000%. Scheduled maturity date is 17 August 2019.	232 526	232 453
<b>Class A notes (ERSA24)</b> Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.50000%. Scheduled maturity date is 17 August 2020.	109 153	109 118
<b>Class A notes (ERSA25)</b> Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.80000%. Scheduled maturity date is 17 August 2022.	284 103	284 014

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9 DEBT SECURITIES ISSUED continued

	2019 R'000	2018 R'000
<b>Class A notes (ERSA26)</b>	179 882	-
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.4200%. Scheduled maturity date is 17 May 2022.		
<b>Class B notes (LRFB2)</b>	53 074	53 046
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2.3500%. Scheduled maturity date is 20 November 2019.		
<b>Class B notes (SLRB1)</b>	30 359	30 529
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2.1300%. Scheduled maturity date is 15 September 2019.		
<b>Class B notes (SLRB2)</b>	45 544	45 349
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2.2300%. Scheduled maturity date is 15 September 2021.		
<b>Class B notes (SLRB3)</b>	31 376	31 365
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2.2500%. Scheduled maturity date is 15 November 2020.		
<b>Class B notes (SLRB4)</b>	37 451	37 438
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2.3000%. Scheduled maturity date is 15 November 2020.		
<b>Class B notes (ERS3B4)</b>	100 099	100 068
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.8500%. Scheduled maturity date is 17 August 2019.		
<b>Class B notes (ERS3B5)</b>		16 179
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2.1500%. Scheduled maturity date is 17 May 2019.		
<b>Class B notes (ERS3B6)</b>	16 179	-
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.7500%. Scheduled maturity date is 17 May 2022.		
<b>Class B notes (ERS3A22)</b>		179 898
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.7500%. Scheduled maturity date is 17 May 2019.		
<b>Class C notes (ERS3C4)</b>	35 410	35 399
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2.3500%. Scheduled maturity date is 17 August 2019.		

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**9 DEBT SECURITIES ISSUED continued**

	<b>2019</b> <b>R'000</b>	<b>2018</b> <b>R'000</b>
<b>Class C notes (ERS3C5)</b>		6 074
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 3.1500%. Scheduled maturity date is 17 May 2019.		
<b>Class C notes (ERS3C6)</b>	6 069	
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2.1500%. Scheduled maturity date is 17 May 2022.		
<b>Class C notes (LRFC2)</b>	17 704	17 788
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 1.3500%. Scheduled maturity date is 20 November 2019.		
<b>Class C notes (SLRC1)</b>	35 455	35 444
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2.940%. Scheduled maturity date is 15 September 2019.		
<b>Class C notes (SLRC2)</b>	20 265	20 259
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 3.15000%. Scheduled maturity date is 15 September 2021.		
<b>Class C notes (SLRC3)</b>	25 317	25 308
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2.6800%. Scheduled maturity date is 15 November 2020.		
<b>Class C notes (SLRC4)</b>	25 324	25 316
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2.9000%. Scheduled maturity date is 15 November 2020.		
	<b>2 753 521</b>	<b>1 441 715</b>

*The notes are secured by a cession of rentals and equipment underlying the instalment finance assets as well as the bank accounts owned by SASP - refer to notes 4, 7 and 20*

**10 LONG-TERM LOANS**

Represented by:  
The Hollard Insurance Company  
Limited

Repayment Date  
17 August 2022

<b>2019</b> <b>R'000</b>	<b>2018</b> <b>R'000</b>
5 500	5 500

Long-term loans are interest bearing and the interest rates are individually negotiated.

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# 11 DEFERRED TAX AND LIABILITIES

Deferred tax liability

2019	2018
R'000	R'000
82 523	76 520

## RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	2019			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	R'000	R'000	R'000	R'000	R'000	R'000
Equipment Finance	33 547	-	33 547	84 487	-	84 487
Provisions	-	(26 591)	(26 591)	-	(7 967)	(7 967)
<b>NET TAX ASSETS(LIABILITIES)</b>	<b>33 547</b>	<b>(26 591)</b>	<b>6 956</b>	<b>84 487</b>	<b>(7 967)</b>	<b>76 520</b>

# 11 DEFERRED TAX ASSETS AND LIABILITIES continued

	Balance at 1 July	IFRS 9 transition - day 1	Recognised in Profit or Loss	Balance at 30 June
	R'000	R'000	R'000	R'000
<b>MOVEMENTS IN TEMPORARY DIFFERENCES DURING THE YEAR 2019</b>				
Equipment finance	84 487	-	33 548	118 035
Provisions	(7 967)	(354)	(26 591)	(35 512)
	<b>76 520</b>	<b>(354)</b>	<b>6 957</b>	<b>82 523</b>
<b>2018</b>				
Equipment finance	(71 374)	-	13 113	84 487
Provisions	(7 814)	-	(353)	(7 967)
Derivatives	115	-	(115)	-
	<b>83 875</b>	<b>-</b>	<b>12 645</b>	<b>76 520</b>

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<b>12 ORDINARY SHARE CAPITAL</b>	<b>2019</b>	<b>2018</b>
<b>AUTHORISED</b>	<b>R'000</b>	<b>R'000</b>
100 000 000 (2018: 100 000 000) ordinary shares of 1 cent each	100	100
<b>ISSUED</b>		
(2018: 32 196 882) fully paid up ordinary shares		
Balance at the beginning of the year	100	100
Balance at the end of the year	100	100
<b>RECONCILIATION OF THE NUMBER OF SHARES ISSUED</b>		
Total shares in issue (number)	100 000	100 000
	100 000	100 000
<b>13 PREFERENCE SHARE CAPITAL</b>	<b>Rand</b>	<b>Rand</b>
<b>AUTHORISED</b>		
100 (2018: 100) non-redeemable, non-cumulative preference shares of 1 cent each.	1	1
<b>ISSUED</b>		
100 (2018: 100) non-redeemable, non-cumulative preference shares of 1 cent each	1	1
<b>14 INTEREST INCOME</b>	<b>R'000</b>	<b>R'000</b>
<i>Effective interest rate</i>	484 311	476 197
Deposits with banks	25 374	30 815
Equipment finance	421 448	426 929
Capital Equipment finance	37 489	18 453
<i>Other interest</i>	(2 037)	1 986
Trading assets and other	(2 037)	1 986
	482 274	478 183
<b>Total interest income (IFRS 9)</b>	<b>482 274</b>	
- Performing financial assets	460 386	
- Credit impaired financial assets	16 877	
Interest income on items measured at fair value through profit or loss (IFRS 9)	8 212	
<b>15 INTEREST EXPENSE</b>		
<i>Effective interest</i>	298 934	300 601
Debt securities	246 087	251 117
Long-term borrowings	778	780
Loans from entities in the group	52 069	50 311
<i>Other interest</i>		(1 607)
Fair value adjustments on interest rate swap		(1 607)
	298 934	300 601



