Bayport Securitisation (RF) Limited
(Registration number 2008/003557/06)

Audited annual financial statements
for the 12 months ended 31 December 2015

The annual financial statements 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 J Muller Strauss CA(SA)

General information

Country of incorporation:	South Africa
Date of incorporation:	11 February 2008
Nature of business:	Securitisation vehicle
Directors:	Brendan Harmse (chairman) Bryan Arlow Christo Koch David Rajak 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 First National Bank of South Africa Standard Bank of South Africa
Auditors:	Deloitte & Touche Chartered Accountants Registered Accountants and Auditors
Company secretary:	Alison Blanchard
Company registration:	2008/003557/06

Bayport Securitisation (RF) Limited

Annual financial statements

For the 12 months ended 31 December 2015

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 company 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 annual financial statements.

The annual financial statements are prepared in accordance with 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 company 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 company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company 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 2016 and are satisfied that the company 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 annual financial statements. The annual financial statements have been examined by the external auditors and their report is presented on pages 6 to 7.

The annual financial statements set out on pages 11 to 41, which have been prepared on the going concern basis, were approved by the board of directors on 9 March 2016 and were signed on its behalf by:

These annual financial statements were signed by Brendan Harmse on 9 March 2016. Copies of the version bearing such signature are available for inspection at the specified office of the company.

Brendan Harmse

These annual financial statements were signed by Bryan Arlow on 9 March 2016. 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 2015 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 Alison Blanchard on 9 March 2016. Copies of the version bearing such signature are available for inspection at the specified office of the company.

Alison Blanchard
Company secretary
9 March 2016

Bayport Securitisation (RF) Limited

Report of the audit committee

For the 12 months ended 31 December 2015

The audit committee presents its report for the financial period ended 31 December 2015.

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 2015, comprised Jack Trevena (chairman), Brendan Harmse 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 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; 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 company.

Internal financial controls, accounting practices and company annual financial statements

Based on the work of the company's assurance providers, nothing has come to the attention of the committee which indicates that the company'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 company 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 9 March 2016. Copies of the version bearing such signature are available for inspection at the specified office of the company.

Jack Trevena

Chairman: audit committee
9 March 2016

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF BAYPORT SECURITISATION (RF) LIMITED

We have audited the financial statements of Bayport Securitisation (RF) Limited set out on pages 11 to 41, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bayport Securitisation (RF) Limited as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 6 which indicates that Bayport Financial Services 2010 (Proprietary) Limited has subordinated R327.5 million of the interest bearing portion of the Bayport Financial Services 2010 (Proprietary) Limited loan and repayments have been back ranked behind other payments to funders of Bayport Securitisation (RF) Limited until the earlier of:

- Share capital is issued in Bayport Securitisation (RF) Limited, and / or accumulated profits rectifying the attributable equity deficit at 31 December 2014; or
- Repayment of the interest bearing funding in Bayport Financial Services 2010 (Proprietary) Limited at 31 December 2014.

R1 059 million of the interest free portion of the Bayport Financial Services 2010 (Proprietary) Limited loan has been subordinated and remains subordinated until such a time as the assets of Bayport Securitisation (RF) Limited, fairly valued exceeds its liabilities.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2015, we have read the Directors' report, the Audit committee's report and the Certificate from the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on Other Legal and Regulatory Requirements

In terms of the Independent Regulatory Board for Auditors (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 7 years.

Deloitte Touche

Deloitte & Touche
Registered Auditors
Per: Penny Binnie
Partner
11 March 2016

The directors present their report on the activities of the company for the 12 months ended 31 December 2015.

1. Main business and operations

The company is a provider of unsecured credit and operates in South Africa. The operating results and state of affairs of the company are fully set out in the attached annual financial statements.

During this reporting period the unsecured lending industry experienced a degree of stabilisation and return to normal trading patterns. This was after a period of uncertainty and volatility triggered by significant events and changes witnessed in the previous reporting period.

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.

2. Going concern (continued)

In evaluating the company'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.

- involvement and support from the shareholder;
- 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).

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 ensuing twelve months.

3. Subsequent events

No subsequent events other than those disclosed that require adjustment have occurred between 31 December 2015 and the date of the approval of the annual financial statements by the board of directors.

4. Comparative period

The company changed its financial year end from 30 September to 31 December during the prior year. The 2015 financial statements are being presented for a period of 12 months compared to 15 months for the prior period.

5. Authorised and issued ordinary and preference share capital

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

6. Dividends paid

No dividend was declared or paid to the preference shareholder during the 12 months ended 31 December 2015 (2014: R nil).

7. 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 holds 100% of the preference share capital. Bayport Financial Services 2010 (Pty) Ltd is a subsidiary of Bayport Management Limited (BML).

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 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.

