Bayport Securitisation (RF) Limited

(Registration number 2008/003557/06)

Audited consolidated and separate annual financial statements for the year ended 31 December 2017

The annual financial statements of the group and the company were prepared in accordance with the requirements of the South African Companies Act 71 of 2008

The annual financial statements were prepared under the supervision of Warwick Keet CA(SA), chief financial officer of Bayport Financial Services 2010 (Proprietary) Limited

BAYPORT
SECURITISATION

Bayport Securitisation (RF) Limited

Annual financial statements

For the year ended 31 December 2017

General information

Country of incorporation:	South Africa
Date of incorporation:	11 February 2008
Nature of business:	Special purpose vehicle incorporated to house unsecured loans originated by Bayport Financial Services 2010 (Proprietary) Limited
Directors:	Bertus Korb (chairman) Bryan Arlow Rishendrie Thanthony Jack Trevena
Registered address:	Bayport House 23A 10th Avenue Rivonia Johannesburg 2128
Business address:	Bayport House 23A 10th Avenue Rivonia Johannesburg 2128
Postal address:	Postnet Suite 116 Private Bag X43 Sunninghill 2157
Bankers:	ABSA Bank Limited First National Bank of South Africa Standard Bank of South Africa Limited
Auditors:	Deloitte & Touche Chartered Accountants Registered Accountants and Auditors
Company secretary:	Arthur Hlubi
Company registration:	2008/003557/06

Bayport Securitisation (RF) Limited

Annual financial statements

For the year ended 31 December 2017

The reports and statements set out below comprise the annual financial statements presented to the shareholder:

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Directors' responsibilities and approval of the annual financial statements

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

The annual financial statements are prepared in accordance with the Companies Act of South Africa and International Financial Reporting Standards and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined risk framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The directors have reviewed the cash flow forecast for the year to 31 December 2018 and are satisfied that the group has access to adequate resources to continue as a going concern for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the financial statements. The financial statements have been examined by the external auditors and their report is presented on pages 6 to 9.

The annual financial statements set out on pages 4 to 67, which have been prepared on the going concern basis, were approved by the board of directors on 17 April 2018 and were signed on its behalf by:

These annual financial statements were signed by Bertus Korb on 17 April 2018. Copies of the version bearing such signature are available for inspection at the specified office of the company.

_____

Bertus Korb

These annual financial statements were signed by Bryan Arlow on 17 April 2018. Copies of the version bearing such signature are available for inspection at the specified office of the company.

_____

Bryan Arlow

Certificate from the company secretary

In terms of section 88(2)(e) of the Companies Act, 2008, I certify that to the best of my knowledge and belief, Bayport Securitisation (RF) Limited has lodged with the Registrar of Companies for the financial period ended 31 December 2017 all such returns as are required of a public company in terms of the Companies Act, and that all returns are true, correct and up to date.

The certificate from the company secretary was signed by Arthur Hlubi on 17 April 2018. Copies of the version bearing such signature are available for inspection at the specified office of the company.

Arthur Hlubi

Company secretary
17 April 2018

Bayport Securitisation (RF) Limited

Report of the audit committee

For the year ended 31 December 2017

The audit committee presents its report for the financial period ended 31 December 2017.

Purpose of the audit committee

The main purpose of the audit committee is to assist the board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and the preparation of accurate financial reporting and annual financial statements in compliance with legal requirements and accounting standards.

Membership and attendance

The audit committee, appointed by the shareholder in respect of the year ended 31 December 2017, comprised Jack Trevena (chairman), Bertus Korb and Rishendrie Thanthony who are independent non-executive directors of the company. The committee meets at least twice per annum.

Functions of the audit committee

- Approving the external audit engagement terms;
- Reporting on the independence of the auditors Deloitte & Touche;
- Reviewing the tenure of the auditors and rotation of the audit partner;
- Reviewing the performance and effectiveness of the external audit process;
- Assessing the nature and extent of non-audit services;
- Making submissions to the board on accounting policies, financial controls, records and reporting;
- Reviewing key audit matters as provided by Deloitte & Touche; and
- Reviewing the annual financial statements.

Attendance by auditors and executive directors

The external auditors are advised of all meetings of the audit committee. The executive directors of Bayport Financial Services 2010 (Proprietary) Limited also attended meetings by invitation.

Independence of external auditor

The audit committee has satisfied itself that the external auditors are independent of the group.

Internal financial controls, accounting practices and company annual financial statements

Based on the work of the group's assurance providers, nothing has come to the attention of the committee which indicates that the group's system of internal financial controls and accounting practices, in all material respects, does not provide a basis for reliable annual financial statements.

The committee is satisfied that the group annual financial statements are in compliance, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards, and recommended the financial statements for approval by the board.

The report of the audit committee was signed by Jack Trevena on 17 April 2018. Copies of the version bearing such signature are available for inspection at the specified office of the company.

Jack Trevena

Chairman: audit committee
17 April 2018

Deloitte.

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South Africa

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INDEPENDENT AUDITOR'S REPORT
To the Shareholder of Bayport Securitisation (RF) Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Bayport Securitisation (RF) Limited (the Group) set out on pages 13 to 67, which comprise the statements of financial position as at 31 December 2017, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 31 December 2017 and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

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

Key Audit Matters

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

National Executive: *LL Bam Chief Executive Officer *TMM Jordan Deputy Chief Executive Officer; Clients & Industries *MJ Jarvis Chief Operating Officer *AF Mackie Audit & Assurance *N Sing Risk Advisory *NB Kader Africa Tax & Legal TP Pillay Consulting S Gwala BPS *JK Mazzocco Talent & Transformation MG Dicks Risk Independence & Legal *TJ Brown Chairman of the Board

A full list of partners and directors is available on request * Partner and Registered Auditor

B-BBEE rating: Level 1 contribution in terms of the DTI Generic Scorecard as per the amended Codes of Good Practice

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

Key Audit Matter	How the matter was addressed in the audit
IFRS 9: *Financial Instruments*	
The Group early adopted IFRS 9: *Financial Instruments* (IFRS 9) in the prior year and applies the standard in modelling the impairments on the loans and advances. The following aspects of IFRS 9 were in aggregate considered to be key audit matters in the Bayport Securitisation (RF) Limited business due to the extent of judgement and estimation applied: - Determination of expected losses (including probability of default ('PD') , time to default and loss given default ('LGD'); - Changes in credit quality; and - Relevance of macroeconomic factors. The relevant disclosures relating to the impairments on loans and advances have been provided in Notes 3 and 21 of these financial statements.	We involved our Financial Services Advisory specialists who performed as assessment of: - The modelling methodology applied in terms of the requirements of IFRS 9; - The accuracy of the model by independently recalculating the input parameters; and - The completeness and accuracy of the data used in the model. We concluded the model was appropriate and accurate.
IFRS 9 includes a rebuttable presumption that there has been an initial period of significant deterioration in credit quality when loans are in 30 days (move from stage 1 to stage 2) in arrears and then at 90 days (move from stage 2 to stage 3) in arrears. This classification determines the inputs into the credit impairment modelling and specifically whether a 12 month or lifetime PD (move from stage 1 to stage 2) is and whether interest is suspended (move from stage 2 to stage 3).	We independently assessed the reasonability of the significant increase in the credit risk trigger point by assessing the corresponding change in the PD for various CD states. We concluded that the Directors' assessment was appropriate.
Recognition and recoverability of Deferred tax asset	
There are various complexities relating to the treatment and recognition and recoverability of deferred taxation, in particular the extent the carrying value is dependent on the estimated manner in which the timing differences will be realised. This is disclosed in note 4 to these financial statements. As a result, deferred taxation is considered a key audit matter due to the judgement arising from the considerations relating to the calculation and recognition of deferred tax balances and the materiality of the balances in relation to the financial statements as a whole.	Our procedures focused on evaluating the Directors' determination of the estimated manner in which the timing differences will be realised by comparing this to evidence obtained in respect of other areas of the audit, such as cash flow forecasts, minutes of Directors' meetings, comparison of historical performance to actual performance, comparison of the actual results to the budgeted results for the current year, and our knowledge of the business. We assessed the presentation and disclosure in respect of tax-related balances in the consolidated and separate financial statements and considered whether the disclosures reflected the risks inherent in the accounting for the tax balances. We concurred with the Directors' determination of the estimated manner in which timing differences will be realised and the recoverability of the deferred tax asset. The disclosure was found to be appropriate.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Report of the Audit Committee, and the Certificate from the Company Secretary as required by the Companies Act of South Africa, prior to the date of this report. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Bayport Securitisation (RF) Limited for nine years.

Deloitte & Touche
Registered Auditor
Per: Penny Binnie
Partner
17 April 2018

The directors present their report on the activities of the group for the year ended 31 December 2017.

1. Main business and operations

The company is a special purpose vehicle incorporated to house unsecured loans originated by Bayport Financial Services 2010 (Proprietary) Limited ("BFS 2010") in South Africa. Management of the company is contracted to BFS 2010.

The operating results and state of affairs of the company are fully set out in the attached annual financial statements.

2. Going concern

In performing the going concern assessment, the directors have considered all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to the directors.

As part of the assessment, the directors have considered if there are any material uncertainties relating to events or conditions that might cast significant doubt upon the continuing use of the going concern basis of accounting in future periods.

Uncertainties relating to such events or conditions would be considered material, and therefore disclosed, if their disclosure could reasonably be expected to affect the economic decisions of shareholders and other users of the annual financial statements.

The going concern assessment is a matter of judgement. In making this judgement, the directors have considered the uncertainties arising from their assessment, both individually and in combination with others.

In determining whether there are material uncertainties, the directors have considered:

- the magnitude of the potential impacts of any uncertain future events or changes in conditions on the company and the likelihood of their occurrence in the medium term;
- the realistic availability and likely effectiveness of actions that the directors would consider undertaking to avoid, or reduce the impact or likelihood of occurrence of the uncertain future events or changes in conditions; and
- whether the uncertain future events or changes in conditions are unusual, rather than occurring with sufficient regularity to make predictions about them with a high degree of confidence.

Uncertainties are not considered material if the likelihood that the company will not be able to continue to use the going concern basis of accounting is assessed to be remote, however significant the assessed potential impact.

In evaluating the group's ability to continue as a going concern during the ensuing twelve months, the following areas, amongst others, have been considered in making the assessment.

- financial performance (both historic and forecasted);
- liquidity (availability of funding as well as cash flow forecasts);
- capital adequacy; and
- the financial health of the consumer (debt to income levels, employment and inflation).

2. Going concern (continued)

Having taken the aforementioned factors into account, the directors consider the going concern basis of accounting appropriate and confirm that there are no foreseeable material uncertainties that would cast doubt upon that assertion for the year ended 31 December 2018.

3. Subsequent events

No subsequent events have occurred between 31 December 2017 and the date of approval of the annual financial statements by the board of directors.