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	2019 R'000	2018 R'000
<b>16.1 NET FEE AND COMMISSION EXPENSE</b>		
<i>Fee and commission income</i>	2 992	4 318
Other fee and commission income	2 992	4 318
<i>Fee and commission expense</i>	(183 680)	(155 087)
Commission expenses	13 527	19 269
Other fee and commission expense	(13)	-
Administration and management fees	50 564	51 140
Revenue share expense	119 602	84 658
<b>Net fee and commission expense</b>	<b>(180 688)</b>	<b>(150 749)</b>
<b>16.2 OTHER INCOME</b>		
Income received on Evergreens	101 557	95 371
Settlement profits	25 044	22 379
Sundry income		393
	<b>126 601</b>	<b>118 143</b>
<b>17.1 SECRETARIAL COSTS</b>		
Non-Executive Directors' remuneration	193	214
	<b>193</b>	<b>214</b>
<b>17.2 OTHER OPERATING COSTS</b>		
<i>The following items are included in operating expenses</i>		
Fees paid to auditors	379	14
Audit fees - Current year	379	14
Other services	209	92
Consulting fees	93	312
Sundry expenses	4 745	4 648
	<b>5 426</b>	<b>5 066</b>
<b>18 INCOME TAX EXPENSE</b>		
<b>CURRENT TAX EXPENSE</b>	<b>7 980</b>	<b>20 563</b>
Current year	8 438	20 563
(Over)/Underprovision in prior years	(458)	-
<b>DEFERRED TAX EXPENSE</b>	<b>6 957</b>	<b>12 645</b>
Current year	6 957	12 645
	<b>14 938</b>	<b>33 208</b>

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<b>18 INCOME TAX EXPENSE continued</b>	<b>2019</b>	<b>2018</b>
	<b>R'000</b>	<b>R'000</b>
<b>RECONCILIATION OF TAXATION RATE</b>		
	<b>%</b>	<b>%</b>
South African normal tax rate	28%	28%
<b>Adjusted for:</b>		
Capital gains	0%	0%
Effect of tax rates in foreign entity	0%	0%
Overprovision in prior years **	-0.83%	0%
<b>EFFECTIVE RATE</b>	<b>27.17%</b>	<b>28%</b>
<b>19.1 CASH RECEIPTS FROM CUSTOMERS</b>		
Interest income	484 311	478 791
Other income	133 770	120 880
	<b>618 081</b>	<b>600 681</b>
<b>19.2 CASH PAID TO CUSTOMERS, SUPPLIERS AND EMPLOYEES</b>		
Interest expense	(298 934)	(300 601)
Total operating expenses	(189 298)	(161 982)
	<b>(488 232)</b>	<b>(462 593)</b>
<b>19.3 CASH INFLOW FROM OPERATING ACTIVITIES</b>		
<b>RECONCILIATION OF OPERATING PROFIT TO</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>PROFIT BEFORE INCOME TAX</b>	<b>(54 978)</b>	<b>(118 807)</b>
Impairment charges on loans and advances	(68 658)	(20 406)
Fair value adjustments on financial instruments included in Net		
Interest Income	(6 212)	1 125
	<b>(129 848)</b>	<b>(138 088)</b>

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#### 19.4 TAXATION PAID

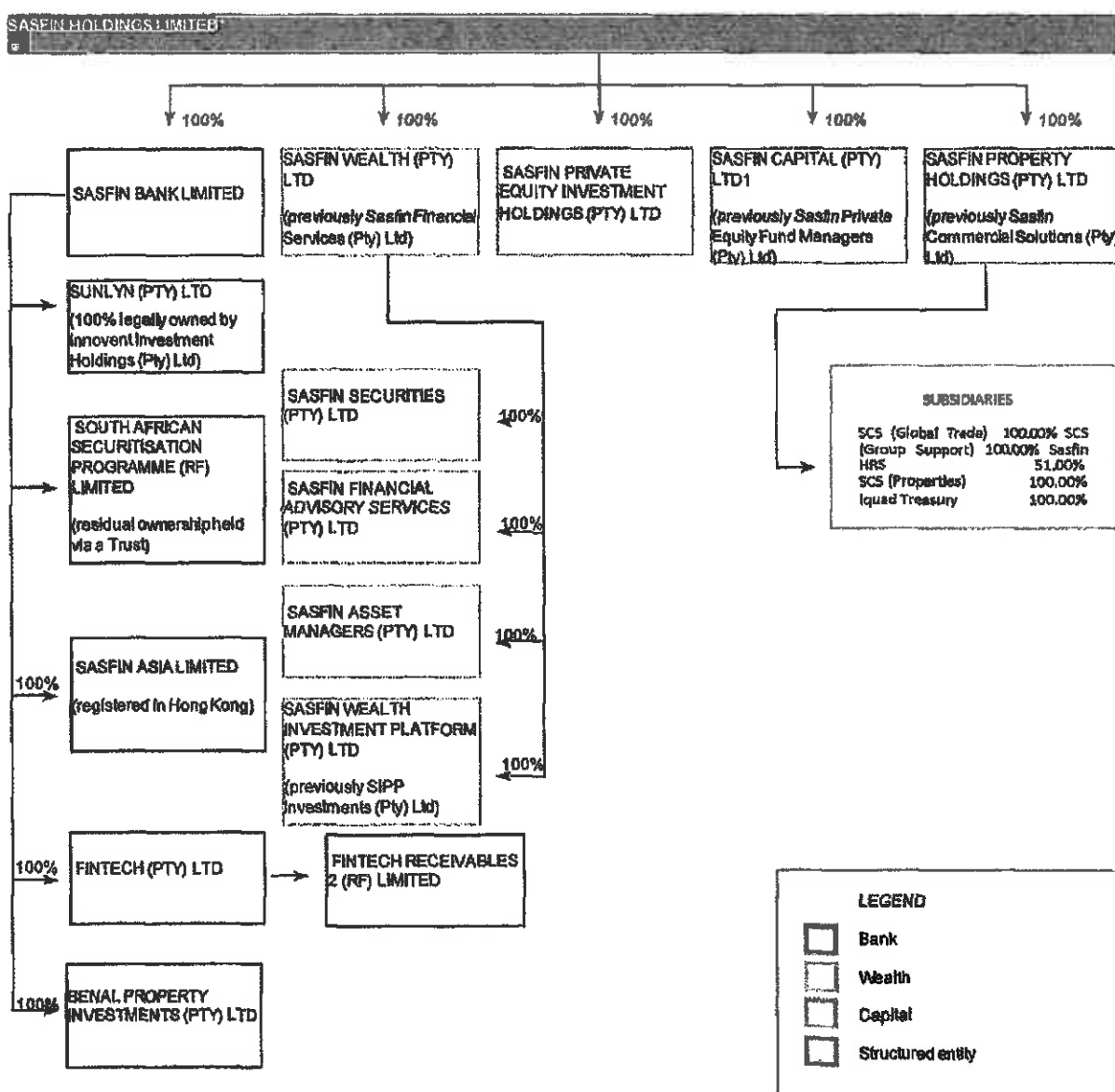
Unpaid at the beginning of the year	(8 737)	15 440
Charge to the income statement	(7 980)	(20 562)
Unpaid at the end of the year	(15 589)	8 737
	<b>(32 306)</b>	<b>3 615</b>