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 code of corporate governance

The board of directors is committed to complying in all material respects with the principles contained in the King III Code, to the extent that they are relevant to the company.

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	Date resigned
Brendan Harmse	Chairman	31 January 2013	
Bryan Arlow	Non-executive director	27 September 2014	
Christo Koch	Independent non-executive director	8 December 2015	
David Rajak	Independent non-executive director	30 September 2015	
RishendrieThanthony	Independent non-executive director	31 January 2013	
Jack Trevena	Independent non-executive director	31 January 2013	
Stephen Williamson	Non-executive director	8 November 2010	4 May 2015
David Woollam	Independent non-executive director	13 January 2014	30 September 2015
Mark Young	Non-executive director	4 May 2015	8 December 2015

11. Auditors

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

12. Secretary

Alison Blanchard remained the company secretary for the 2015 financial year.

Bayport Securitisation (RF) Limited

Statement of financial position

For the 12 months ended 31 December 2015

R'000	Notes	31 December 2015	31 December 2014
Assets			
Cash	15	564 001	148 760
Trade and other receivables	2	6 329	20 225
Loans and advances	3	3 446 700	3 665 596
Deferred tax asset	4	233 789	217 261
Total assets		4 250 819	4 051 842
Liabilities			
Tax liabilities		-	1 357
Trade and other payables	5	15 640	15 758
Interest bearing liabilities	6	5 053 133	4 811 287
Total liabilities		5 068 773	4 828 402
Equity			
Share capital	7	1	1
Accumulated deficit		(817 955)	(776 561)
Deficit attributable to the owners of the company		(817 954)	(776 560)
Total deficit		(817 954)	(776 560)
Total deficit and liabilities		4 250 819	4 051 842

Bayport Securitisation (RF) Limited

Statement of comprehensive income

For the 12 months ended 31 December 2015

R'000	Notes	12 months to 31 December 2015	15 months to 31 December 2014
Interest and other similar income	8	1 094 700	1 784 377
Interest and other similar expense	8	(440 952)	(594 588)
Net interest income	8	653 748	1 189 789
Impairment of loans and advances	3	(465 805)	(2 102 554)
Risk adjusted net interest income		187 943	(912 765)
Non-interest revenue	9	103 956	247 865
Direct costs	10	(2 962)	(4 077)
Non interest gross profit		100 994	243 788
Indirect costs	11	(348 216)	(614 861)
Loss before tax		(59 279)	(1 283 838)
Income tax credit	12	17 885	222 895
Loss for the year / period		(41 394)	(1 060 943)
Other comprehensive income		-	-
Total comprehensive loss for the year / period		(41 394)	(1 060 943)

Bayport Securitisation (RF) Limited

Statement of changes in equity

For the 12 months ended 31 December 2015

R'000	Share capital	Retained earnings / (accumulated deficit)	Total equity / (deficit)
Balance at 30 September 2013	1	284 382	284 383
Total comprehensive income		(1 060 943)	(1 060 943)
- Loss for the period	-	(1 060 943)	(1 060 943)
Balance at 31 December 2014	1	(776 561)	(776 560)
Total comprehensive income		(41 394)	(41 394)
- Loss for the year	-	(41 394)	(41 394)
Balance at 31 December 2015	1	(817 955)	(817 954)

Bayport Securitisation (RF) Limited

Statement of cash flows

For the 12 months ended 31 December 2015

R'000	Notes	12 months to 31 December 2015	15 months to 31 December 2014
Cash flows from operating activities			
Cash generated / (utilised) by operations	13	99 099	(823 600)
Income taxes received / (paid)	14	2 714	(3 717)
Cash generated / (utilised) by operating activities before changes in operating assets and liabilities		101 813	(827 317)
Decrease in operating assets and liabilities		299 650	682 282
Decrease in gross loans and advances		57 804	540 501
Increase in funding of loans and advances		241 846	141 781
Decrease / (increase) in working capital		13 778	(11 852)
Decrease / (increase) in trade and other receivables		13 896	(6 596)
Decrease in trade and other payables		(118)	(5 256)
Net cash generated by operating activities		313 428	670 430
Net increase / (decrease) in cash for the year / period		415 241	(156 887)
Cash at beginning of the year / period		148 760	305 647
Cash at end of the year / period	15	564 001	148 760

1. Accounting policies

The annual financial statements of 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 company's annual financial statements are prepared on the historical cost basis except for certain financial instruments.

The company's statement of financial position is 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.

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 company changed its financial year end from 30 September to 31 December during the prior year. The 2015 financial statements are being presented for a period of 12 months compared to 15 months for the prior period.

The principle accounting policies are set out below:

1.1 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.