4. Authorised and issued ordinary and preference share capital

There was no change in ordinary share capital during the period under review.

On 1 August 2016 Bayport Securitisation (RF) Limited repurchased 1 preference share for the issue price of R1. The company issued 1 preference share for R1 plus share premium of R1,299,999,999 on the same date.

5. Dividends paid

No dividend was declared or paid to the ordinary or preference shareholders during the 12 months ended 31 December 2017 (2016: R nil).

6. Holding company

The Bayport Securitisation Ownership Trust holds 100% of the ordinary share capital in Bayport Securitisation (RF) Ltd, whilst Bayport Financial Services 2010 (Pty) Ltd (BFS 2010) holds 100% of the preference share capital.

With effect from 1 December 2017, BFS 2010 became a subsidiary of Firefly Investments 326 (Pty) Ltd. For the previous 11 months of 2017 and for 2016, BFS 2010 was a subsidiary of Bayport Management Limited (BML).

7. Donation received

No donations were received during the 12 months ended 31 December 2017.

On 4 August 2016 Bayport Management Limited donated 100% of the issued share capital in Zenthyme Investments (Proprietary) Limited to Bayport Securitisation (RF) Limited.

8. Financial risk management and governance

The board of directors of the company is ultimately responsible for financial risk management and governance. The day-to-day management of the company is the responsibility of Bayport Financial Services 2010 (Proprietary) Limited (BFS 2010) through the authority granted by the board of the company by way of the management agreement between the company and BFS 2010. The shareholder has constituted an audit committee which comprises three independent non-executive directors and meets bi-annually. Invitees to the audit committee meetings include the external auditors, the internal auditors and representatives of BFS 2010.

The audit committee assists the board with:

- combined assurance;
- internal audit;
- external audit; and
- governance.

The board has constituted a social and ethics committee to consider the company's activities with regard to matters relating to social and economic development. The committee consists of at least three members elected by the board and the chairman is a non-executive director of the board. The committee meets at least once annually and is accountable to both the board and shareholder.

9. King IV Report on Corporate Governance™ for South Africa, 2016 ("King IV™")

King IV™ principles have been applied on this entity. A detailed application register is available on the following website: www.bayportsa.com.

10. Directors

The directors of the company during the accounting period and up to the date of this report were as follows:

Name	Position	Date appointed
Bertus Korb	Independent non-executive chairman	31 December 2016
Bryan Arlow	Non-executive director	27 September 2014
RishendrieThanthony	Independent non-executive director	31 January 2013
Jack Trevena	Independent non-executive director	31 January 2013

11. Auditors

Deloitte & Touche will continue in office in accordance with section 90(2) of the Companies Act.

12. Secretary

The secretary of the company during the accounting period and up to the date of this report was as follows:

Name	Date appointed	Date resigned
Kiara Jansen van Vuuren	25 August 2016	1 June 2017
Arthur Hlubi	1 June 2017	

Bayport Securitisation (RF) Limited

Statements of financial position

For the year ended 31 December 2017

		Group		Company	
R'000	**Notes**	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
Assets					
Cash	18	744 026	682 271	743 955	680 509
Tax receivable	16	-	1	-	-
Trade and other receivables	2	11 895	2 951	11 895	2 951
Loans and advances	3	2 506 317	2 488 130	2 506 317	2 488 130
Deferred tax assets	4	204 663	223 935	204 663	223 935
Investment in subsidiary	5	-	-	145 612	202 127
Other financial assets	6	173 939	201 364	2 438	-
Total assets		3 640 840	3 598 652	3 614 880	3 597 652
Liabilities					
Trade and other payables	7	202 395	114 028	176 435	113 028
Interest bearing liabilities	8	2 682 010	2 816 467	2 682 010	2 816 467
Total liabilities		2 884 405	2 930 495	2 858 445	2 929 495
Equity					
Share capital and share premium	9	1 300 001	1 300 001	1 300 001	1 300 001
Accumulated deficit		(675 144)	(823 080)	(689 178)	(833 971)
Fair value reserve		131 578	191 236	145 612	202 127
Equity attributable to the owners of the company		756 435	668 157	756 435	668 157
Total equity		756 435	668 157	756 435	668 157
Total equity and liabilities		3 640 840	3 598 652	3 614 880	3 597 652

Bayport Securitisation (RF) Limited

Statements of comprehensive income

For the year ended 31 December 2017

		Group		Company	
R'000	**Notes**	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
Interest and other similar income	10	890 415	1 045 176	890 415	1 045 176
Interest and other similar expenses	10	(315 784)	(363 367)	(315 784)	(363 367)
Net interest income	10	574 631	681 809	574 631	681 809
Impairment of loans and advances	3	(276 255)	(445 208)	(276 255)	(445 208)
Risk adjusted net interest income		298 376	236 601	298 376	236 601
Non-interest revenue	11	113 103	25 482	109 958	702 516
Direct costs	12	(2 090)	(2 182)	(2 088)	(2 182)
Non interest gross profit		111 013	23 300	107 870	700 334
Indirect costs	13	(242 181)	(320 728)	(242 181)	(320 720)
Profit / (loss) before tax		167 208	(60 827)	164 065	616 215
Income tax expense	14	(19 272)	(9 854)	(19 272)	(9 854)
Profit / (loss) for the year		147 936	(70 681)	144 793	606 361
Other comprehensive (loss) / income*		(59 658)	879 169	(56 515)	202 127
Total comprehensive income for the year		88 278	808 488	88 278	808 488

* Refer to statement of changes in equity on pages 15 and 16.

Bayport Securitisation (RF) Limited

Statements of changes in equity

For the year ended 31 December 2017

Group

R'000	Share capital	Fair value reserve	Accumulated deficit	Total equity / (deficit)
Balance at 1 January 2016^	1	-	(1 440 332)	(1 440 331)
Total comprehensive income	-	191 236	617 252	808 488
- Loss for the year	-	-	(70 681)	(70 681)
- Other comprehensive income	-	191 236	687 933	879 169
Investment donation received*				
- Revaluation of insurance cells#	-	191 236	-	191 236
- Retained earnings on donation	-	-	687 933	687 933
Repurchase and issue of share	1 300 000	-	-	1 300 000
Balance at 31 December 2016	1 300 001	191 236	(823 080)	668 157
Total comprehensive (loss) / income	-	(59 658)	147 936	88 278
- Profit for the year	-	-	147 936	147 936
- Other comprehensive income				
- Revaluation of insurance cells#	-	(59 658)	-	(59 658)
Balance at 31 December 2017	1 300 001	131 578	(675 144)	756 435

^ IFRS 9 transitional adjustment on 1 January 2016 is not applicable as the group was only formed on 4 August 2016.

* Bayport Management Limited donated 100% of the issued share capital in Zenthyme Investments (Proprietary) Limited to Bayport Securitisation (RF) Limited on 4 August 2016.

Zenthyme Investments (Proprietary) Limited holds investments in Hollard Business Associates and Guardrisk Life Limited (refer note 6).

Bayport Securitisation (RF) Limited

Statements of changes in equity (continued)

For the year ended 31 December 2017

Company

R'000	Share capital	Fair value reserve	Accumulated deficit	Total equity / (deficit)
Balance at 31 December 2015	1	-	(817 955)	(817 954)
IFRS 9 transitional adjustment	-	-	(622 377)	(622 377)
Revised opening balance	1	-	(1 440 332)	(1 440 331)
Total comprehensive income	-	202 127	606 361	808 488
- Profit for the year	-	-	606 361	606 361
- Other comprehensive income	-	202 127	-	202 127
Recognition of investment in Zenthyme at fair value*				
- Revaluation of investment	-	202 127	-	202 127
Repurchase and issue of share	1 300 000	-	-	1 300 000
Balance at 31 December 2016	1 300 001	202 127	(833 971)	668 157
Total comprehensive (loss) / income	-	(56 515)	144 793	88 278
- Profit for the year	-	-	144 793	144 793
- Other comprehensive loss	-	(56 515)	-	(56 515)
Recognition of investment in Zenthyme at fair value*				
- Revaluation of investment	-	(56 515)	-	(56 515)
Balance at 31 December 2017	1 300 001	145 612	(689 178)	756 435

* Bayport Management Limited donated 100% of the issued share capital in Zenthyme Investments (Proprietary) Limited to Bayport Securitisation (RF) Limited on 4 August 2016.

Bayport Securitisation (RF) Limited

Statements of cash flows

For the year ended 31 December 2017

R'000	Notes	Group 31 December 2017	Group 31 December 2016	Company 31 December 2017	Company 31 December 2016
Cash flows from operating activities					
Cash generated by operations	15	106 462	387 265	106 464	387 273
Income taxes received / (paid)	16	1	(1)	-	-
Dividends received	17	100 500	17 474	100 500	691 252
Cash generated by operating activities before changes in operating assets and liabilities		206 963	404 738	206 964	1 078 525
Decrease in operating assets and liabilities		(189 426)	(2 363 783)	(189 426)	(2 362 783)
Increase in gross loans and advances		(54 969)	(126 117)	(54 969)	(126 117)
Decrease in interest bearing liabilities		(134 457)	(2 237 666)	(134 457)	(2 236 666)
Decrease in working capital		79 423	778 238	54 463	100 766
(Increase) / decrease in trade and other receivables		(8 944)	3 378	(8 944)	3 378
Increase in trade and other payables		88 367	774 860	63 407	97 388
Net cash utilised by operating activities		(110 003)	(1 585 545)	(134 963)	(2 262 017)
Cash flows from investing activities					
Increase in other financial assets		(35 205)	(1 000)	(8 555)	-
Cash flows from financing activities					
Issue of shares		-	1 300 000	-	1 300 000
Net increase in cash for the year		61 755	118 193	63 446	116 508
Cash at beginning of the year		682 271	564 078	680 509	564 001
Cash at end of the year	18	744 026	682 271	743 955	680 509

1. Accounting policies

The annual financial statements of the group and the company are prepared in accordance with International Financial Reporting Standards ('IFRS'), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the going-concern principle and the requirements of the South African Companies Act 71 of 2008.

The group and company's annual financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at fair value (accounting policy 1.2).

The group and company's statement of financial position are presented in order of liquidity. Reference to the current maturities of these financial assets and liabilities are disclosed in the statement of financial position notes and in the analysis of financial assets and liabilities. The accounting policies are consistent with the previous year, except where stated otherwise.

The group has made the following accounting policy election in terms of IFRS, with reference to the detailed accounting policy shown in brackets:

- equity instruments at fair value through other comprehensive income (accounting policy 1.2).

All monetary information and figures presented in these annual financial statements are stated in thousands of South African Rand (R'000), unless otherwise indicated.

The principle accounting policies are set out below:

1.1 Basis of consolidation

Subsidiary companies and other controlled entities

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company.

Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. In assessing control, potential voting rights which presently are exercisable or convertible are taken into account.