#### 19.5 DIVIDENDS PAID

Charge to distributable reserves	(45 000)	(26 000)
Total dividends paid	<b>(45 000)</b>	<b>(26 000)</b>

### 20 RELATED PARTY TRANSACTIONS

#### Subsidiaries and controlled structured entities



1 Sasfin Capital (Pty) Ltd was unbundled to Sasfin Holdings Limited on 1 July 2017.

\* Significant shareholders of Sasfin Holdings Limited

– Unitas Enterprises Limited (2019: 42.36%; 2018: 41.04%), a wholly owned company of The Erwin Discretionary Settlement Trust, of which Roland Sassoon and Michael Sassoon are beneficiaries.

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## 20.1 KEY MANAGEMENT PERSONNEL AND RELATED REMUNERATION

### Directors' and Prescribed officers remuneration

	Cash package <sup>1</sup>	Other benefits <sup>2</sup>	Incentive bonus <sup>3</sup>	Total
	R	R	R	R
<b>2019</b>				
<b>INDEPENDENT NON-EXECUTIVE DIRECTORS</b>				
D Govender	1 895 376	253 306		1 948 682
	1 895 376	253 306		1 948 682
<b>2018</b>				
<b>EXECUTIVE DIRECTORS</b>				
Roland Sassoon	3 641 930	637 704	750 000	5 029 634
	3 641 930	637 704	750 000	5 029 634

The remuneration of the directors are paid by the Controlling Company.

## 20.2 LOANS TO / FROM ENTITIES IN THE GROUP

### Loans to holding company

Sasfin Bank

Total loans from entities in the Group

	2019 R'000	2018 R'000
Sasfin Bank	345 109	372 488
Total loans from entities in the Group	345 109	372 488

**20.3 INTERCOMPANY RECEIVABLES / (PAYABLES) WITH ENTITIES IN THE GROUP**

	<b>2019</b> <b>R'000</b>	<b>2018</b> <b>R'000</b>
<b>Receivable from / (payable) to ultimate holding company</b>		
Sasfin Bank Limited	124 090	78 869
Sasfin Bank Limited	(94 501)	(149 288)
	<u>29 589</u>	<u>(70 419)</u>
<b>Receivable from / (payable) to fellow subsidiaries</b>		
Fintech Underwriting Proprietary Limited	19 081	4 545
Fintech Underwriting Proprietary Limited		(8 308)
	<u>19 081</u>	<u>(3 763)</u>
<b>Net total receivable from / (payable) to entities in the Group</b>	<u>48 670</u>	<u>(74 182)</u>

**20.4 TRANSACTIONS WITH HOLDING COMPANIES, SUBSIDIARIES AND FELLOW SUBSIDIARIES**

	<b>Controlling Company</b> <b>R'000</b>	<b>Other</b> <b>R'000</b>
<b>2019</b>		
Interest paid	(43 372)	
Interest received		
Fee and commission income	47 960	
Fee and commission expense	(120 076)	
Management Fees		193
Dividends paid	(45 000)	
Maitland Group		(835)
	<u>(190 487)</u>	<u>(442)</u>
<b>2018</b>		
Interest paid	(40 475)	
Interest received		
Fee and commission income	48 577	
Fee and commission expense	(85 040)	
Management Fees		214
Dividends paid	(26 000)	
Maitland Group		(752)
	<u>(102 938)</u>	<u>(538)</u>

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## 21.1 FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	2019			2018		
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
<b>RECURRING FAIR VALUE MEASUREMENTS</b>						
Financial Assets	-	460	-	-	18 269	-
Trading assets	-	460	-	-	18 259	-
Financial Liabilities	-	4 237	-	-	-	-
Trading liabilities	-	4 237	-	-	-	-

## 21.2 FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE

<b>FINANCIAL ASSETS</b>	3 312 632	76 686	-	3 835 419	55 481
Cash and cash equivalents	516 031	-	-	469 658	-
Other receivables	-	76 686	-	-	55 481
Loans and advances <sup>1</sup>	-	2 994 601	-	-	3 365 761
<b>FINANCIAL LIABILITIES</b>	2 763 621	29 419	3 479 267	-	148 612
Trade and other payables	-	23 919	-	-	132 362
Debt securities issued	2 763 621	-	3 115 432	-	-
Long-term loans	-	5 500	363 835	-	14 250

The carrying amount of financial assets and financial liabilities, recognised at amortised cost, is considered a reasonable approximation of fair value.