The company recognises financial assets and financial liabilities at the trade date when it becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial instruments are grouped into classes that are appropriate taking into account the characteristics and risks of those financial instruments. Classes of financial instruments have been determined by referring to the nature and extent of risks arising from the financial instruments and how these are managed.

The company generally does not reclassify financial instruments between different categories subsequent to initial recognition.

1. Accounting policies (continued)

1.1 Financial instruments (continued)

Classification

Financial assets are classified into the following categories:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; and
- available-for-sale financial assets.

Financial liabilities are classified into the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

Financial instruments at fair value through profit or loss are held for trading or designated as at fair value through profit or loss.

A financial asset or a financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling (assets) or repurchasing (liabilities) in the short term; or
- it is a part of an identified portfolio of financial assets or financial liabilities in which there is recent evidence of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets and financial liabilities other than those held for trading may be designated as at fair value through profit or loss upon initial recognition to the extent it produces more relevant information because it either:

- forms part of a group of financial assets and/or financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the company's documented risk management or investment strategy, and information about the grouping is provided internally to management on that basis; or
- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Loans and receivables

These instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets which have been classified as loans and receivables include cash, trade and other receivables, loans and advances, purchased book debts and other loans receivable.

1. Accounting policies (continued)

1.1 Financial instruments (continued)

Loans and receivables (continued)

Loans and receivables are initially recognised at fair value. Subsequently loans and receivables are carried at amortised cost using the effective interest method, less any impairment losses. 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.

The carrying amount of loans and receivables considered to be impaired is reduced through the use of an appropriate impairment methodology.

The company's advances are included in the loans and receivables category.

Monthly service fees that are integral to the effective interest rate are capitalised to the value of the loan and amortised to the statement of comprehensive income over the contractual life of the loan using the effective interest rate method. Beyond the original contractual term of the loan, the monthly servicing fee is recognised in the statement of comprehensive income as it is charged to the customer on a monthly basis.

Carrying value of the written off book

Loans and receivables that have been written-off are re-recognised as a separate portfolio at their net recoverable amount when it is probable that economic benefits relating to the portfolio are expected to flow to the company by setting-off the allowance account against the gross loan and receivable and renaming the portfolio to the 'carrying value of the written-off book'. The recoverable amount is determined by discounting the estimated future cash flows at the original effective interest rate. The estimate of the cash flows is performed on a portfolio basis as the advances exhibit similar credit characteristics.

Rehabilitated loans

Loans and receivables recorded as part of the 'carrying value of the written-off book', which get rehabilitated by subsequently having a regular repayment profile are written back on to the statement of financial position in the loans and receivables portfolio. The loans and advances are recorded on an individual account basis at the gross amount outstanding, along with the appropriate allowance account.

Impairment

The company reviews the carrying amounts of financial assets, other than those at fair value through profit or loss, on an annual basis to determine whether there is any indication that those financial instruments have become impaired using objective evidence. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

1. Accounting policies (continued)

1.1 Financial instruments (continued)

Impairment (continued)

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower is over-indebted; or
- an indication that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including;
  - adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or
  - national or local economic conditions that typically correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers or adverse changes in industry conditions that affect the borrowers in the group).

The company considers evidence of impairment for financial assets at both a specific asset and portfolio level. All individually significant financial assets are assessed for specific impairment. 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 company's grading process that considers asset type, collateral type, past due status and other relevant factors). Trade and other receivables that are not originated through the lending business are assessed specifically for impairment and not on a collective basis.

In assessing collective impairment the company uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against the financial assets.

Where the impairment loss subsequently reverses and the reversal can be related objectively to an event occurring after the impairment was recognised, the carrying amount of the financial asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in prior years. A reversal of an impairment loss is immediately recognised in profit or loss.

1. Accounting policies (continued)

1.1 Financial instruments (continued)

Impairment (continued)

Cash collected on financial assets which have been written off is recognised in profit or loss as bad debts recovered as and when the cash is received.

1.2 Revenue recognition

General policy

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

Revenue comprises fees for rendering of services to customers, and finance charges on loans.

Revenue excludes non-operating income and value added taxation.

Interest income

Interest income is recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income to the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate.

While monthly service fees are regarded as an integral part of the effective interest rate, it is not accounted for as interest income, but as non-interest revenue.

In instances where a loan is more than three months in arrears, an assessment is made regarding the recoverability of the loan or group of loans and if necessary, based on available evidence at that date, the accrual of interest from that date is suspended and not recognised in the statement of comprehensive income.

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 advances.

1.3 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. Accounting policies (continued)

1.4 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.

1.5 Taxation

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.

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 goodwill; or
- 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.

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. Accounting policies (continued)

1.6 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.

1.7 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:

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.