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Intra-group transactions, balances and unrealised gains or losses are eliminated on consolidation.

1. Accounting policies (continued)

1.1 Basis of consolidation (continued)

Special purpose entities

Special purpose entities ('SPEs') are entities created to accomplish a narrow and well-defined objective such as the securitisation of a particular asset, or the execution of a specific borrowing or lending transaction. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the group and the SPE's risks and rewards, the group concludes that it controls the SPE (including SPEs that are owned by trusts).

The assessment of whether the group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the group and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the group and a SPE and in such instances the group determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the group's voluntary actions change the relationship between the group and a SPE, the group performs a reassessment of control over the SPE.

Business combinations

Business combinations are accounted for in accordance with the acquisition method of accounting. Subsidiaries are consolidated from the dates on which the group acquires effective control of the entity. Consolidation ceases from the date control no longer exists.

On acquisition the identifiable assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values. The cost of an acquisition is the fair value of the assets given, liabilities incurred or assumed and equity instruments issued. Any costs directly relating to the acquisition are expensed to profit and loss.

The consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All subsequent changes in the fair value of a contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS. Changes in the fair value of any contingent consideration classified as equity are not recognised. Where a business combination is achieved in stages, the group's previously held interests in the acquired entity are re-measured to fair value at the acquisition date (i.e. the date the group attains control) and the resulting gain or loss, if any, is recognised in profit or loss.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

1. Accounting policies (continued)

1.1 Basis of consolidation (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or as additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the group obtains all relevant information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

The non-controlling interest in the acquiree is measured at acquisition date either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets (applied on a transaction by transaction basis for all business combinations). The treatment is not an accounting policy choice but is selected for each business combination, and disclosed in the note for business combinations.

Premiums or discounts arising on the acquisition of subsidiaries are treated in terms of the group's accounting policy for goodwill.

1.2 Financial instruments

A financial instrument is defined as a contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Initial recognition

The group initially recognises financial assets and financial liabilities on the date on which the group becomes party to the contractual provisions of the financial instrument. This is on the date that these financial instruments are originated.

A financial asset or financial liability is initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The group generally does not reclassify financial instruments between different categories subsequent to initial recognition. Financial assets are reclassified only if the group changes its business model for managing financial assets. In accordance with IFRS 9:

- Financial liabilities can never be reclassified; and
- Financial assets can only be reclassified if there is a change in business model.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

Classification

Financial assets

Financial assets are classified and measured at either:
- amortised cost; or
- fair value through other comprehensive income.

On initial recognition of an equity instrument that is not held for trading, the group may irrevocably elect to present subsequent changes in fair value through Other Comprehensive Income. This election is done on an investment-by-investment basis.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as fair value through profit or loss:
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, matching the duration of financial assets to the liabilities that are funding those assets or realising cash flows through the sales of the assets;
- how the performance of the portfolio is evaluated and reported to group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated (whether compensation is based on 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 expectations about future sales activity. Information about sales activity is considered as part of the overall assessment of how the group's stated objective for managing the financial assets is achieved and how cash flows are realised.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (for example, liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payment of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual clause that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the group considers:

- interest rate charged to customers;
- origination fee and service fee charged to customers;
- any other amounts charged to customers (if any);
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the group's claim to cash flows from specified assets (for example, non-recourse asset arrangements); and
- features that modify consideration of time value of money (for example, periodical reset of interest rates).

The group holds a portfolio of loans with a term of between six months to five years. These loans charge customers a fixed interest rate equal to the maximum rate allowed by the National Credit Act [No 34 of 2005] (NCA). Interest rates are changed only in the event of court intervention or if there are any changes to legislation. Term extensions take place if the customer defaults, or through court intervention, and the resulting terms result in contractual cash flows that are solely payments of principal and interest. The group has determined that the contractual cash flows of these loans are solely payments of principal and interest.

Financial assets which have been classified as measured at amortised cost include cash and cash equivalents, trade and other receivables and loans and advances.

Financial liabilities

Financial liabilities are classified and measured at amortised cost.

Subsequent measurement

Fair value through other comprehensive income – Equity Instruments

These instruments are equity instruments which are not held for trading, and upon initial recognition, it is elected that the movements in fair value will be recognised in other comprehensive income. Amounts recognised in other comprehensive income are not reclassified to profit or loss under any circumstances.

Dividend income on these investments is recognised in profit or loss when Bayport becomes entitled to that income.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

Amortised cost

Financial assets which are classified as measured at amortised cost, are measured using the effective interest method, less any expected credit losses which are recognised in profit or loss. Amortised cost is calculated by taking into account any transaction costs on acquisition as well as fees and costs that are an integral part of the effective interest rate. Origination fees and service fees are both considered to be integral to the effective interest rate. Origination fees are added to the original debt amount and included in the initial measurement of the loan.

Expected credit losses are calculated through the use of an appropriate impairment methodology.

Impairment

The group recognises loss allowances for expected credit losses on the following financial assets:
- Loans and advances; and
- Trade and other receivables.

No impairment loss is recognised on equity investments.

Impairments are measured as 12-month expected credit losses upon origination. Where there has been a significant increase in credit risk since initial recognition of a financial asset, the loss allowance is measured as an amount equal to lifetime expected credit losses.

Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit losses.

12-month expected credit losses are the portion of expected credit losses that result from default events on a financial instrument, that are possible within the 12 month period after the reporting date.

Expected credit losses 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 group in accordance with the contract and the cash flows that the group expect 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.

Loss allowances for expected credit losses are presented in the statement of financial position as a deduction from the gross carrying amount of the financial asset.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly, since initial recognition. The group considers reasonable and supportable information that is relevant and available without undue cost and effort. This includes both quantitative and qualitative information and analysis, based on the group's historical experience and expert credit assessment and including forward-looking information.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure.

Credit risk

The group monitors the borrower's credit risk using contractual delinquencies (CD) (i.e. number of missed contractual payments). An additional credit risk monitor has been imposed, whereby an account moves to a cured contractual delinquent (CCD) state by adhering to the curing criteria of three consecutive payments of more than 90% of the full instalment.

Generating a PD term structure

The PD (probability of default) is the probability that an account enters default at some point in the future, where default is defined as CD4+ and CCD4+. The PD term structure introduces a timing (ageing) element to the PD, where the term structure (life of the loan) is broken down into the annualised periods.

For example, the term structure would consider the following sequence:

- The probability that an account will default in the first year;
- If the account does not default in the first year, what is the probability that the account will default in the second year and then the year after that and then in the following years; and
- This will result in PDs per multiple annual periods.

Modified financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and the expected credit losses are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; or
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing asset at the time of derecognition. This amount is included in calculating the cash shortfalls from the existing asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing asset.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

Credit-impaired financial assets

At each reporting date, the group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty to the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the group on terms that the group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to the deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, an exposure that is overdue for 90 days or more (CD4+ and CCD4+) is considered impaired / in default.

Collective versus individual impairment

All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar credit risk characteristics (e.g. on the basis of the collection strategy and contractual delinquency count and months on book).

Modelling techniques

In assessing collective impairment the group statistically models the following:

- historical trends of the probability of default;
- timing of recoveries; and
- the amount of loss incurred.

These factors are adjusted for management's judgement regarding whether current economic and credit conditions will result in actual losses that are likely to be greater or less than those suggested by the historical models.

Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual results to ensure that they remain appropriate.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

Financial liabilities and equity instruments issued by the group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group are recognised at the value of the proceeds received, net of direct issue costs.

Fair value

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between knowledgeable willing market participants, at the measurement date, other than in a forced or liquidation sale.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. Where such evidence is available, the financial instrument is initially measured at its fair value.

The method of determining the fair value of financial instruments is analysed into the following categories:

Level 1: Unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

Level 2: Valuation techniques using market observable inputs, including:

- using recent arm's length market transactions;
- reference to the current fair value of similar instruments; and
- discounted cash flow analysis, pricing models or other techniques commonly used by market participants.

Level 3: Valuation techniques, as described for level 2 above, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

The valuation techniques in level 2 and level 3 use inputs such as interest rate yield curves, equity prices, commodity and currency prices / yields, volatilities, and the correlation between inputs. The models used in these valuation techniques are calibrated against industry standards, other similar economic models, and against observed transaction prices, where available.

Offsetting

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

Derecognition

Financial assets (or a portion thereof) are derecognised when the group realises the rights to the benefits specified in the contract, the rights expire, the asset is substantially modified or the group surrenders or otherwise loses control of the contractual rights that comprise the financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable (including any new asset obtained) are included in profit or loss.

Financial liabilities (or a portion thereof) are derecognised when the obligation specified in the contract is discharged, cancelled or expires. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and the amount paid for it are included in the statement of comprehensive income.

Modifications

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out above relating to 'Initial recognition'.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime probability of default at the reporting date based on the modified terms; with
- the remaining lifetime probability of default estimated based on data at initial recognition and the original contractual terms.

The group renegotiates loans with customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Such modifications would take place through court intervention as follows:

- debt review;
- administration orders;
- court orders; and
- emolument attachment orders.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

The revised terms usually include extending the maturity, changing the timing of interest payments and changing the interest rate.

Generally, modifications to financial assets are a qualitative indicator of a significant increase in credit risk and an expectation of modifications may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good behaviour over a period of time before the exposure is no longer considered to be credit-impaired / in default or the probability of default is considered to have decreased such that the loss allowance reverts back to being measured at an amount equal to 12-month expected credit losses.

1.3 Revenue recognition

1.3.1 General policy

Revenue is recognised to the extent that it is probable that economic benefits will flow to the group and the revenue can be reliably measured.

Revenue comprises finance charges on loans, fees for rendering of services to customers, collection of owned book debts and dividends received.

1.3.2 Interest income

Interest income is recognised in profit or loss for all instruments measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to the gross carrying amount of the financial asset. When calculating the effective interest rate for financial instruments other than credit-impaired assets, the group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses. The calculation of the effective interest rate includes transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Monthly services fees are regarded as an integral part of the effective interest rate and are accounted for as interest income.

1.3.3 Monthly service fees

These are fees which form an integral part of the effective interest rate and are charged to customers on a monthly basis. These fees are recognised as part of the effective interest rate over the shorter of the original contractual term and the actual term of the loans and receivables.

1.3.4 Non-operating income

Dividends are recognised in profit or loss when the right to receive payment is established.

1. Accounting policies (continued)

1.4 Direct costs

Direct costs comprise funding and listing fees expensed during the year directly attributable to the borrowing of funds and the collection of loans and advances.

1.5 Interest expense

Interest expense comprise interest on borrowings, debentures and other costs incurred in connection with the borrowing of funds.

Interest expense is recognised in the period in which it is incurred using the effective interest method except to the extent in which it meets the criteria for capitalisation against a qualifying asset in which case it is capitalised as part of the cost of the asset.