1 - The carrying amount of Loans and Advances have been moved from Level 2 to Level 3 in the Fair Value hierarchy, since not all of the Level 2 inputs are observable in the market, e.g. credit spreads.

## 22 FINANCIAL RISK MANAGEMENT

The responsibility for risk management resides at all levels, from the Sasfin Holdings Limited ("SHL") Board through to all employees of SHL. The SHL Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

Risk management is fundamental to the Group's business activities, enabling management to operate effectively in a changing and highly regulated environment. The Group remains committed to the objectives of increasing shareholder value by developing and growing the Group within its Board-approved risk appetite and by seeking an appropriate balance between risk and reward.

### 22.1 Risk Management Framework

#### *Governance*

The responsibility for risk management resides at all levels, from the Board through to all employees of the Group. The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The ALCO and GRMC, both of which are committees of the Board, are responsible for monitoring Group risk management policies in their specified areas of responsibility. The GRMC, ALCO, CLEC (previously CIC), and IT Committee have both Executive and Non-Executive Directors as members, including members of executive management as invitees. The GACC, DAC and REMCO have only Non-Executive Directors as members, with Executive Directors and members of senior management as invitees. The chair of each Board committee reports quarterly or as required to the Board on the activities of their respective committees.

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

The Group uses the following lines of defence:

- o Business unit management is primarily responsible for risk management. Its assessment, evaluation and measurement of risk is integrated with the day-to-day activities of the business. This process includes the implementation of the Group risk management policies, identification of key areas of risk, and implementation of corrective action where required. Business unit management is also responsible for appropriate reporting to the governance bodies within the Group.
- o The Group Risk and Group Compliance divisions are independent of line management. These Group functions are primarily responsible for setting the Group's risk and compliance management framework and policy, and providing oversight and independent reporting to executive management, ALCO, GRMC and the Board.
- o The GIA function provides an independent assessment of the adequacy and effectiveness of the overall risk management framework and reports directly to the GACC. The GACC is responsible for monitoring compliance with the Group's risk and compliance management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The GACC is assisted in these functions by GIA, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the GACC.

### 22.2 Risk types, definitions, governance standards, policies and procedures

The Group has developed a set of policies, procedures and standards for each major risk type to ensure alignment and consistency in a manner in which the major risk types across the Group are identified, measured, managed and reported on. All policies and procedures are approved by GRMC and applied consistently across the Group.

The risk governance principles in respect of market and liquidity risk have remained relatively unchanged from the prior year. The implementation of IFRS 9 lead to the refinement of certain of the risk governance principles related to credit risk. Refer note 23 for more information.

## CREDIT RISK

Credit risk is the risk of a financial loss stemming from a borrower's failure to repay a loan or otherwise fail to meet a contractual obligation

Credit risk arises principally from the Group's loans and advances, deposits placed with other banks, negotiable securities, financial guarantees issued, carry facilities granted and letters of credit issued. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (individual obligor default risk as well as country and sector risk).

### Management of Credit Risk

The Board of Directors has delegated responsibility for the management of credit risk to the CLEC and CIC. The Group credit department, which reports to the Chief Operating Officer of Sasfin Bank Limited, is responsible for oversight of the Group's credit risk, including:

- o Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- o Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits, as approved and reviewed regularly by the Board, are allocated to business unit credit officers. Larger facilities may require approval by Group Credit, Head: Group Credit, CLEC, CIC or the Board;
- o Reviewing and assessing credit risk. Group Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit
- o Limiting concentrations of exposure to counterparties, geographies and industries for loans and advances, deposits with banks and investment securities (refer note 23.1);
- o Developing and maintaining the Group's risk indicators in order to categorise exposures according to the degree of risk of financial loss faced, and to focus management on the attendant risks. The risk system is used in determining where impairment provisions (i.e. provisions for credit losses) may be required against specific credit exposures. The current risk framework consists of four grades reflecting varying degrees of risk of default, availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee. Risk grades are subject to regular reviews by Group Risk;
- o Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group Credit on the credit quality of local portfolios and appropriate corrective action is taken; and
- o Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the CLEC or CIC. Each business unit is also responsible for the quality and performance of its credit portfolio, and for monitoring and controlling all credit risks in its portfolios, including those subject to Group approval.

Regular audits of business units and Group Credit processes are undertaken annually by GIA.

### Securitisation

The Group uses securitisation primarily as a source of funding for its lending operations, by adding flexibility to structural liquidity risk and diversifying its funding base. All securitisable assets are subject to the Group's credit risk policies and procedures.

The Group fulfils a number of roles in the process of securitising these assets, including that of originator, sponsor, hedge counterparty and administrator, and applies its Group credit risk policies and procedures to these functions.



#### **Impaired Loans and Securities (IAS 39)**

These are loans and securities for which it is probable that the Group will be unable to collect all principal and interest due in accordance with the contractual terms of the loan/securities agreement(s). These loans are graded in the Group's internal credit risk grading system.

#### **Past due but not impaired loans (IAS 39)**

These are loans and securities where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available, and/or the stage of collection of amounts owed to the Group.

#### **Loans with renegotiated terms**

These are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

The following requirements need to be met before a restructured loan may be reclassified as Stage 1 (IAS 39 - performing):

- The obligor's ability to meet the requirements of the revised terms and conditions must be established through at least 6 (six) consecutive months of adherence to the revised terms and
- In cases of wholesale obligors or obligors with payments dated longer than monthly, an evaluation may be done by the relevant credit mandate level, taking into account qualitative factors in addition to adherence to the revised terms and conditions. Such qualitative factors may include compliance with loan covenants and compliance with other existing loan obligations;
- In no case may any restructured credit exposure be reclassified as Stage 1 (IAS 39 - performing within) 6 (six) months of the restructure; and
- The revised terms and conditions of the restructure, should still amortise the principal loan amount over the remaining term of the loan and must be well-documented for review by the SARB.

#### **Credit Impairment (IFRS 9)**

The Group determines an allowance for credit losses that represents its estimate of expected credit losses on its loan portfolio. Refer accounting policy note 1.12 and note 2.2 for more information.