Impairment of financial assets

Financial assets are considered impaired only if there is objective evidence of impairment as a result of events that occurred after initial asset recognition (known as loss events) and these loss events have an adverse impact on the assets' estimated future cash flows that can be reliably measured. The estimation of impairments of financial assets is inherently uncertain and depends on many factors, including general economic conditions, structural changes within industries, changes in individual customer circumstances and other external factors such as legal requirements, regulatory specifications and governmental policy changes. Loans and receivables are stated net of identified impairments and incurred but not yet identified impairments.

Objective evidence that loans and advances may be impaired includes the following observable data:

- a breach of contract, such as a default or delinquency in interest or principal payments. In this regard instalments past due date are considered in breach of contract;
- historical loss experience of groups of financial assets with similar repayment terms; and
- data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified within the individual financial assets in the group including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that typically correlate with defaults on the particular assets in the group.

1. Accounting policies (continued)

1.7 Management estimates (continued)

Impairment of financial assets (continued)

Loans and advances are subjected to regular evaluations of the overall client risk profile and payments record in determining whether a loss event has occurred.

The historical loss experience is adjusted on the basis of observable data to remove the effects of the conditions in the historical period that do not currently exist.

The company assesses whether objective evidence of impairment exists for groups of financial assets with similar repayment terms. If there is objective evidence that an impairment loss on financial assets has been incurred, the amount of the loss is measured as the difference between the carrying amounts of the assets and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the effective interest rates.

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 in the annual financial statements.

1.8 New and amended accounting standards and interpretations

The company adopted the following accounting standards that became applicable during the current reporting period.

IFRS and title	Details of change
IFRS 7 – Financial instruments: Disclosures	Requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.

1.9 New standards or amendments issued but not yet effective

IFRS / IFRIC and title	Effective for annual periods beginning on or after:
IFRS 10 – Consolidated financial statements	1 January 2016
IFRS 12 – Disclosure of interests in other entities	1 January 2016
IFRS 14 – Regulatory deferral accounts	1 January 2016
IAS 1 – Presentation of financial statements	1 January 2016
IFRS 15 – Revenue from contracts with customers	1 January 2018
IFRS 9 – Financial instruments	1 January 2018

The impact of adopting these new standards / amendments is being assessed by management.

R'000	31 December 2015	31 December 2014
2. Trade and other receivables		
Prepayments	6 329	11 740
Value added taxation receivable	-	8 485
	6 329	20 225

The above values approximate fair values.

3. Loans and advances

Gross loans and advances	4 889 170	4 884 909
Allowance for impairment	(1 922 400)	(1 761 308)
Carrying value of written-off book	479 930	541 995
	3 446 700	3 665 596

Gross loans and advances by asset type:

Unsecured loans	4 889 170	4 884 909
	4 889 170	4 884 909

The above values approximate fair values. Loans and advances are ceded as security for interest bearing liabilities issued by the company (refer note 6).

Allowance for impairment

Balance at beginning of the year	(1 761 308)	(1 301 070)
Impairment of loans and advances	(844 603)	(2 745 042)
Utilisation of allowance for write-offs	683 511	2 284 804
Balance at end of the year	(1 922 400)	(1 761 308)

Impairment expense in profit and loss

Impairment of loans and advances	(844 603)	(2 745 042)
Bad debts recovered	112 033	54 915
Movement in valuation of written-off book	(62 065)	406 872
Write-backs from the written-off book	328 830	180 701
	(465 805)	(2 102 554)

Related credit risk exposure and enhancements:

Carrying value of loans and advances less impairment	3 446 700	3 665 596

R'000	**31 December 2015**	**31 December 2014**
3. Loans and advances (continued)		
Loans and advances past due but not impaired:		
Amounts 30 days overdue	-	163 352
Amounts 30 to 60 days overdue	-	-
Amounts 60 to 90 days overdue	-	-
Amounts 90 to 120 days overdue	-	-
Amounts in excess of 120 days overdue	-	-
	-	163 352
Allowance for impairment on loans and advances can be aged as follows:		
Amounts in current	(549 086)	(459 817)
Amounts 30 days overdue	(167 278)	(91 950)
Amounts 30 to 60 days overdue	(142 785)	(149 063)
Amounts 60 to 90 days overdue	(121 780)	(140 610)
Amounts in excess of 90 days overdue	(882 376)	(709 996)
Specific impairment	(1 863 305)	(1 551 436)
Incurred but not reported impairment on loans and advances	(59 095)	(209 872)
Total allowance for impairment	(1 922 400)	(1 761 308)
4. Deferred tax asset		
Deferred tax is presented on the statement of financial position as follows:		
Deferred tax asset	233 789	217 261
The movements during the year / period are analysed as follows:		
Deferred tax asset / (liability) at beginning of the year	217 261	(37 846)
Tax credit to the statement of comprehensive income	16 528	222 895
Prior year adjustment	-	32 212
Deferred tax asset at end of the year	233 789	217 261