1.6 Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less accumulated impairment.

1.7 Taxation

1.7.1 Current

The charge for current tax is based on the results for the year adjusted for items which are tax exempt or are not tax deductible. Tax is calculated using rates that have been enacted or substantively enacted by financial year-end.

1.7.2 Deferred tax

Deferred tax is calculated using the liability method.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit or taxable profit nor a tax loss.

Deferred tax is calculated using taxation rates that have been enacted or substantially enacted at financial year-end. The effect on deferred tax of any changes in taxation rates is charged to profit or loss, except to the extent that it relates to items previously charged or credited directly to equity in which case the deferred tax is charged to equity.

Deferred tax assets are recognised to the extent that it is probable that future profits will be available against which the associated tax deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

1. Accounting policies (continued)

1.7 Taxation (continued)

1.7.3 Indirect taxation

Indirect taxation in the form of non-claimable value-added tax (VAT) on expenses is disclosed as indirect taxation in the statement of comprehensive income. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

1.8 Dividends paid

Dividends are recognised against equity in the period in which they are approved by the company's directors. Dividends declared after the reporting date are not recognised but disclosed as a post reporting date event.

1.9 Management estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. This forms the basis of making the judgements on carrying values of assets or liabilities that are not otherwise readily apparent. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Certain accounting policies have been identified as involving particularly complex or subjective judgements or assessments, as follows:

1.9.1 Deferred tax

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in future against which it can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation, taxation rates and competitive forces.

1.9.2 Valuation of Hollard Business Associates (HBA) / Guardrisk investments

The investments in HBA and Guardrisk are classified as fair value through other comprehensive income. The valuation methodology applied is a discounted cash flow of the future expected cash flows i.e. dividends, on a rundown basis including one year of new business. Dividends are discounted from the point of distribution to the present time at the risk free yield curve plus a constant risk margin. Net gains or losses recognised do not include dividend income.

1. Accounting policies (continued)

1.9 Management estimates (continued)

1.9.3 Impairment of financial assets

Financial assets are impaired using the approach prescribed in IFRS 9, unless the asset is considered to be credit impaired on initial recognition, in which case those specific requirements as contained in IFRS 9 will be applied. This approach requires for the provision of expected credit losses rather than incurred credit loss as IAS 39 required. The estimation of impairments of financial assets is inherently uncertain and depends on many factors, including general economic conditions (current and forward-looking), structural changes within industries, changes in individual customer circumstances and other external factors such as legal requirements, regulatory specifications and governmental policy changes.

Upon origination of financial assets, impairments measured at 12-month expected credit losses will be provided. Impairments measured at lifetime expected credit losses will be provided on financial assets whose credit risk that has increased significantly since initial recognition. Impairments measured at lifetime expected credit losses will also be provided on financial assets that are credit-impaired.

1.9.4 Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount. They are recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities and contingent assets are not recognised but disclosed (if any) in the annual financial statements.

1.10 Segment reporting

The group operates as one segment. All disclosure in the annual financial statements is provided as the primary segment.

1. Accounting policies (continued)

1.11 New and amended accounting standards and interpretations

The following accounting standards and interpretations became applicable during the current reporting period that the group was required to adopt:

IFRS / IAS and title	Details of change
IAS 7: Cash flow statement	Entities are required to provide disclosure that enables users of financial statements to evaluate changes in liabilities arising from financing activities.
IAS 12: Income taxes	Clarity provided around the recognition of a deferred tax asset related to a debt instrument measured at fair value.

The group early adopted the following accounting standard in the prior reporting period:

IFRS and title	Details of change
IFRS 9 – Financial instruments	The group early adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2016. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The group has taken advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 is recognised in retained earnings as at 1 January 2016. The impact of adopting IFRS is detailed in note 20.

1.12 New standards or amendments issued but not yet effective

IAS / IFRS and title	Effective for annual periods beginning on or after:
IFRS 15: Revenue from contracts with customers	1 January 2018
IFRS 16: Leases	1 January 2019

The adoption of these new standards / amendments is not expected to have a material impact on the consolidated and separate financial statements.

R'000	Group 31 December 2017	Group 31 December 2016	Company 31 December 2017	Company 31 December 2016
2. Trade and other receivables				
Prepayments	2 982	2 936	2 982	2 936
Receivable from Bayport Tutari (Pty) Ltd	3 923	15	3 923	15
Sundry debtors	3 106	-	3 106	-
Value added taxation receivable	1 884	-	1 884	-
	11 895	2 951	11 895	2 951
3. Loans and advances				
IFRS 9 impact on gross loans and advances				
Gross loans and advances opening balance	5 437 310	4 889 170	5 437 310	4 889 170
IFRS 9 transitional adjustment (refer note 20)	-	422 023	-	422 023
Revised opening balance	5 437 310	5 311 193	5 437 310	5 311 193
IFRS 9 impact on carrying value of written-off book				
Written-off book opening balance	-	479 930	-	479 930
IFRS 9 transitional adjustment (refer note 20)	-	(479 930)	-	(479 930)
Revised opening balance	-	-	-	-
Closing balance				
Gross loans and advances	5 492 279	5 437 310	5 492 279	5 437 310
Allowance for impairment	(2 985 962)	(2 949 180)	(2 985 962)	(2 949 180)
	2 506 317	2 488 130	2 506 317	2 488 130
Gross loans and advances by asset type				
Unsecured loans	5 492 279	5 437 310	5 492 279	5 437 310

The above values approximate fair values. Loans and advances are ceded as security for interest bearing liabilities issued by the company (refer note 8). The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of the loan extended. However, other credit enhancements such as credit insurance provide additional security.

R'000	Group 31 December 2017	Group 31 December 2016	Company 31 December 2017	Company 31 December 2016
3. Loans and advances (continued)				
Allowance for impairment				
Allowance for impairment opening balance	(2 949 180)	(1 922 400)	(2 949 180)	(1 922 400)
IFRS 9 transitional adjustment (refer note 20)	-	(564 470)	-	(564 470)
Revised opening balance	(2 949 180)	(2 486 870)	(2 949 180)	(2 486 870)
Impairment of loans and advances	(517 810)	(915 253)	(517 810)	(915 253)
Utilisation of allowance for write-offs	481 028	452 943	481 028	452 943
Balance at end of the year	(2 985 962)	(2 949 180)	(2 985 962)	(2 949 180)
Impairment expense in profit and loss				
Impairment of loans and advances	(517 810)	(915 253)	(517 810)	(915 253)
IFRS 9 revenue reallocation	241 555	470 045	241 555	470 045
Net impairment expense recognised in profit and loss	(276 255)	(445 208)	(276 255)	(445 208)
Related credit risk exposure and enhancements:				
Maximum exposure to credit losses of loans and advances	2 506 317	2 488 130	2 506 317	2 488 130

R'000	Group 31 December 2017	Group 31 December 2016	Company 31 December 2017	Company 31 December 2016
4. Deferred tax assets				
Deferred tax is presented on the statement of financial position as follows:				
Deferred tax assets	204 663	223 935	204 663	223 935
	204 663	223 935	204 663	223 935
The movements during the year / period are analysed as follows:				
Deferred tax asset at beginning of the year	223 935	233 789	223 935	233 789
Tax charge to the statement of comprehensive income	(19 272)	(9 854)	(19 272)	(9 854)
Net deferred tax asset at end of the year	204 663	223 935	204 663	223 935

Group and company

R'000	Opening balance	Tax (charge) / credit	Closing balance
2017			
Impairment of loans and advances	9 871	24 082	33 953
Estimated tax losses	217 364	(41 184)	176 180
Revenue and expense recognition timing differences	(3 300)	(2 170)	(5 470)
Net deferred tax assets	223 935	(19 272)	204 663
2016			
Impairment of loans and advances	161 541	(151 670)	9 871
Estimated tax losses	74 688	142 676	217 364
Fair value of financial liabilities	(13 131)	13 131	-
Revenue and expense recognition timing differences	10 691	(13 991)	(3 300)
Net deferred tax assets	233 789	(9 854)	223 935

The deferred tax asset recognised as a result of the estimated tax losses is supported by management's forecast of future taxable income to be generated over the next five years.

The company has not recognised R314.6 million (2016: R136.6 million) of the deferred tax asset that was created as a function of the change in impairments. The residual value of the asset is considered recoverable through future taxable earnings in the form of normal operating profits.

R'000	Group 31 December 2017	Group 31 December 2016	Company 31 December 2017	Company 31 December 2016
5. Investment in subsidiary				
Zenthyme Investments (Pty) Ltd				
Donated shares at cost	-	-	-	-
Fair value reserve	-	-	145 612	202 127
	-	-	145 612	202 127

Bayport Management Limited (BML) donated 100% of the issued ordinary share capital in Zenthyme Investments (Proprietary) Limited to Bayport Securitisation (RF) Limited on 4 August 2016. The decrease in the fair value reserve of R56 515 000 for the period under review is included as other comprehensive losses in the company's statement of comprehensive income.

R'000	Group 31 December 2017	Group 31 December 2016	Company 31 December 2017	Company 31 December 2016
6. Other financial assets				
Investments in insurance cells	171 501	201 364	-	-
Shares at cost	28 160	1 510	-	-
Fair value reserve	131 578	191 236	-	-
Dividends receivable from HBA	11 763	8 618	-	-
Interest rate cap	2 438	-	2 438	-
Derivative cost	8 555	-	8 555	-
Fair value through profit and loss	(6 117)	-	(6 117)	-
	173 939	201 364	2 438	-

Investments in insurance cells

The investments consist of 50 "AB" ordinary shares in Hollard Business Associates (Proprietary) Limited ("HBA") and 2 "L" ordinary shares in Guardrisk Life Limited held by Zenthyme Investments (Proprietary) Limited. An additional "L" ordinary share in Guardrisk Life Limited was acquired by Zenthyme Investments (Proprietary) Limited for R26 650 000 on 27 November 2017.

The decrease in the fair value reserve of R59 658 000 for the period under review is included as other comprehensive losses in the statement of comprehensive income. The fair value is determined in accordance with the method documented in note 21.7.

Interest rate cap

On 25 April 2017 the company purchased a two year R1 billion notional interest rate cap with a strike rate of 7.34% referenced to 3 month Jibar and a start date of 30 June 2017. A premium of R8.6 million was paid for this instrument. The fair value was determined by reference to a mark-to-market valuation provided by The Standard Bank of South Africa Limited.