#### **Credit Impairment (IAS 39)**

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a portfolio loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

#### **Write-off Policy (IFRS 9 and IAS 39)**

Loans and security balances (and any related allowances for impairment losses) are written off when it is determined that these loans and securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's or issuer's financial position resulting in the borrower/issuer no longer being in a position to pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

#### Credit Risk Measurement and Determination

The Group uses internally developed models and practices to measure and manage credit risk, by utilising skilled resources to ensure it is properly managed and controlled. The Group has adopted the standardised approach in terms of Basel III to measure credit risk, and uses the regulatory risk buckets per the SARB as measurement criteria for assessing performing counterparties as follows.

2019 SARB risk bucket/ Credit risk grade	Categorisation of counterparty (IFRS 9)	2018 SARB risk bucket/ Credit risk grade	Categorisation of counterparty (IAS 39)
A	Stage 1 and Stage 2	A	Performing loans and advances
B	Stage 2	B	Non-performing loans and advances
C,D,E	Stage 3	C	-Special mention
		D	-Sub-standard
		E	-Doubtful
			-Loss

#### Collateral for Loans and Advances

The Group holds collateral against loans and advances in order to reduce credit risk. Although collateral is held, the Group's policy is to establish that loans and advances which are granted, are within the customer's capacity to repay the amount, rather than to rely on the collateral held against them. Estimates of the fair value of collateral are based on the value at the time of borrowing and are updated annually if an account is individually assessed for impairment. Collateral includes general notarial bonds over the client's stock and other assets, cession of debtor books as well as continuous covering mortgage bonds over property. Insurance taken out by the lender on loans and advances is also viewed as collateral.

#### Concentration Risk

This is the risk of a material exposure by the Group to a small number of depositors, lenders, financial instruments, individuals, corporates, institutions or geographies.

## 23 CREDIT RISK

### 23.1 Credit Risk Exposure Analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets, by credit quality. Given the implementation of IFRS 9, without restating the 2018 numbers, the information below is not comparable in all respects.

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23.1 Credit Risk Exposure Analysis continued

Credit Risk Grading

ECL Staging

		A	A	B	Default (C, D & E)
	Total	Stage 1	Stage 2	Stage 2	Stage 3
	R'000	12-month ECL	Lifetime ECL	Lifetime ECL	Lifetime ECL
2019					
Maximum credit exposures of financial assets at amortised cost					
Cash and cash equivalents <sup>1</sup>	918 031				
Other Receivables <sup>2</sup>	76 696				
Current Tax Asset <sup>2</sup>	15 589				
Loan and advances	3 164 255	3 038 163	78 148	60 358	147
Equipment finance	2 902 505	2 864 853	68 255	40 390	178
Capital Equipment finance	181 690	171 610	9 893	478	9
Gross carrying amount	3 578 171	3 038 163	78 148	60 358	147
Less: Credit loss allowance	(170 254)				
Net carrying amount	3 404 917	3 038 163	78 148	60 358	147
Maximum credit exposures on financial assets at FVTPL					
Trading assets	400				
Total exposure to credit risk	3 405 317				

<sup>1</sup> Management has assessed these as high-quality liquid assets held with institutions with a low risk of default and hence no ECL allowance has been recognised for these.  
<sup>2</sup> Given the short-term nature, no ECL allowance has been recognised.

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23.1 Credit Risk Exposure Analysis continued

Group maximum Consolidated Statement of Financial Position exposure to credit risk by credit quality

2018

	Performing loans and advances R'000	Past due but not impaired R'000	Impaired R'000	Gross maximum exposure R'000	Security against impaired R'000	Not impaired exposure R'000
Cash and cash equivalents	469 658	-	-	469 658	-	-
Loan and advances	3 336 762	4 263	149 088	3 490 113	43 940	105 149
Equipment finance	3 178 087	4 263	148 173	3 328 523	43 680	104 523
Capital Equipment finance	160 675	-	915	161 590	260	625
Other receivables	55 439	-	-	55 439	-	-
Other receivables	55 439	-	-	55 439	-	-
Trading assets	18 268	-	-	18 268	-	-
	3 680 117	4 263	149 088	4 333 488	43 940	105 149

Add: Financial instruments not exposed to credit risk

Less: Credit impairments for loans and advances

(124 351)

- Impairments for non-performing loans and advances

(105 149)

- Impairments for performing loans and advances

(19 202)

3 909 117

Represented by the following Consolidated Statement of Financial Position items:

Cash and cash equivalents

469 658

Loans and advances

3 366 761

Trading assets

18 268

Other receivables

55 439

3 909 117

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**23.1 Credit Risk Exposure Analysis continued**  
Impaired exposure of non-performing loans and advances

	Special mention R'000	Sub-standard R'000	Doubtful R'000	Expected loss R'000	Net Impaired exposure R'000
<b>2018</b>					
Equipment finance	1 677	496	3 871	98 480	104 524
Capital Equipment Finance	625	-	-	-	625
	<u>2 302</u>	<u>496</u>	<u>3 871</u>	<u>98 480</u>	<u>105 149</u>

Past due but not impaired loans and advances

	Between 1 and 30 days R'000	31 - 60 days R'000	61 - 90 days R'000	> 90 days R'000	Total R'000
<b>2018</b>					
Ageing of loans and advances past due but not impaired					
Loans and advances	3 049	915	299	-	4 263
	<u>3 049</u>	<u>915</u>	<u>299</u>	<u>-</u>	<u>4 263</u>

Concentration risk of advances

	2018 R'000	2018 R'000
<b>Sectoral analysis</b>		
Agriculture	39 289	42 762
Community, social and personal services	997 729	1 087 420
Construction	92 394	109 090
Electricity and water	16 450	18 481
Finance, real estate and business services	790 793	799 898
Manufacturing	374 773	384 622
Mining	57 294	66 396
Trade and accommodation	167 306	777 117
Transport and communication	548 889	223 067
<b>Total</b>	<u>3 184 558</u>	<u>3 496 113</u>

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## 23.2 Collateral and Other Security Enhancements

### 23.2.1 Description of Collateral For Loans and Advances

Loans and advances	Security
Equipment finance	While the Group retains full ownership of the assets and equipment financed throughout the duration of the contract, it generally does not take the value of the asset and equipment for collateral purposes.
Capital equipment finance	The primary collateral for Capital Equipment Finance is the plant/equipment being financed. However, other security such as general notarial bonds over other assets and continuous covering mortgage bonds over property are sometimes taken to increase the collateral cover.