4. Deferred tax asset (continued)

R'000	Opening balance	Tax (charge) / credit	Closing balance
2015			
Impairment of loans and advances	162 060	(519)	161 541
Estimated tax losses	64 597	10 091	74 688
Fair value of financial liabilities	(14 296)	1 165	(13 131)
Revenue and expense recognition timing differences	4 900	5 791	10 691
Net deferred tax asset / (liability)	217 261	16 528	233 789
2014			
Impairment of loans and advances	19 025	143 035	162 060
Estimated tax losses	-	64 597	64 597
Fair value of financial liabilities	(12 846)	(1 450)	(14 296)
Fair value of written off book	(37 407)	37 407	-
Revenue and expense recognition timing differences	(6 618)	11 518	4 900
Net deferred tax (liability) / asset	(37 846)	255 107	217 261

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 R136.6 million of the deferred tax asset that was created as a function of the change in impairments in the previous reporting period. The residual value of the asset is considered recoverable through future taxable earnings in the form of normal operating profits.

R'000	31 December 2015	31 December 2014
5. Trade and other payables		
Trade payables and accruals	14 571	15 758
Value added taxation payable	1 069	-
	15 640	15 758

Trade and other payables bear no interest.

R'000	31 December 2015	31 December 2014
6. Interest bearing liabilities		
Debentures and loans		
Senior debt	2 091 813	2 751 937
Mezzanine debt	465 504	474 232
Junior debentures:		
Bayport Financial Services 2010 (Pty) Ltd	199 000	199 000
Loan from Bayport Financial Services 2010 (Pty) Ltd	2 296 816	1 386 118
	5 053 133	4 811 287
Payable within 12 months	603 189	1 746 806
Payable thereafter	4 449 944	3 064 481
	5 053 133	4 811 287
Fixed rate loans	2 546 261	2 470 314
Variable rate loans	2 506 872	2 340 973
	5 053 133	4 811 287
Undrawn facility at year end	-	500 000

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 MBD as the stand-by administrator who can step into the role of manager if called to do so by the senior noteholders.

6. Interest bearing liabilities (continued)

Senior debt

2015	Balance R'000	Interest	Maturity
Fixed rate loans	557 680	10.11% to 12.55%	31 March 2016 to 3 April 2018
Variable rate loans	1 534 133	JIBAR plus 2.50% to JIBAR plus 5.00%	31 March 2016 to 1 April 2019
	2 091 813		

2014	Balance R'000	Interest	Maturity
Fixed rate loans	836 964	9.28% to 12.55%	31 March 2015 to 3 April 2018
Variable rate loans	1 914 973	JIBAR plus 2.00% to JIBAR plus 5.00%	30 September 2015 to 1 April 2019
	2 751 937		

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 15).

Mezzanine debt

2015	Balance R'000	Interest	Maturity
Fixed rate loans	200 504	13.92% to 15.55%	31 March 2016 to 31 March 2017
Variable rate loans	265 000	JIBAR plus 5.75% to JIBAR plus 8.00%	1 October 2018 to 30 September 2020
	465 504		

2014	Balance R'000	Interest	Maturity
Fixed rate loans	209 232	13.92% to 15.55%	31 March 2016 to 31 March 2017
Variable rate loans	265 000	JIBAR plus 5.75% to JIBAR plus 8.00%	1 October 2018 to 30 September 2020
	474 232		

6. Interest bearing liabilities (continued)

Junior debentures (2015 and 2014)

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 2015, R547 million (2014: R327 million) of the Bayport Financial Services 2010 (Pty) Ltd (BFS 2010) loan is interest bearing. The remaining R1 750 million (2014: R1 059 million) of the loan is interest free. There are no fixed repayment terms.

R327 million of the interest bearing portion of the BFS 2010 loan has been subordinated and repayments have been back ranked behind other payments to funders of BaySec until the earlier of:

- share capital issued in BaySec, and / or accumulated profits, rectify the attributable equity deficit at 31 December 2014; or
- repayment of the interest bearing funding in BFS 2010 at 31 December 2014.

R1 059 million of the interest free portion of the BFS 2010 loan has been subordinated and remains subordinated until such time as the assets of BaySec, fairly valued exceeds its liabilities.