R'000	Group 31 December 2017	Group 31 December 2016	Company 31 December 2017	Company 31 December 2016
7. Trade and other payables				
Trade payables and accruals	23 917	18 654	23 917	18 654
Interest payable	72 133	72 770	72 133	72 770
Value added taxation payable	-	354	-	354
Payable to Bayport Financial Services 2010 (Pty) Ltd	29 934	3 284	-	-
Payable to West Road South No. 4 (RF) (Pty) Ltd	76 411	18 966	76 411	18 966
Payable to Zenthyme Investments (Pty) Ltd	-	-	3 974	2 284
	202 395	114 028	176 435	113 028
8. Interest bearing liabilities				
Debentures and loans				
Senior debt	2 094 720	2 019 850	2 094 720	2 019 850
Mezzanine debt	271 000	457 071	271 000	457 071
Junior debentures: Bayport Financial Services 2010 (Pty) Ltd	199 000	199 000	199 000	199 000
Loan from: Bayport Financial Services 2010 (Pty) Ltd	117 290	140 546	117 290	140 546
	2 682 010	2 816 467	2 682 010	2 816 467
Payable within 12 months	1 172 010	1 075 036	1 172 010	1 075 036
Payable thereafter	1 510 000	1 741 431	1 510 000	1 741 431
	2 682 010	2 816 467	2 682 010	2 816 467
Fixed rate loans	254 140	565 534	254 140	565 534
Variable rate loans	2 427 870	2 250 933	2 427 870	2 250 933
	2 682 010	2 816 467	2 682 010	2 816 467
Undrawn facility at year end	-	-	-	-

The company is not in breach or default of any provisions of the terms or conditions of the agreements governing borrowings.

The company operates in accordance with the Bayport Securitisation Programme Memorandum which stipulates how the priority of payments is to be affected.

The company has appointed Transaction Capital Recoveries as the stand-by administrator who can step into the role of manager if called to do so by the senior noteholders.

8. Interest bearing liabilities (continued)

Senior debt

Group and company

2017	Balance R'000	Interest	Maturity
Fixed rate loans	195 000	12.4% to 13.15%	30 June 2020 to 30 June 2022
Variable rate loans	1 899 720	JIBAR plus 2.5% to JIBAR plus 5.5%	3 April 2018 to 30 September 2022
	2 094 720		

2016	Balance R'000	Interest	Maturity
Fixed rate loans	460 464	10.11% to 11.78%	30 June 2017 to 3 April 2018
Variable rate loans	1 559 386	JIBAR plus 2.50% to JIBAR plus 5.10%	31 March 2017 to 30 September 2019
	2 019 850		

The following has been ceded as security for senior debt:

- Pledge and cession of the company's title and interest in loans and advances (refer note 3); and
- The bank accounts of the company (refer note 18).

Mezzanine debt

Group and company

2017	Balance R'000	Interest	Maturity
Variable rate loans	271 000	JIBAR plus 7.5% to JIBAR plus 8%	30 June 2019 to 30 September 2021
	271 000		

2016	Balance R'000	Interest	Maturity
Fixed rate loans	67 071	14.23%	31 March 2017
Variable rate loans	390 000	JIBAR plus 5.75% to JIBAR plus 8.00%	1 October 2018 to 30 September 2021
	457 071		

8. Interest bearing liabilities (continued)

Junior debentures

Group and company (2017 and 2016)

Junior debentures are made up of the following tranches:

Start date	Repayment date	Interest rate	Balance R'000
30 September 2010	2 July 2035	Prime plus 1.5%	34 000
30 September 2010	2 July 2035	17.01% per annum	13 000
30 September 2010	2 July 2035	18.69% per annum	25 000
17 May 2010	2 July 2035	Prime plus 2%	27 000
16 April 2010	2 July 2035	Jibar plus 7.12%	50 000
16 April 2010	2 July 2035	Prime plus 1.5%	50 000
			199 000

Loan from Bayport Financial Services 2010 (Proprietary) Limited

As at 31 December 2017, R96.2 million (2016: R141 million) of the Bayport Financial Services 2010 (Proprietary) Limited loan is interest bearing. There are no fixed repayment terms.

	Group		Company	
R'000	31 December 2017	31 December 2016	31 December 2017	31 December 2016

9. Share capital and share premium

Authorised share capital

100 non-redeemable preference shares of R1 each	0.1	0.1	0.1	0.1
45 ordinary shares of R20 each	0.9	0.9	0.9	0.9
	1.0	1.0	1.0	1.0

Issued share capital

100 non-redeemable preference shares of R1 each	0.1	0.1	0.1	0.1
25 ordinary shares of R20 each	0.5	0.5	0.5	0.5

Share premium

Share premium on buy-back and re-issue of 1 preference share	1 300 000.0	1 300 000.0	1 300 000.0	1 300 000.0
	1 300 000.6	1 300 000.6	1 300 000.6	1 300 000.6

On 1 August 2016 Bayport Securitisation (RF) Limited repurchased 1 preference share for the issue price of R1. The company issued 1 preference share for R1 plus share premium of R1,299,999,999 on the same date.

R'000	Group 31 December 2017	Group 31 December 2016	Company 31 December 2017	Company 31 December 2016
10. Net interest income				
Interest and other similar income is earned from:				
Cash	42 111	38 620	42 111	38 620
Loans and advances	793 813	953 640	793 813	953 640
Service fees	54 491	52 916	54 491	52 916
	890 415	1 045 176	890 415	1 045 176
Interest and other similar expenses are paid on:				
Interest bearing liabilities	315 784	363 367	315 784	363 367
	315 784	363 367	315 784	363 367
Interest and other similar income	890 415	1 045 176	890 415	1 045 176
Interest and other similar expense	(315 784)	(363 367)	(315 784)	(363 367)
	574 631	681 809	574 631	681 809
11. Non-interest revenue				
Dividends received from:				
- Zenthyme Investments (Pty) Ltd	-	-	100 500	691 252
- Hollard Business Associates (HBA)*	16 317	14 218	-	-
- Guardrisk Life Limited	87 328	-	-	-
Cellular subscription income	1 971	5 130	1 971	5 130
Legal collection recoveries	7 487	6 134	7 487	6 134
	113 103	25 482	109 958	702 516

* With effect from 4 August 2016 the HBA insurance cell owned by the newly acquired Zenthyme Investments (Pty) Ltd ("Zenthyme") subsidiary was moved under the control of Bayport Securitisation (RF) Ltd. During the period 1 January 2016 to 3 August 2016 dividends of R60.3 million were declared by HBA into Zenthyme. These dividends are pre-acquisition transactions and are therefore not reflected as non-interest revenue of the group during 2016. Dividends declared by HBA into Zenthyme during the period 4 August 2016 to 31 December 2016 amounted to R14.2 million and are reflected as non–interest revenue of the group.

R'000	Group 31 December 2017	Group 31 December 2016	Company 31 December 2017	Company 31 December 2016
12. Direct costs				
Transactional costs	137	145	135	145
Funding and listing fees	1 952	1 186	1 952	1 186
Legal collection costs	1	851	1	851
	2 090	2 182	2 088	2 182
13. Indirect costs				
Management fees	208 573	282 171	208 573	282 171
VAT disallowed	26 325	35 849	26 325	35 849
Directors fees	207	192	207	192
Compliance costs	388	149	388	149
Consulting fees	571	2 367	571	2 359
Write-down of interest rate cap to fair value	6 117	-	6 117	-
	242 181	320 728	242 181	320 720
14. Income tax expense				
South African normal taxation:				
Current taxation	-	-	-	-
Deferred taxation	(19 272)	(9 854)	(19 272)	(9 854)
Current year	(19 272)	(9 854)	(19 272)	(9 854)
Prior year	-	-	-	-
	(19 272)	(9 854)	(19 272)	(9 854)
Tax rate reconciliation:				
South African corporate tax rate	28%	28%	28%	28%
Dividends received not taxable	(17%)	7%	(17%)	(31%)
Other exempt income	-	1%	-	-
Expenses not deductible	1%	(53%)	1%	5%
Effective tax rate	12%	(17%)	12%	2%

R'000	Group 31 December 2017	Group 31 December 2016	Company 31 December 2017	Company 31 December 2016
15. Cash generated by operations				
Profit / (loss) before tax	167 208	(60 827)	164 065	616 215
Write-down of interest rate cap to fair value	6 117	-	6 117	-
Movement in allowance for impairment	36 782	462 310	36 782	462 310
Dividends received	(103 645)	(14 218)	(100 500)	(691 252)
	106 462	387 265	106 464	387 273
16. Income taxes (received) / paid				
Amounts receivable at beginning of the year	(1)	-	-	-
Charged in the statement of comprehensive income	-	-	-	-
Amounts receivable at end of the year	-	1	-	-
	(1)	1	-	-
17. Dividends received				
Amounts receivable at beginning of the year	8 618	11 874	-	-
Dividends received for the year	103 645	14 218	100 500	691 252
Amounts receivable at end of the year	(11 763)	(8 618)	-	-
	100 500	17 474	100 500	691 252
18. Cash				
Bank balances	744 026	682 271	743 955	680 509
	744 026	682 271	743 955	680 509

At 31 December 2017 bank balances carry interest at rates ranging from 4.25% to 7.85% (2016: 4.50% to 8.21%) per annum. There are no overdraft facilities on any of the bank accounts. Bank balances are ceded as security for interest bearing liabilities issued by the company (refer note 8).

In terms of the Bayport Securitisation Programme Memorandum, R72 million of cash is held as a capital redemption reserve and R250 million of cash is held as a liquidity reserve as at 31 December 2017.

R'000	Group 31 December 2017	Group 31 December 2016	Company 31 December 2017	Company 31 December 2016
19. Related parties				
Relationships				
Company which exercises control and provides management services: Bayport Financial Services 2010 (Proprietary) Limited				
Related party balances				
Junior debentures issued to Bayport Financial Services 2010 (Proprietary) Limited (refer note 8)	199 000	199 000	199 000	199 000
Loan from Bayport Financial Services 2010 (Proprietary) Limited	117 291	140 546	117 291	140 546
Payable to Bayport Financial Services 2010 (Proprietary) Limited	29 934	3 284	-	-
Payable to West Road South No. 4 (RF) (Pty) Ltd	76 411	18 966	76 411	18 966
Payable to Zenthyme Investments (Proprietary) Limited	-	-	3 974	2 284
Related party transactions				
Interest expense on junior debentures: Bayport Financial Services 2010 (Proprietary) Limited	27 188	27 448	27 188	27 448
Interest expense on loan: Bayport Financial Services 2010 (Proprietary) Limited	16 324	54 105	16 324	54 105
Management fee expense: Bayport Financial Services 2010 (Proprietary) Limited	208 573	282 171	208 573	282 171
Dividends received: Zenthyme Investments (Proprietary) Limited	-	-	100 500	691 252

R'000	Opening balance IAS 39 2016	IFRS 9 initial application	Opening balance IFRS 9 2016	Changes to categorisation	
				IAS 39	IFRS 9
20. IFRS 9 transitional adjustments					
Group and company					
Assets					
Cash	564 001	-	564 001		
Trade and other receivables	6 329	-	6 329		
Loans and advances	3 446 700	(622 377)	2 824 323		
- Gross loans and advances	4 889 170	422 023	5 311 193		
- Allowance for impairment	(1 922 400)	(564 470)	(2 486 870)		
- Carrying value of written-off book	479 930	(479 930)	-		
Deferred tax asset	233 789	-	233 789		
Investment in subsidiaries	-	-	-		
Other investments	-	-	-	Available-for-sale	Fair value through OCI
Total assets	4 250 819	(622 377)	3 628 442		
Liabilities					
Trade and other payables	15 640	-	15 640		
Interest bearing liabilities	5 053 133	-	5 053 133		
Total liabilities	5 068 773	-	5 068 773		
Equity					
Share capital and share premium	1	-	1		
Accumulated deficit	(817 955)	(622 377)	(1 440 332)		
Available for sale reserve	-	-	-		
Deficit attributable to the owners of the company	(817 954)	(622 377)	(1 440 331)		
Total deficit	(817 954)	(622 377)	(1 440 331)		
Total deficit and liabilities	4 250 819	(622 377)	3 628 442		

21. Financial risk management and governance

The board of directors of the company is ultimately responsible for financial risk management and governance. The day-to-day management of the company is the responsibility of Bayport Financial Services 2010 (Proprietary) Limited (BFS 2010) through the authority granted by the board of the company by way of the management agreement between the company and BFS 2010. The shareholder has constituted an audit committee which comprises three independent non-executive directors and meets bi-annually. Invitees to the audit committee meetings include the external auditors, the internal auditors as well as representatives of BFS 2010 and Bayport Management Limited (BML), the parent company of BFS 2010.