### 23.2.3 Collateral Held Against Individually Impaired Assets

	Gross Exposure R'000	Security		Unsecured R'000
		Fixed assets R'000	Total R'000	
<b>2019</b>				
Loans and advances				
Equipment Finance	2 592 905	2 131 971	2 131 971	460 934
Capital Equipment Finance	181 890	128 650	128 650	53 240
	<u>3 164 895</u>	<u>2 260 621</u>	<u>2 260 621</u>	<u>514 174</u>
<b>2018</b>				
Loans and advances				
Equipment finance	3 328 523	3 026 643	3 026 643	301 880
Capital equipment finance	161 590	145 106	145 106	16 484
	<u>3 490 113</u>	<u>3 171 749</u>	<u>3 171 749</u>	<u>318 364</u>

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23.3 Credit Loss Allowance Analysis  
IFRS 9 transition.

23.3.1 Reconciliation of ECL On Loans and Advances at Amortised Cost

2019

Credit loss allowance on 01 July 2018

Transfers between stages<sup>1</sup>

Transfer (to)/from stage 1

Transfer from/(to) stage 2

Transfer from/(to) stage 3

Net expected credit losses (released)/raised

ECL on new exposure raised

Change in ECL due to derecognition<sup>2</sup>

Impaired accounts written off

Credit loss allowance on 30 June 2019

Stage 1 R'000	Stage 2 R'000	Stage 3 R'000	Total R'000
20 188	3 882	86 008	121 828
(4 824)	(2 340)	78 493	71 229
(4 824)			(4 824)
	(2 340)		(2 340)
		78 493	78 493
4 489	3 158	(9 885)	(918)
8 871	4 710	2 945	14 226
(2 082)	(682)	(12 810)	(16 144)
		(21 882)	(21 882)
19 720	5 486	145 064	170 264

<sup>1</sup> It is the Group's practice to transfer the ECL between stages based on the ECL stage at the beginning of the period and the ECL stage at the end of the reporting period, for those exposures still in existence.

<sup>2</sup> Loans and advances had contracted during the first half of the year, as a result of the expected early run-off of the Absa Technology Finance Solutions (ATFS) rental finance book. The Group has further improved its credit loss ratio, despite a difficult credit environment.

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23.3.2 Reconciliation of ECL on Loans and Advances at Amortised Cost by Product

	Credit loss allowance on 1 July 2018 R'000	Total transfers between stages R'000	Net ECL raised/ (released) R'000	Impaired accounts written off R'000	Credit loss allowance on 30 June 2019 R'000
<b>Equipment finance</b>	115 383	69 418	(1 401)	(21 882)	161 518
Stage 1	18 306	(3 687)	4 007	-	18 626
Stage 2	3 661	(2 647)	4 167	-	5 171
Stage 3	93 414	75 752	(9 565)	(21 882)	137 719
<b>Capital equipment finance</b>	6 442	1 811	483	-	8 736
Stage 1	1 847	(1 237)	482	-	1 092
Stage 2	1	307	1	-	308
Stage 3	4 594	2 741	-	-	7 335
<b>Total</b>	121 825	71 228	(918)	(21 882)	170 254
Stage 1	20 155	(4 924)	4 489	-	19 720
Stage 2	3 662	(2 340)	4 158	-	5 480
Stage 3	98 008	78 493	(9 565)	(21 882)	145 054



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2018	Equipment finance R'000	Capital Equipment Finance R'000	Total R'000
<b>Non-performing loans</b>			
Balance at beginning of the year	99 888	-	99 888
Net impairments raised / (released)	4 636	626	5 261
Balance at end of the year	104 524	626	105 149
<b>Performing loans</b>			
Balance at beginning of the year	13 024	264	13 288
Net impairments released	5 836	(102)	5 734
Balance at end of the year	18 860	162	19 022
<b>Total credit impairments</b>	<b>125 384</b>	<b>767</b>	<b>124 171</b>

A 5% (2017: 6%) increase or decrease to the probability of default and loss given default rates, results in a R1.8 million (2017: R2.63 million) increase and R1.732 million (2017: R2.44 million) decrease respectively, to the impairment of performing loans.

23.3.3 CREDIT IMPAIRMENT CHARGES RECOGNISED IN PROFIT OR LOSS

	2019 R'000
IFRS 9	
Net ELC recognised	71 732
Loans and advances	71 732
Recoveries of loans and advances previously written off	(3 074)
IAS 39	
Net impairments raised for non-performing loans	14 482
Increase in allowance	5 261
Amounts written off, net of recoveries	9 231
Net impairments released/raised for performing loans	5 914
Increase/Decrease in allowance	5 914
Amounts written off, net of recoveries	-
	68 658 20 406

## 24 LIQUIDITY RISK

Liquidity risk is the risk that a bank may be unable to meet short-term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.

This risk is inherent in all banking and financial service operations and can be impacted by a range of institution-specific and market-wide events.

### Management of Liquidity Risk

The Group's approach to managing liquidity is to ensure, as far as possible, 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 Group's reputation. ALCO sets limits and mandates for executive management to manage the liquidity risk within this framework.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of projected cash flows arising from future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, interbank loans and other interbank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term loans from Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements. The Group believes that the management of liquidity should encompass an overall Consolidated Statement of Financial Position approach, which consolidates all sources and uses of liquidity while maintaining a balance between liquidity, profitability and interest rate considerations.

### Liquidity Risk Measurement

The Group's daily liquidity position is monitored and reported in the form of cash flow projections in terms of key periods ranging from demand to long term. Regular liquidity stress testing is conducted under a variety of scenarios ranging from normal to severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Group, operating subsidiaries and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO. Sources of liquidity are regularly reviewed to maintain a wide diversification by financial product and form.