R'000	31 December 2015	31 December 2014
7. Share capital		
Authorised		
100 non-redeemable preference shares of R1 each	0.1	0.1
45 ordinary shares of R20 each	0.9	0.9
	1.0	1.0
Issued		
100 non-redeemable preference shares of R1 each	0.1	0.1
25 ordinary shares of R20 each	0.5	0.5
	0.6	0.6

	R'000	31 December 2015	31 December 2014
8.	**Net interest income**		
	Interest and other similar income is earned from:		
	Cash	15 489	15 969
	Loans and advances	1 079 211	1 768 408
		1 094 700	1 784 377
	Interest and other similar expenses are paid on:		
	Interest bearing liabilities	440 952	594 588
		440 952	594 588
	Interest and other similar income	1 094 700	1 784 377
	Interest and other similar expense	(440 952)	(594 588)
		653 748	1 189 789
9.	**Non-interest revenue**		
	Service fees	77 872	135 993
	Cellular subscription income	16 195	82 827
	Legal collection recoveries	9 889	29 045
		103 956	247 865
10.	**Direct costs**		
	Transactional costs	63	70
	Funding and listing fees	2 257	3 581
	Legal collection costs	642	426
		2 962	4 077
11.	**Indirect costs**		
	Management fees	310 630	569 768
	VAT disallowed	37 004	44 588
	Penalties	251	-
	Directors fees	179	162
	Compliance costs	147	336
	Consulting fees	5	7
		348 216	614 861

R'000		31 December 2015	31 December 2014
12.	**Income tax credit / (expense)**		
	South African normal taxation:		
	Current taxation	1 357	(32 212)
	Current year	-	-
	Prior period / year	1 357	(32 212)
	Deferred taxation	16 528	255 107
	Current year	16 528	222 895
	Prior year	-	32 212
		17 885	222 895
	Tax rate reconciliation:		
	South African corporate tax rate	28%	28%
	Expenses not deductible	1%	-
	Deferred tax asset not recognised	-	(11%)
	Effective tax rate	29%	17%
13.	**Cash generated / (utilised) by operations**		
	Loss before tax	(59 279)	(1 283 838)
	Movement in allowance for impairment	161 092	460 238
	Write-down of tax payable	(2 714)	-
		99 099	(823 600)
14.	**Income taxes (received) / paid**		
	Amounts payable at beginning of the year	(1 357)	(27 138)
	Charged in the statement of comprehensive income	(1 357)	32 212
	Amounts payable at end of the year	-	(1 357)
		(2 714)	3 717
15.	**Cash**		
	Bank balances	564 001	148 760
		564 001	148 760

At 31 December 2015 bank balances carry interest at rates ranging from 5.65% to 7.14% 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 6).

R'000	31 December 2015	31 December 2014
16. 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 6)	199 000	199 000
Loans from Bayport Financial Services 2010 (Proprietary) Limited	2 296 816	1 386 118
Related party transactions		
Interest on junior debentures: Bayport Financial Services 2010 (Proprietary) Limited	21 773	35 256
Interest on loan: Bayport Financial Services 2010 (Proprietary) Limited	68 915	59 271
Management fee: Bayport Financial Services 2010 (Proprietary) Limited	310 630	569 768

17. 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.

17. Financial risk management and governance (continued)

17.1 Credit risk

Credit risk management and measurement

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.

The company has formulated a detailed impairment allowance policy in terms of the principles set out in IAS 39 Financial Instruments: Recognition and Measurement.

In determining the extent of impairment to be recognised, the company uses a ten year projection of expected cash flows discounted at the original effective rate. To the extent that a shorter forecast period is used, the resultant impairment would increase. Market practice is a five year forecast period. If the company moved to a five year forecast period, the impairment would increase by R144 million. The company is of the opinion that the ten year forecast is appropriate and can demonstrate cash received on loans and advances accounts post five years on book.

The company considers the point of impairment to be CD 1, being one month in arrears, and an impaired account to be cured if the customer makes three consecutive instalments of more than ninety percent of the contractual instalment.

Bayport Financial Services 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 Bayport Financial Services 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.

Instalments on credit agreements are payable monthly, fortnightly or weekly and are fully amortising with no residual payment at the end of the term.

17. Financial risk management and governance (continued)

17.1 Credit risk (continued)

17.1.1 Financial assets subject to credit risk

The maximum exposure to credit risk of financial assets at the statement of financial position is analysed as follows:

	Loans and receivables			
R'000	**Cash**	**Trade & other receivables**	**Loans & advances**	**Total**
31 December 2015				
Neither past due nor impaired	564 001	6 329	2 071 586	2 641 916
Past due but not impaired	-	-	-	-
Impaired	-	-	2 817 584	2 817 584
Total	564 001	6 329	4 889 170	5 459 500
Impairments:	-	-	(1 922 400)	(1 922 400)
Specific impairment	-	-	(1 863 305)	(1 863 305)
Incurred but not reported impairment	-	-	(59 095)	(59 095)
Carrying value of written off book	-	-	479 930	479 930
Carrying value of financial assets	564 001	6 329	3 446 700	4 017 030
31 December 2014				
Neither past due nor impaired	148 760	20 225	2 477 887	2 646 872
Past due but not impaired	-	-	163 352	163 352
Impaired	-	-	2 243 670	2 243 670
Total	148 760	20 225	4 884 909	5 053 894
Impairments:	-	-	(1 761 308)	(1 761 308)
Specific impairment	-	-	(1 551 436)	(1 551 436)
Incurred but not reported impairment	-	-	(209 872)	(209 872)
Carrying value of written off book	-	-	541 995	541 995
Carrying value of financial assets	148 760	20 225	3 665 596	3 834 581