The audit committee assists the board with:

- combined assurance;
- internal audit;
- external audit; and
- governance.

21.1 Credit risk

21.1.1 Credit risk management and measurement

Bayport Financial Services 2010 (Proprietary) Limited (BFS 2010) has constituted a credit committee. The credit committee is the ultimate custodian of the credit policy which governs the terms and conditions under which a credit application will be processed, assessed, approved or declined and ensures that the credit decision is at all times within the ambit and scope of the credit granting criteria that form part of the Domestic Medium Term Note (DMTN) programme memorandum. Adherence to the BFS 2010 credit policy, credit granting criteria and decisions taken by the credit committee are reported to the board on a quarterly basis.

The credit policy is designed to ensure that the credit process is efficient for the applicant while also providing the company with the necessary details to make an informed credit decision. A three stage approach to credit advancement is applied:

- assessing basic credit criteria;
- scoring the individual against a proprietary scorecard; and
- verifying details and performing an affordability check.

The company manages its exposure to credit losses by monitoring the credit granting criteria applied by BFS 2010. These criteria include assessing the affordability, risk profile and employment stability of prospective clients. Impairments are monitored and provided for using statistical techniques including experiential and behavioural models. These models are based on customers' financial performance information and assume that recent performance is a strong indicator of future performance. Models are either developed internally or by expert external advisors.

21. Financial risk management and governance (continued)

21.1 Credit risk (continued)

21.1.1 Credit risk management and measurement (continued)

The inputs, assumptions and techniques used for estimating impairment are summarised below:

Definition of default

An exposure will have defaulted once it is more than 90 days past due. This aligns to CD4 and above and/or CCD4 and above. Default is an indicator that an exposure has become credit-impaired.

Incorporation of forward-looking information

Testing has been performed using forward-looking economic data against the likelihood of default as well as the loss rates over time. The PD has been adjusted for forward looking information, however the results were inconclusive for the loss rates.

Measurement of expected credit losses (ECL)

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD);
- Effective interest rate (EIR);
- PD lifetime; and
- LGD lifetime.

These parameters have been derived by utilising internal historical data. The PD has been adjusted to reflect forward-looking information as described above.

PD parameters are estimated, at a point in time, using internal historical default data and industry standard statistical models. Both performing and non-performing exposures are considered in the PD calculation, where the PD model tracks the default behavior of performing accounts over the remaining life of the loan. For Stage 1 account this is limited to a 12 month period.

LGD is the magnitude of the likely loss upon default. The group estimates LGD parameters based on the expected future recoveries over the remaining lifetime of a defaulted account. The LGD models are segmented by the collection strategy (i.e early stage, late stage , EAO etc.) and the contractual and cured contractual delinquency (which is indicative of the age of the default). They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure at the point of default. The EAD is estimated, using internal historical default data, as the outstanding balance at the point of default divided by the outstanding balance in the observation month. Only loans that default will be considered in the estimation of the EAD. As such, the EAD allows for amortisation of the loan as well as potential future amounts that may be drawn under the contract. This is estimated both over the next 12 months (12 month ECL), and over the lifetime (Lifetime ECL).

21. Financial risk management and governance (continued)

21.1 Credit risk (continued)

21.1.1 Credit risk management and measurement (continued)

Measurement of expected credit losses (ECL) (continued)

As described above, Stage 1 financial assets, are measured under a 12 month ECL which considers the likelihood of default within the next 12 months, the expected balance drawdown at this default point and, considering the expected losses during default. For financial assets that have shown an increase in credit risk, the group measures ECL considering the risk of default over the lifetime / behavioural period (including any borrower's extension options, representing the period the account is exposed to risk) as well as balance at this point with the associated expected loss. This lifetime is used, even if, for risk management purposes, the group considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Number of months on book;
- Collection strategy; and
- Contractual and cured contractual delinquency location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogenous.

Generating the term structure of PD

The PD (probability of default) is the probability that an account enters default at some point in the future, where default is defined as CD4+ and CCD4+. The PD term structure introduces a timing (ageing) element to the PD, where the term structure (life of the loan) is broken down into the annualised periods.

Significant increase in credit risk

Both quantitative as well as qualitative indicators of significant increases in credit risk have been considered.

Quantitative factors

The credit risk of exposures will be considered to have increased significantly (ie items are classified as stage 2) when an exposure is categorised in the following CD buckets:

- CD 1 to CD 3; and
- CCD 1 to CCD 3.

Qualitative factors

- Testing has been performed using bureau data as well as past delinquency, however the results have been inconclusive.
- If behavioural or other relevant data becomes available and proves to provide conclusive results, it will be considered for inclusion in staging criteria.

Within the current industry a missed payment is the leading indicator of a significant increase in credit risk.

21. Financial risk management and governance (continued)

21.1 Credit risk (continued)

21.1.1 Credit risk management and measurement (continued)

Modified financial assets

Bayport modifies loans in the following instances:

- Debt review – court order;
- Emolument attachment orders (EAOs); and
- Administration orders.

At times, customers may miss instalments or make only a partial instalment. The remaining unpaid amount will be considered as being in arrears and will continue to incur interest until paid. Even though this results in an 'extended term' or a 'decreased instalment', this is not viewed as a modification as Bayport is still contractually entitled to receive the full instalment amount and is entitled to have the loan settled within the original term. Such a scenario is anticipated by Bayport's loan contract (clause 5) and is therefore not a modification of the contractual terms.

When modifications take place, Bayport will perform a quantitative and qualitative evaluation of whether the cash flows of the original loan has been substantially modified.

Quantitative evaluation

Bayport will determine whether the terms are substantially modified by using the loan's original effective interest rate to determine:

- the present value of the loan's future cash flows, based on the expected cashflows of the modified loan; and
- the present value of the loan's expected future cash flows under the original loan.

These two values will then be compared to each other. If the difference is greater than 10%, the modification will be considered substantial.

If the difference is less than 10%, this modification will not be substantial from a quantitative perspective.

Qualitative evaluation

Qualitatively factors need to be considered to determine if the modification is substantial. Examples of such factors would include:

- Bayport's intention for modifying the contract
- Bayport modified the contract due to the customer's credit risk which has increased due to retrenchment etc; or
- Bayport modified the contract for a strategic business reason such as in order to be competitive in the market.

If the modification is not substantive from a quantitative and qualitative perspective, it will be considered to be a non-substantial modification.

21. Financial risk management and governance (continued)

21.1 Credit risk (continued)

21.1.2 Financial assets subject to credit risk

Financial assets consist of:

	Group		Company	
R'000	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
Cash	744 026	682 271	743 955	680 509
Trade and other receivables	11 895	2 951	11 895	2 951
Loans and advances	2 506 317	2 488 130	2 506 317	2 488 130
Investment in subsidiaries	-	-	145 612	202 127
Other financial assets	173 939	201 364	2 438	-
	3 436 177	3 374 716	3 410 217	3 373 717

21. Financial risk management and governance (continued)

21.1 Credit risk (continued)

21.1.2 Financial assets subject to credit risk (continued)

The maximum exposure of financial assets to credit risk is analysed as follows:

Group

R'000	Fair value through other comprehensive income	Fair value through profit and loss	Financial assets at amortised cost	Total
31 December 2017				
Neither past due nor impaired	171 501	2 438	2 048 973	2 222 912
Past due but not impaired	-	-	528 446	528 446
Impaired	-	-	3 670 781	3 670 781
Total	171 501	2 438	6 248 200	6 422 139
Impairments:	-	-	(2 985 962)	(2 985 962)
Performing loans	-	-	(288 312)	(288 312)
Non-performing loans	-	-	(2 697 650)	(2 697 650)
Carrying value of financial assets	171 501	2 438	3 262 238	3 436 177
31 December 2016				
Neither past due nor impaired	201 364	-	1 876 733	2 078 097
Past due but not impaired	-	-	679 678	679 678
Impaired	-	-	3 566 121	3 566 121
Total	201 364	-	6 122 532	6 323 896
Impairments:	-	-	(2 949 180)	(2 949 180)
Performing loans	-	-	(394 699)	(394 699)
Non-performing loans	-	-	(2 554 481)	(2 554 481)
Carrying value of financial assets	201 364	-	3 173 352	3 374 716

21. Financial risk management and governance (continued)

21.1 Credit risk (continued)

21.1.2 Financial assets subject to credit risk (continued)

The maximum exposure of financial assets to credit risk is analysed as follows:

Company

R'000	Fair value through other comprehensive income	Fair value through profit and loss	Financial assets at amortised cost	Total
31 December 2017				
Neither past due nor impaired	145 612	2 438	2 048 902	2 196 952
Past due but not impaired	-	-	528 446	528 446
Impaired	-	-	3 670 781	3 670 781
Total	145 612	2 438	6 248 129	6 396 179
Impairments:	-	-	(2 985 962)	(2 985 962)
Performing loans	-	-	(288 312)	(288 312)
Non-performing loans	-	-	(2 697 650)	(2 697 650)
Carrying value of financial assets	145 612	2 438	3 262 167	3 410 217
31 December 2016				
Neither past due nor impaired	202 127	-	1 874 971	2 077 098
Past due but not impaired	-	-	679 678	679 678
Impaired	-	-	3 566 121	3 566 121
Total	202 127	-	6 120 770	6 322 897
Impairments:	-	-	(2 949 180)	(2 949 180)
Performing loans	-	-	(394 699)	(394 699)
Non-performing loans	-	-	(2 554 481)	(2 554 481)
Carrying value of financial assets	202 127	-	3 171 590	3 373 717