### Exposure to Liquidity Risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including Cash and cash equivalents and investment grade debt securities for which there is an active and liquid market, less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. ALCO monitors the Group's exposure to liquidity risk in terms of internal benchmarks it has set and defined for Treasury to maintain.

To manage the liquidity risk arising from financial liabilities, the Group holds high-quality liquid assets comprising Cash and cash equivalents, treasury bills, and bank bills, and negotiable certificates of deposit for which there is an active liquid market.

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#### 24.1 CONTRACTUAL MATURITY ANALYSIS

2019	Carrying Amount	Gross Outflow	Less than 1 month	1 - 3 months	4-12 months	1-5 years	6-10 years	Non contractual	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>Assets</b>									
Cash and cash equivalents	318 031	318 031	318 031						318 031
Trading assets	480	480	480						480
Other receivables	78 898	78 898	78 898						78 898
Loans and advances	2 894 801	2 894 800	148 873	255 473	1 004 478	1 751 970	4 088	(188 761)	2 894 801
Current taxation asset	15 589	15 589	15 589						15 589
<b>Total Assets</b>	<b>3 405 377</b>	<b>3 405 378</b>	<b>589 148</b>	<b>365 473</b>	<b>1 004 478</b>	<b>1 751 970</b>	<b>4 088</b>	<b>(188 761)</b>	<b>3 405 377</b>
<b>Undiscounted maturity</b>									
<b>Liabilities</b>									
Trading liabilities	4 237	4 237	4 237						4 237
Trade and other payables	23 918	23 918	23 918						23 918
Debt securities issued	2 753 821	2 753 821		695 814	1 228 419	831 288			2 753 821
Long-term loans	5 500	5 500						5 500	5 500
Loans from entities in the group	345 109	345 109						345 109	345 109
Deferred tax liability	82 033	82 033						82 033	82 033
<b>Total Liabilities</b>	<b>3 214 318</b>	<b>3 214 318</b>	<b>28 155</b>	<b>695 814</b>	<b>1 228 419</b>	<b>831 288</b>		<b>432 642</b>	<b>3 214 318</b>
	<b>Trading</b>	<b>Current</b>	<b>Provisions</b>	<b>Debt</b>	<b>Long term</b>	<b>Deferred</b>			
	<b>liabilities</b>	<b>taxation</b>	<b>and other</b>	<b>securities</b>	<b>loans</b>	<b>Tax</b>			
		<b>liabilities</b>	<b>payables</b>	<b>issued</b>		<b>liability</b>			
<b>Discounted maturity</b>									
Current liabilities	4 273		23 919	1 922 233				82 823	
Non-current liabilities			345 109	831 288	5 500				
<b>Total</b>	<b>4 273</b>		<b>369 028</b>	<b>2 753 821</b>	<b>5 500</b>			<b>82 823</b>	

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24.1 CONTRACTUAL MATURITY ANALYSIS continued

2018	Carrying Amount	Gross Outflow	Less than 1 month	1 - 3 months	4-12 months	1-5 years	6 - 10 years	Non contractual	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>Discounted maturity Assets</b>									
Cash and cash equivalents	469 656	469 656	469 656	-	-	-	-	-	469 656
Trading assets	16 258	16 258	-	-	-	1 739	16 519	-	16 258
Other receivables	55 439	55 439	49 840	-	5 599	-	-	-	55 439
Loans and advances	3 365 762	3 365 762	152 459	258 580	1 026 249	2 053 825	-	(124 351)	3 365 762
<b>Total Assets</b>	<b>3 909 117</b>	<b>3 909 117</b>	<b>671 957</b>	<b>258 580</b>	<b>1 030 848</b>	<b>2 055 564</b>	<b>16 519</b>	<b>(124 351)</b>	<b>3 909 117</b>
<b>Undiscounted maturity Liabilities</b>									
Trade and other payables	132 362	132 362	-	132 362	-	-	-	-	132 362
Debt securities issued	3 115 432	3 610 871	-	426 079	376 054	2 808 739	-	-	3 610 871
Long-term loans	378 385	454 235	-	5 591	25 525	423 119	-	-	454 235
<b>Total Liabilities</b>	<b>3 626 179</b>	<b>4 197 468</b>	<b>-</b>	<b>564 032</b>	<b>403 579</b>	<b>3 228 857</b>	<b>-</b>	<b>-</b>	<b>4 197 468</b>
	<b>Current Taxation Liabilities</b>	<b>Provisions and other payables</b>	<b>Deposits from customers</b>	<b>Debt securities issued</b>	<b>Long term loans</b>	<b>Deferred tax liability</b>			
Discounted maturity									
Current liabilities	8 738	132 362	-	804 133	31 116	-			
Non-current liabilities	-	-	-	2 808 739	423 119	76 520			
<b>Total</b>	<b>8 738</b>	<b>132 362</b>	<b>-</b>	<b>3 610 871</b>	<b>454 235</b>	<b>76 520</b>			

## 25 MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Company'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 return.

It is the risk of change in the actual or effective market value or earnings of a portfolio of financial instruments caused by adverse movements in market variables. The Company's market risks are:

- Interest rate risk – the risk of difference in the repricing characteristics of assets and liabilities;

### Management of Market Risk

#### *Non-trading portfolios*

Non-trading portfolios are held by Treasury and are associated with fluctuations in the market price of assets and liabilities. Accordingly, the Company has exposure to interest rate risk in respect of non-trading portfolios.

Overall authority for market risk is vested with ALCO. Company Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO and GRGMC) and for the day-to-day review of their implementation.

### Exposure to Interest Rate Risk

#### *Non-trading portfolios*

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the Board-delegated monitoring committee for compliance with these limits and is assisted by Company Risk in its day-to-day monitoring activities.

## 25.1 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are entered into in the normal course of business and no material losses are anticipated other than those which have been accounted for in profit or loss. All commitments or contingent commitments under derivative financial instruments are settled in cash.

### Notional Principal

Represents the gross notional value of all outstanding contracts as at year-end. The gross notional value is the sum of the absolute value of all purchases and sales of derivative instruments. This value will not affect the amount receivable or payable under a derivative contract due to the cash-settled nature of the various contracts. The gross notional value represents only the measure of involvement by the Company in derivative contracts and not its exposure to market or credit risks arising from such contracts.