17. Financial risk management and governance (continued)

17.1 Credit risk (continued)

17.1.2 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
2015						
Loans and advances	-	-	-	-	-	-
	-	-	-	-	-	-
2014						
Loans and advances	163 352	-	-	-	-	163 352
	163 352	-	-	-	-	163 352

17.1.3 Financial assets (loans and advances) that are neither past due nor impaired

R'000	31 December 2015	31 December 2014
Credit risk		
Low	918 932	349 024
Medium	998 429	875 929
High	154 225	1 252 934
Neither past due nor impaired	2 071 586	2 477 887

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

17.1.4 Cash

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

The company'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 company did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

17. Financial risk management and governance (continued)

17.2 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.

17.2.1 Risk profile of interest bearing liabilities and assets

R'000	Variable rate liabilities	Fixed rate liabilities	Variable rate assets	Fixed rate assets	Net liabilities
2015					
Unsecured lending	(2 506 872)	(2 546 261)	564 001	3 446 700	(1 042 432)
Total	(2 506 872)	(2 546 261)	564 001	3 446 700	(1 042 432)
2014					
Unsecured lending	(2 340 973)	(2 470 314)	148 760	3 665 596	(996 931)
Total	(2 340 973)	(2 470 314)	148 760	3 665 596	(996 931)

17.2.2 Weighted average interest rates are as follows:

	Bank balances	Borrowings
2015		
Interest bearing assets / (liabilities)	5.9%	(9.0%)
2014		
Interest bearing assets / (liabilities)	5.2%	(10.8%)

17. Financial risk management and governance (continued)

17.2 Interest rate risk (continued)

17.2.3 Sensitivity analysis

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

R'000	Fair value	Effect on profit before tax of 1% change in rates	Total carrying value of asset / liability class
31 December 2015			
Assets			
Loans and advances	3 446 700	-	3 446 700
Trade and other receivables	6 329	-	6 329
Cash	564 001	5 640	564 001
	4 017 030	5 640	4 017 030
Liabilities			
Interest bearing borrowings	5 053 133	25 069	5 053 133
- Variable	2 506 872	25 069	2 506 872
- Fixed	2 546 261	-	2 546 261
Trade and other payables	15 640	-	15 640
	5 068 773	25 069	5 068 773
31 December 2014			
Assets			
Loans and advances	3 665 596	-	3 665 596
Trade and other receivables	20 225	-	20 225
Cash	148 760	14 876	148 760
	3 834 581	14 876	3 834 581
Liabilities			
Interest bearing borrowings	4 834 033	23 637	4 811 287
- Variable	2 363 719	23 637	2 340 973
- Fixed	2 470 314	-	2 470 314
Trade and other payables	15 758	-	15 758
	4 849 791	23 637	4 827 045

17. Financial risk management and governance (continued)

17.3 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 assets and 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**
2015				
Assets				
Cash and cash equivalents	564 001	-	-	564 001
Trade and other receivables	6 329	-	-	6 329
Loans and advances	498 629	1 164 318	5 755 457	7 418 404
Cash flows from financial assets	1 068 959	1 164 318	5 755 457	7 988 734
Liabilities				
Trade and other payables	(15 640)	-	-	(15 640)
Interest bearing liabilities	(505 820)	(669 174)	(4 980 628)	(6 155 622)
Cash flows from financial liabilities	(521 460)	(669 174)	(4 980 628)	(6 171 262)
Net liquidity gap	547 499	495 144	774 829	1 817 472

17. Financial risk management and governance (continued)

17.3 Liquidity risk management (continued)

R'000	0 to 3 months	4 to 12 months	> 12 months	Total
2014				
Assets				
Cash and cash equivalents	148 760	-	-	148 760
Trade and other receivables	20 225	-	-	20 225
Loans and advances	500 009	1 084 855	4 565 349	6 150 213
Cash flows from financial assets	668 994	1 084 855	4 565 349	6 319 189
Liabilities				
Trade and other payables	(15 758)	-	-	(15 758)
Interest bearing liabilities	(319 794)	(918 533)	(4 417 837)	(5 656 164)
Cash flows from financial liabilities	(335 552)	(918 533)	(4 417 837)	(5 671 922)
Net liquidity gap	333 442	166 322	147 512	647 276

17.4 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.