21. Financial risk management and governance (continued)

21.1 Credit risk (continued)

21.1.3 Financial assets that are past due but not impaired

These are assets where contractual interest or principal payments are past due, but the company believes that impairment is not appropriate. Recent payment history is a key consideration in determining whether an asset is impaired. The age of loans and advances to customers and other assets that are past due but not impaired is as follows:

R'000	Past due 1 month	Past due 1 to 2 months	Past due 2 to 3 months	Past due 3 to 4 months	Past due greater than 4 months	Total
2017						
Group and company						
Loans and advances	-	99 495	59 895	58 571	310 485	528 446
	-	99 495	59 895	58 571	310 485	528 446
2016						
Group and company						
Loans and advances	-	89 825	63 793	58 740	467 320	679 678
	-	89 825	63 793	58 740	467 320	679 678

21.1.4 Financial assets at amortised cost that are neither past due nor impaired

	Group		Company	
R'000	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Credit risk				
Low	691 885	594 729	691 885	594 729
Medium	576 690	568 582	576 690	568 582
High	24 477	28 200	24 477	28 200
Loans and advances	1 293 052	1 191 511	1 293 052	1 191 511
Cash	744 026	682 271	743 955	680 509
Trade and other receivables	11 895	2 951	11 895	2 951
Neither past due nor impaired	2 048 973	1 876 733	2 048 902	1 874 971

The credit risk segments for loans and advances have been determined by reference to both the scoring at application and behavioural performance.

21. Financial risk management and governance (continued)

21.1.5 Impairment provision reconciliation

Loans and advances impairment provision R'000	12 month expected credit losses	Lifetime expected credit losses	Credit impaired financial assets	Total
Group and company				
2017				
Opening balance	156 896	237 803	2 554 482	2 949 181
Originations	94 122	76 553	124 615	295 290
Existing book movements	(77 141)	(105 584)	554 606	371 881
Write-offs	-	(19 299)	(452 464)	(471 763)
Derecognition (settlements in the ordinary course of business)	(58 247)	(16 790)	(83 590)	(158 627)
Closing balance	115 630	172 683	2 697 649	2 985 962
2016				
Opening balance under IAS39	42 814	247 139	1 632 447	1 922 400
Transition to expected loss model	128 001	51 069	385 400	564 470
Revised opening balance under IFRS 9	170 815	298 208	2 017 847	2 486 870
Originations	87 560	69 047	116 788	273 395
Existing book movements	(51 453)	(82 423)	905 156	771 280
Write-offs	-	(20 984)	(415 066)	(436 050)
Derecognition (settlements in the ordinary course of business)	(50 026)	(26 046)	(70 243)	(146 315)
Closing balance	156 896	237 802	2 554 482	2 949 180

21.1.7 Cash

The group limits its counterparty exposure arising from money market instruments by dealing only with well-established financial institutions of high credit standing.

The group's policy is to maintain cash and short-term investments with various financial institutions to limit its exposure to any one financial institution. Deposits are placed only with South African banks and limited financial institutions. At the date of the statement of financial position, the group did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

21. Financial risk management and governance (continued)

21.2 Interest rate risk

Interest rate risk is the risk of loss arising from the fair value of future cash flows of a financial instrument because of changes in market interest rates.

The company is exposed to interest rate risk as it borrows and places funds. This risk is managed by utilising an appropriate mix of fixed and variable rate borrowings and by placing funds on short term deposit.

The company has exposure to the effects of fluctuations in the prevailing levels of market interest rates on both the value of interest sensitive assets and liabilities and cash flows. The table below summarises the exposure to interest rate risk through grouping liabilities and assets into repricing categories, determined to be the earlier of contractual repricing date or maturity.

21.2.1 Risk profile of interest bearing liabilities and assets

R'000	Variable rate liabilities	Fixed rate liabilities	Variable rate assets	Fixed rate assets	Net assets / (liabilities)
Group					
2017					
Secured borrowing / unsecured lending	(2 427 870)	(254 140)	744 026	2 506 317	568 333
	(2 427 870)	(254 140)	744 026	2 506 317	568 333
2016					
Secured borrowing / unsecured lending	(2 250 933)	(565 534)	682 271	2 488 130	353 934
	(2 250 933)	(565 534)	682 271	2 488 130	353 934
Company					
2017					
Secured borrowing / unsecured lending	(2 427 870)	(254 140)	743 955	2 506 317	568 262
	(2 427 870)	(254 140)	743 955	2 506 317	568 262
2016					
Secured borrowing / unsecured lending	(2 250 933)	(565 534)	680 509	2 488 130	352 172
	(2 250 933)	(565 534)	680 509	2 488 130	352 172

21. Financial risk management and governance (continued)

21.2 Interest rate risk (continued)

21.2.2 Weighted average interest rates are as follows:	**Bank balances**	**Borrowings**
Group and company		
2017		
Interest bearing assets / (liabilities)	6.3%	(12.2%)
2016		
Interest bearing assets / (liabilities)	7.1%	(11.2%)

21. Financial risk management and governance (continued)

21.2 Interest rate risk (continued)

21.2.3 Sensitivity analysis

The group's exposures to various financial risks are set out below:

Group R'000	Fair value	Effect on profit before tax of 1% change in rates	Total carrying value of asset / liability class
31 December 2017			
Assets			
Cash	744 026	7 440	744 026
Trade and other receivables	11 895	-	11 895
Loans and advances	2 506 317	-	2 506 317
Other financial assets	173 939	-	173 939
	3 436 177	7 440	3 436 177
Liabilities			
Trade and other payables	202 395	-	202 395
Interest bearing borrowings	2 682 010	14 279	2 682 010
- Variable rate borrowings	2 427 870	14 279*	2 427 870
- Fixed rate borrowings	254 140	-	254 140
	2 884 405	14 279	2 884 405
31 December 2016			
Assets			
Cash	682 271	6 823	682 271
Trade and other receivables	2 951	-	2 951
Loans and advances	2 488 130	-	2 488 130
Other financial assets	201 364	-	201 364
	3 374 716	6 823	3 374 716
Liabilities			
Trade and other payables	114 028	-	114 028
Interest bearing borrowings	2 816 467	20 859	2 816 467
- Variable rate borrowings	2 250 933	20 859	2 085 933
- Fixed rate borrowings	565 534	-	730 534
	2 930 495	20 859	2 930 495

* Effect calculated after deducting R1 billion interest rate cap – refer note 6.

21. Financial risk management and governance (continued)

21.2 Interest rate risk (continued)

21.2.3 Sensitivity analysis (continued)

The company's exposures to various financial risks are set out below:

Company R'000	Fair value	Effect on profit before tax of 1% change in rates	Total carrying value of asset / liability class
31 December 2017			
Assets			
Cash	743 955	7 440	743 955
Trade and other receivables	11 895	-	11 895
Loans and advances	2 506 317	-	2 506 317
Investment in subsidiaries	145 612	-	145 612
Other financial assets	2 438	-	2 438
	3 410 217	7 440	3 410 217
Liabilities			
Trade and other payables	176 435	-	176 435
Interest bearing borrowings	2 682 010	14 279	2 682 010
- Variable	2 427 870	14 279*	2 427 870
- Fixed	254 140	-	254 140
	2 858 445	14 279	2 858 445
31 December 2016			
Assets			
Cash	680 509	6 805	680 509
Trade and other receivables	2 951	-	2 951
Loans and advances	2 488 130	-	2 488 130
Other financial assets	202 127	-	202 127
	3 373 717	6 805	3 373 717
Liabilities			
Trade and other payables	113 028	-	113 028
Interest bearing borrowings	2 816 467	20 859	2 816 467
- Variable	2 250 933	20 859	2 085 933
- Fixed	565 534	-	730 534
	2 929 495	20 859	2 929 495

* Effect calculated after deducting R1 billion interest rate cap – refer note 6.

21. Financial risk management and governance (continued)

21.3 Liquidity risk management

Liquidity risk is the risk that the company is unable to meet payment obligations when they fall due or that insufficient funds are available to meet loan demands in the ordinary course of business. The company's objectives in relation to liquidity risk management are to manage the contractual mismatch between cash inflows from assets and cash outflows to liabilities, to fund the expected statement of financial position growth, to honour all cash outflow commitments, to avoid raising funds at market premiums or through the forced sale of assets as a result of liquidity pressure, and to take advantage of attractive but unanticipated borrowing opportunities.

The board of directors is ultimately responsible for the management of liquidity risk and to this end makes use of the asset and liability committee (ALCO) of Bayport Financial Services 2010 (Proprietary) Limited. The monitoring and reporting of liquidity risk takes the form of, as a minimum, cash flow projections, an analysis of the company's borrowing facilities and utilisation thereof, borrowing facilities under discussion, maturity profile and concentration of liability by counterparty, asset maturities and borrowing facility obligations and special conditions.

Bayport Management Limited's Capital Markets (CM) team is responsible for executing on fund raising mandates given to it by the company. This includes the on-going assessment and evaluation of various funding sources designed to grow and diversify the company's funding base in order to achieve an optimal funding profile and sound liquidity risk management. The CM team assists with the on-going monitoring of asset portfolio performance and its impact on borrowing covenants.

The company manages its daily cash flow requirements to ensure funding covenants are maintained within acceptable risk tolerances and to produce financial projections to monitor the impact of business trends in order to notify the CM team of any changes to the business environment that may impact funding requirements.

The table below analyses financial liabilities at the statement of financial position date by contractual maturity dates. The amounts disclosed in the table are the expected undiscounted cash flows.

R'000	0 to 3 months	4 to 12 months	> 12 months	Total
Group				
2017				
Trade and other payables	202 395	-	-	202 395
Interest bearing liabilities	401 862	889 392	1 540 517	2 831 771
Cash flows from financial liabilities	604 257	889 392	1 540 517	3 034 166
2016				
Trade and other payables	114 028	-	-	114 028
Interest bearing liabilities	614 170	717 953	2 351 323	3 683 446
Cash flows from financial liabilities	728 198	717 953	2 351 323	3 797 474

21. Financial risk management and governance (continued)

21.3 Liquidity risk management (continued)

R'000	0 to 3 months	4 to 12 months	> 12 months	Total
Company				
2017				
Trade and other payables	176 435	-	-	176 435
Interest bearing liabilities	401 862	889 392	1 540 517	2 831 771
Cash flows from financial liabilities	578 297	889 392	1 540 517	3 008 206
2016				
Trade and other payables	113 028	-	-	113 028
Interest bearing liabilities	614 170	717 953	2 351 323	3 683 446
Cash flows from financial liabilities	727 198	717 953	2 351 323	3 796 474

21.4 Capital management

The objective of the company's capital management strategy is to maximise shareholder value whilst maintaining a strong capital base so as to retain investor and creditor confidence and to sustain future growth of the businesses of the company. To achieve this, the company considers the capital required to support growth, maintain credit ratings and to comply with debt covenants.