### Interest Rate Swaps

Interest rate swaps are used to hedge the Company's exposure to changes in the fair values of its notes and certain loans and advances attributable to changes in market interest rates. Interest rate swaps are matched to specific issuance of notes or loans and advances.

## 25.2 MARKET RISKS

The tables summarise the Group's exposure to interest rate risk through categorisation of assets and liabilities into time buckets, determined as being the earlier of the contractual re-pricing date or maturity.

	Up to 1 month R'000	1-3 months R'000	4-12 months R'000	1-5 years R'000	Total R'000
<b>2018</b>					
<b>ASSETS</b>					
<i>Non-trading portfolios</i>					
Cash and cash equivalents	318 031	-	-	-	318 031
Loans and advances	2 800 902	19 617	75 973	98 109	2 994 601
<b>Total assets</b>	<b>3 118 933</b>	<b>19 617</b>	<b>75 973</b>	<b>98 109</b>	<b>3 312 632</b>
<b>Liabilities</b>					
<i>Non-trading portfolios</i>					
Debt securities issued	-	2 753 521	-	-	2 753 521
Long-term loans	5 500	-	-	-	5 500
<b>Total Liabilities</b>	<b>5 500</b>	<b>2 753 521</b>	<b>-</b>	<b>-</b>	<b>2 759 021</b>
<b>Net Pricing Gap</b>	<b>3 113 433</b>	<b>(2 733 904)</b>	<b>75 973</b>	<b>98 109</b>	<b>553 611</b>
<b>Cumulative Repricing Gap</b>	<b>3 113 433</b>	<b>379 629</b>	<b>455 502</b>	<b>553 611</b>	<b>553 611</b>
A 200 basis point interest rate change will have the following effect on profit/loss:					
200 bp parallel shock interest rate increase	5 198	(9 131)	141	477	(3 315)
200 bp parallel shock interest rate decrease	(2 831)	9 131	(141)	(477)	5 682

25.2 MARKET RISK continued

	Up to 1 month R'000	1-3 months R'000	4-12 months R'000	1-5 years R'000	Total R'000
<b>2018</b>					
<b>ASSETS</b>					
<i>Non-trading portfolios</i>					
Cash and cash equivalents	469 658	-	-	-	469 658
Loans and advances	3 291 605	3 532	43 902	151 074	3 490 113
<b>Total assets</b>	<b>3 761 263</b>	<b>3 532</b>	<b>43 902</b>	<b>151 074</b>	<b>3 959 771</b>
<b>Liabilities</b>					
<i>Non-trading portfolios</i>					
Debt securities issued	-	378 085	-	-	378 085
Long-term loans	-	3 115 432	-	-	3 115 432
<b>Total Liabilities</b>	<b>-</b>	<b>3 493 517</b>	<b>-</b>	<b>-</b>	<b>3 493 517</b>
<b>Net Pricing Gap</b>	<b>3 761 263</b>	<b>(3 489 985)</b>	<b>43 902</b>	<b>151 074</b>	<b>466 255</b>
<b>Cumulative Repricing Gap</b>	<b>3 761 263</b>	<b>271 279</b>	<b>315 181</b>	<b>466 255</b>	<b>466 255</b>
A 200 basis point interest rate change will have the following effect on profit/loss:					
200 bp parallel shock interest rate increase	6 301	956	4 305	22 961	34 523
200 bp parallel shock interest rate decrease	(1 529)	8 586	38 637	206 067	251 761

25.3 DERIVATIVE FINANCIAL INSTRUMENTS

	Within 1 year R'000	Net Fair Value R'000	Positive fair value R'000	Negative fair value R'000	Notional principal R'000
<b>2019</b>					
Interest rate swaps	(3 776)	(3 776)	460	(4 237)	(1 414 193)
<b>Total Derivatives</b>	<b>(3 776)</b>	<b>(3 776)</b>	<b>460</b>	<b>(4 237)</b>	<b>(1 414 193)</b>
<b>2018</b>					
Exchange rate contracts	-	-	-	-	-
Interest rate swaps	1 739	1 739	1 739	-	1 669 203
<b>Total Derivatives</b>	<b>1 739</b>	<b>1 739</b>	<b>1 739</b>	<b>-</b>	<b>1 669 203</b>

## 26. Financial Risk Management

### Capital management

The Company manages its capital to achieve a prudent balance between maintaining appropriate capital levels to support business growth and to provide stakeholders with returns on a sustainable basis.

The management of company's capital is governed by the Transactional Documents. The Company's Dividend policy governs the distribution of excess reserves.

The company's primary objectives when managing capital are to safeguard the company's ability to continue as a going concern. As the company is a controlled structured entity, the company's sources of additional capital and policies for distribution of excess capital may also be influenced by the company's capital management objective. The company is not subject to any externally imposed capital requirements.

The company defines "capital" as including all components of equity plus loans from companies with no fixed terms of repayment, less unaccrued proposed dividends. Trading balances that arise as a result of trading transactions with other company companies are not regarded by the company as capital. On this basis the amount of capital employed at 30 June is as follows:

	2019 R'000	2018 R'000
Share capital	100	100
Total reserves	190 568	197 880
Loan from Holland Insurance Company Limited	5 500	5 500
Loan from Sasfin Private Equity Investment Holdings	-	8 750
	<u>196 168</u>	<u>212 230</u>



## GLOSSARY OF TERMS

Priority of Payment	The order in which payments will be made to the company's creditors and the holders of debt securities
Series guarantee	Series guarantee is the written deed executed by Series Security SPV Incorporated in favour of Series Secured Creditors
Series Indemnity	This is the written agreement entered between the issuer and the Series Security SPV incorporated in
Series Issuer	South African Securitisation Programme (RF) Limited
Series Secured Creditors	Creditors of the issuer as set out in the Priority of Payments that are party to Series Transaction Agreement
Series Security SPV	Security SPV Propriety Limited is the SPV incorporated in respect of SASP for the benefit of the noteholders
Series Transaction Agreement	Agreements entered between, among others, the issuer and one or more parties