17. Financial risk management and governance (continued)

17.5 Categorisation – statement of financial position

31 December 2015

R'000	Fair value through profit & loss	Loans and receivables	Non-financial assets	Total
Assets				
Cash	-	564 001	-	564 001
Trade and other receivables	-	6 329	-	6 329
Loans and advances	479 930	2 966 770	-	3 446 700
Deferred tax assets	-	-	233 789	233 789
	479 930	3 537 100	233 789	4 250 819

R'000	Financial liabilities carried at amortised cost	Non-financial liabilities / Equity	Total
Equity and liabilities			
Trade and other payables	14 571	1 069	15 640
Interest bearing liabilities	5 053 133	-	5 053 133
Shareholder's deficit	-	(817 954)	(817 954)
	5 067 704	(816 885)	4 250 819

31 December 2014

R'000	Fair value through profit & loss	Loans and receivables	Non-financial assets	Total
Assets				
Cash	-	148 760	-	148 760
Trade and other receivables	-	20 225	-	20 225
Loans and advances	541 995	3 123 601	-	3 665 596
Deferred tax assets	-	-	217 261	217 261
	541 995	3 292 586	217 261	4 051 842

R'000	Financial liabilities carried at amortised cost	Non-financial liabilities / Equity	Total
Equity and liabilities			
Trade and other payables	15 758	-	15 758
Interest bearing liabilities	4 811 287	-	4 811 287
Tax liabilities	-	1 357	1 357
Shareholder's deficit	-	(776 560)	(776 560)
	4 827 045	(775 204)	4 051 842

17. Financial risk management and governance (continued)

17.6 Categorisation – statement of comprehensive income

31 December 2015

R'000	Loans and receivables	Financial liabilities carried at amortised cost	Non-financial assets and liabilities / Equity	Total
Interest income	1 094 700	-	-	1 094 700
Interest expense	-	(440 952)	-	(440 952)
Net impairment	(465 805)	-	-	(465 805)
Loan fee income	103 956	-	-	103 956
Loan fee expense	(642)	(2 320)	-	(2 962)
Indirect costs	-	-	(348 216)	(348 216)
Loss before tax for the year	732 209	(443 272)	(348 216)	(59 279)

31 December 2014

R'000	Loans and receivables	Financial liabilities carried at amortised cost	Non-financial assets and liabilities / Equity	Total
Interest income	1 784 377	-	-	1 784 377
Interest expense	-	(594 588)	-	(594 588)
Net impairment	(2 102 554)	-	-	(2 102 554)
Loan fee income	247 865	-	-	247 865
Loan fee expense	(426)	-	(3 651)	(4 077)
Indirect costs	-	-	(614 861)	(614 861)
Loss before tax for the year	(70 738)	(594 588)	(618 512)	(1 283 838)

18. Contingencies and commitments

During August 2015, Bayport Securitisation (RF) Ltd (BaySec) was served with an application by the National Credit Regulator to the National Consumer Tribunal where it is alleged that BaySec contravened the National Credit Act. The matter was scheduled to be heard by the National Consumer Tribunal on 10 December 2015 but, at the request of the National Credit Regulator, was postponed *sine die* (i.e. without assigning a day for a further meeting or hearing).

BaySec contests the allegations and has handed the matter to its attorneys. The company has also taken independent legal advice from Senior Counsel and does not believe that the allegations will result in any financial penalties.

19. 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		
2015					
Brendan Harmse [#] Jack Trevena RishendrieThanthony	179*	-	-	-	179
Bryan Arlow	-	-	4 341	-	4 341
Christo Koch	-	-	-	-	-
David Rajak	-	-	-	-	-
Stephen Williamson	-	1 128	-	11	1 139
David Woollam	-	2 620	-	-	2 620
Mark Young	-	1 483	-	77	1 560
	179	5 231	4 341	88	9 839
2014					
Brendan Harmse [#] Jack Trevena RishendrieThanthony	162*	-	-	-	162
Bryan Arlow	-	-	733	-	733
Werner J. van Rensburg	-	322	-	24	346
Peter Katzenellenbogen	-	-	-	-	-
Stuart Stone	-	3 088	-	29	3 117
Stephen Williamson	-	4 420	-	35	4 455
David Woollam	-	2 643	-	-	2 643
	162	10 473	733	88	11 456

* Paid to TMF Corporate Services (SA) (Pty) Ltd (formerly GMG Trust Company (SA) (Pty) Ltd)
[#] Chairman

20. Subsequent events

No subsequent events that require adjustment have occurred between 31 December 2015 and the date of the approval of the annual financial statements by the board of directors.