The company defines capital as equity and loans from Bayport Financial Services 2010 (Proprietary) Limited.

The board of directors monitors the cost of capital, which is defined as the weighted average cost of capital, taking into account the company's internally calculated cost of equity (shareholder funding) and long term cost of debt assumptions.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound equity position.

21. Financial risk management and governance (continued)

21.5 Categorisation – statement of financial position

Group – 31 December 2017

R'000	Fair value through other comprehensive income	Fair value through profit and loss	Financial assets carried at amortised cost	Non-financial assets	Total
Assets					
Cash	-	-	744 026	-	744 026
Trade and other receivables	-	-	7 029	4 866	11 895
Loans and advances	-	-	2 506 317	-	2 506 317
Deferred tax assets	-	-	-	204 663	204 663
Other financial assets	171 501	2 438	-	-	173 939
	171 501	2 438	3 257 372	209 529	3 640 840

R'000	Financial liabilities carried at amortised cost	Non-financial liabilities / equity	Total
Equity and liabilities			
Trade and other payables	202 395	-	202 395
Interest bearing liabilities	2 682 010	-	2 682 010
Shareholder's surplus	-	756 435	756 435
	2 884 405	756 435	3 640 840

Group – 31 December 2016

R'000	Fair value through other comprehensive income	Fair value through profit and loss	Financial assets carried at amortised cost	Non-financial assets	Total
Assets					
Cash	-	-	682 271	-	682 271
Tax receivable	-	-	-	1	1
Trade and other receivables	-	-	15	2 936	2 951
Loans and advances	-	-	2 488 130	-	2 488 130
Deferred tax assets	-	-	-	223 935	223 935
Other investments	191 236	-	10 128	-	201 364
	191 236	-	3 180 544	226 872	3 598 652

R'000	Financial liabilities carried at amortised cost	Non-financial liabilities / equity	Total
Equity and liabilities			
Trade and other payables	113 674	354	114 028
Interest bearing liabilities	2 816 467	-	2 816 467
Shareholder's surplus	-	668 157	668 157
	2 930 141	668 511	3 598 652

21. Financial risk management and governance (continued)

21.5 Categorisation – statement of financial position (continued)

Company - 31 December 2017

R'000	Fair value through other comprehensive income	Fair value through profit and loss	Financial assets carried at amortised cost	Non-financial assets	Total
Assets					
Cash	-	-	743 955	-	743 955
Trade and other receivables	-	-	7 029	4 866	11 895
Loans and advances	-	-	2 506 317	-	2 506 317
Deferred tax assets	-	-	-	204 663	204 663
Investment in subsidiaries	145 612	-	-	-	145 612
Other financial assets	-	2 438	-	-	2 438
	145 612	2 438	3 257 301	209 529	3 614 880

R'000	Financial liabilities carried at amortised cost	Non-financial liabilities / equity	Total
Equity and liabilities			
Trade and other payables	176 435	-	176 435
Interest bearing liabilities	2 682 010	-	2 682 010
Shareholder's surplus	-	756 435	756 435
	2 858 445	756 435	3 614 880

Company - 31 December 2016

R'000	Fair value through other comprehensive income	Fair value through profit and loss	Financial assets carried at amortised cost	Non-financial assets	Total
Assets					
Cash	-	-	680 509	-	680 509
Trade and other receivables	-	-	15	2 936	2 951
Loans and advances	-	-	2 488 130	-	2 488 130
Deferred tax assets	-	-	-	223 935	223 935
Other investments	202 127	-	-	-	202 127
	202 127	-	3 168 654	226 871	3 597 652

R'000	Financial liabilities carried at amortised cost	Non-financial liabilities / equity	Total
Equity and liabilities			
Trade and other payables	112 674	354	113 028
Interest bearing liabilities	2 816 467	-	2 816 467
Shareholder's surplus	-	668 157	668 157
	2 929 141	668 511	3 597 652

21. Financial risk management and governance (continued)

21.6 Categorisation – statement of comprehensive income

Group

R'000	Financial assets carried at amortised cost	Financial liabilities carried at amortised cost	Fair value through other comprehen -sive income	Non-financial assets and liabilities	Total
2017					
Interest income	890 415	-	-	-	890 415
Interest expense	-	(315 784)	-	-	(315 784)
Net impairment	(276 255)	-	-	-	(276 255)
Loan fee income	9 458	-	-	-	9 458
Loan fee expense	(2 090)	-	-	-	(2 090)
Dividends received	-	-	103 645	-	103 645
Indirect costs	-	-	-	(242 181)	(242 181)
Profit before tax for the year	621 528	(315 784)	103 645	(242 181)	167 208
2016					
Interest income	1 045 176	-	-	-	1 045 176
Interest expense	-	(363 367)	-	-	(363 367)
Net impairment	(445 208)	-	-	-	(445 208)
Loan fee income	11 264	-	-	-	11 264
Loan fee expense	(2 182)	-	-	-	(2 182)
Dividends received	-	-	14 218	-	14 218
Indirect costs	-	-	-	(320 728)	(320 728)
Loss before tax for the year	609 050	(363 367)	14 218	(320 728)	(60 827)

21. Financial risk management and governance (continued)

21.6 Categorisation – statement of comprehensive income (continued)

Company

R'000	Financial assets carried at amortised cost	Financial liabilities carried at amortised cost	Fair value through other comprehen -sive income	Non-financial assets and liabilities	Total
2017					
Interest income	890 415	-	-	-	890 415
Interest expense	-	(315 784)	-	-	(315 784)
Net impairment	(276 255)	-	-	-	(276 255)
Loan fee income	9 458	-	-	-	9 458
Loan fee expense	(2 088)	-	-	-	(2 088)
Dividends received	-	-	100 500	-	100 500
Indirect costs	-	-	-	(242 181)	(242 181)
Profit before tax for the year	621 530	(315 784)	100 500	(242 181)	164 065
2016					
Interest income	1 045 176	-	-	-	1 045 176
Interest expense	-	(363 367)	-	-	(363 367)
Net impairment	(445 208)	-	-	-	(445 208)
Loan fee income	11 264	-	-	-	11 264
Loan fee expense	(2 182)	-	-	-	(2 182)
Dividends received	-	-	691 252	-	691 252
Indirect costs	-	-	-	(320 720)	(320 720)
Profit before tax for the year	609 050	(363 367)	691 252	(320 720)	616 215

21. Financial risk management and governance (continued)

21.7 Level disclosures

R'000	Level 1	Level 2	Level 3	Total
Group				
2017				
Interest rate cap (note 6)	-	2 438	-	2 438
Investment in insurance cells (note 6)	-	-	171 501	171 501
Total	-	2 438	171 501	173 939
2016				
Investments in insurance cells (note 6)	-	-	201 364	201 364
Total	-	-	201 364	201 364
Company				
2017				
Interest rate cap (note 6)	-	2 438	-	2 438
Investment in Zenthyme Investments (Pty) Ltd (note 5)	-	-	145 612	145 612
Total	-	2 438	145 612	148 050
2016				
Investment in Zenthyme Investments (Pty) Ltd (note 5)	-	-	202 127	202 127
Total	-	-	202 127	202 127

21. Financial risk management and governance (continued)

21.7 Level disclosures (continued)

Reconciliation of level 2 and level 3 fair value measurements of financial assets

R'000	Interest rate cap	Investment in insurance cells	Total
Group			
2017			
Opening balance	-	201 364	201 364
Purchases	8 555	26 650	35 205
Total losses			
- in other comprehensive income	-	(59 658)	(59 658)
- in profit and loss	(6 117)	-	(6 117)
Dividends receivable	-	3 145	3 145
Closing balance	2 438	171 501	173 939
2016			
Opening balance	-	-	-
Purchases	-	1 510	1 510
Total gain in other comprehensive income	-	191 236	191 236
Dividends receivable	-	8 618	8 618
Closing balance	-	201 364	201 364

R'000	Interest rate cap	Investment in Zenthyme Investments (Pty) Ltd	Total
Company			
2017			
Opening balance	-	202 127	202 127
Purchases	8 555	-	8 555
Total losses			
- in other comprehensive income	-	(56 515)	(56 515)
- in profit and loss	(6 117)	-	(6 117)
Dividends receivable	-	-	-
Closing balance	2 438	145 612	148 050
2016			
Opening balance	-	-	-
Total gain in other comprehensive income	-	202 127	202 127
Dividends receivable	-	-	-
Closing balance	-	202 127	202 127

21. Financial risk management and governance (continued)

21.7 Level disclosures (continued)

Sensitivity analysis of valuation using unobservable inputs

As part of the group's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations. A significant parameter has been deemed to be one which may result in a change in the fair value asset or liability of more than 10%. This is demonstrated by the following sensitivity analysis which includes a reasonable range of possible outcomes:

Group - for valuation of investments in insurance cells (note 6) and
Company - for valuation of investment in Zenthyme Investments (Pty) Ltd (note 5)

31 December 2017

R'000	Significant unobservable parameters	Potential effect recorded directly in equity	
Available for sale financial asset			
- Flex 10% favourable	(i), (ii), (iii)	12 060	
Available for sale financial asset			
- Flex 10% unfavourable	(i), (ii), (iii)		11 847
		12 060	11 847

31 December 2016

R'000	Significant unobservable parameters	Potential effect recorded directly in equity	
Available for sale financial asset			
- Flex 10% favourable	(i), (ii), (iii)	10 125	
Available for sale financial asset			
- Flex 10% unfavourable	(i), (ii), (iii)		9 780
		10 125	9 780

Unobservable parameters used for flex:

i. Return on assets
ii. Risk-free yield curve
iii. Claims ratio

22. Directors' remuneration

R'000	Services to BaySec paid by BaySec	Services to other group companies		Paid to provident fund	Total
		Paid by group companies	Paid by related parties		
2017					
Bertus Korb #					
Jack Trevena	207*	203*	-	-	410*
RishendrieThanthony					
Bryan Arlow	-	-	6 597	-	6 597
	207	203	6 597	-	7 007
2016					
Bertus Korb #	-	-	-	-	-
Brendan Harmse					
Jack Trevena	192*	103*	-	-	295*
RishendrieThanthony					
Bryan Arlow	-	4 440	-	-	4 440
Christo Koch	-	1 693	-	-	1 693
David Rajak	-	2 433	-	-	2 433
	192	8 669	-	-	8 861

* Paid to TMF Corporate Services (SA) (Pty) Ltd
# Chairman

23. Subsequent events

No subsequent events that require adjustment have occurred between 31 December 2017 and the date of approval of the annual financial statements by the board of directors.