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

Audited consolidated annual financial statements
for the 12 months ended 31 December 2016

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)

BAYPORT
SECURITISATION

Bayport Securitisation (RF) Limited

Annual financial statements

For the 12 months ended 31 December 2016

General information

Country of incorporation:	South Africa
Date of incorporation:	11 February 2008
Nature of business:	Securitisation vehicle
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 12 months ended 31 December 2016

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

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 2017 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 10.

The annual financial statements set out on pages 15 to 71, which have been prepared on the going concern basis, were approved by the board of directors on 7 June 2017 and were signed on its behalf by:

These annual financial statements were signed by Bertus Korb on 7 June 2017. 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 7 June 2017. 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 2016 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 7 June 2017. Copies of the version bearing such signature are available for inspection at the specified office of the company.

Arthur Hlubi

Company secretary
7 June 2017

Report of the audit committee

For the 12 months ended 31 December 2016

The audit committee presents its report for the financial period ended 31 December 2016.

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 2016, 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 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 7 June 2017. Copies of the version bearing such signature are available for inspection at the specified office of the company.

Jack Trevena

Chairman: audit committee
7 June 2017

Deloitte.

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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 15 to 71, which comprise the statements of financial position as at 31 December 2016, 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 2016 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.

Key Audit Matter	How our audit addressed the key audit matter
IFRS 9 Financial Instruments	
The Group early adopted IFRS 9 during the current financial year. 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/or estimation applied; - Determination of expected losses (including probability of default ('PD') , time to default and loss given default ('LGD') - Changes in credit quality - Relevance of macroeconomic factors	We involved our Financial Services Advisory and quantitative credit modelling specialists who performed as assessment of; - The modelling methodology in light of IFRS 9 - The accuracy of the model by independently recalculating the input parameters - The completeness and accuracy of the data used in the model
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.
Deferred tax asset	
There are various complexities relating to the treatment and recognition 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 annual 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 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. 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, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. 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 directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the 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 eight years.

Deloitte & Touche
Registered Auditor
Per: Penny Binnie
Partner
14 June 2017

The directors present their report on the activities of the company for the 12 months ended 31 December 2016.

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 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).

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 ensuing twelve months.

3. Subsequent events

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 interest rate cap.

4. Authorised and issued ordinary and preference share capital

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.

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

5. Dividends paid

No dividend was declared or paid to the ordinary or preference shareholders during the 12 months ended 31 December 2016 (2015: 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 holds 100% of the preference share capital. Bayport Financial Services 2010 (Pty) Ltd is a subsidiary of Bayport Management Limited (BML).

7. Donation received

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

8. Comparative period

The group was formed during 2016 when the shares in Zenthyme Investments (Proprietary) Limited were donated to Bayport Securitisation (RF) Limited and therefore no comparative group figures for 2015 have been disclosed.

9. 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.

9. Financial risk management and governance (continued)

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.

10. King code of corporate governance

The company endeavours at all times to apply the principles of the King Code of Governance Principles for SA ("King III") in such a way that these requirements are met. For the period under review the board indicated that it was satisfied with the way in which the company applied the recommendations of King III, or put alternative measures in place where necessary.

In terms of the JSE Debt Listings Requirements, the company is required to provide an explanation of which King III principles are not applied along with reasons for non-application. At 31 December 2016 the company did not apply the following principles:

Principle	**Reason for non-application**
The board should appoint the Chief Executive Officer (CEO).	The company is a ring fenced special purpose securitisation vehicle. All its services are outsourced to Bayport Financial Services 2010 (Proprietary) Limited ("BFS 2010") and the company has no employees. Therefore it is not necessary for the board to appoint a CEO.
The board of directors should delegate its functions to a risk, nomination or remuneration committee.	The company is a ring fenced special purpose securitisation vehicle. All its services are outsourced to BFS 2010 and the company has no employees. Therefore it is not necessary for the company to have a remuneration committee. All services performed by BFS 2010 are subject to BFS 2010's Risk Committee as well as other Governance Committees within BFS 2010.
Evaluations of the board should be performed every year.	An evaluation of the board will be performed in 2017.

11. 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
Bertus Korb	Chairman	31 December 2016	
Brendan Harmse	Chairman (outgoing)	31 January 2013	31 December 2016
Bryan Arlow	Non-executive director	27 September 2014	
Christo Koch	Independent non-executive director	8 December 2015	26 July 2016
David Rajak	Independent non-executive director	30 September 2015	26 July 2016
RishendrieThanthony	Independent non-executive director	31 January 2013	
Jack Trevena	Independent non-executive director	31 January 2013	

12. Auditors

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

13. 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
Alison Blanchard	30 January 2012	25 August 2016
Kiara Jansen van Vuuren	25 August 2016	1 June 2017
Arthur Hlubi	1 June 2017	

Bayport Securitisation (RF) Limited

Statement of financial position

For the 12 months ended 31 December 2016

R'000	Notes	Group 31 December 2016	Company 31 December 2016	Company 31 December 2015
Assets				
Cash	18	682 271	680 509	564 001
Tax receivable	16	1	-	-
Trade and other receivables	2	2 951	2 951	6 329
Loans and advances	3	2 488 130	2 488 130	3 446 700
Deferred tax asset	4	223 935	223 935	233 789
Investment in subsidiary	5	-	202 127	-
Other investments	6	201 364	-	-
Total assets		3 598 652	3 597 652	4 250 819
Liabilities				
Trade and other payables	7	114 028	113 028	15 640
Interest bearing liabilities	8	2 816 467	2 816 467	5 053 133
Total liabilities		2 930 495	2 929 495	5 068 773
Equity				
Share capital and share premium	9	1 300 001	1 300 001	1
Accumulated deficit		(823 080)	(833 971)	(817 955)
Fair value reserve		191 236	202 127	-
Equity / (deficit) attributable to the owners of the company		668 157	668 157	(817 954)
Total equity / (deficit)		668 157	668 157	(817 954)
Total equity / (deficit) and liabilities		3 598 652	3 597 652	4 250 819

Bayport Securitisation (RF) Limited

Statement of comprehensive income

For the 12 months ended 31 December 2016

		Group	Company	
R'000	**Notes**	**31 December 2016**	**31 December 2016**	**31 December 2015**
Interest and other similar income	10	1 045 176	1 045 176	1 094 700
Interest and other similar expense	10	(363 367)	(363 367)	(440 952)
Net interest income	10	681 809	681 809	653 748
Impairment of loans and advances	3	(445 208)	(445 208)	(465 805)
Risk adjusted net interest income		236 601	236 601	187 943
Non-interest revenue	11	25 482	702 516	103 956
Direct costs	12	(2 182)	(2 182)	(2 962)
Non interest gross profit		23 300	700 334	100 994
Indirect costs	13	(320 728)	(320 720)	(348 216)
(Loss) / profit before tax		(60 827)	616 215	(59 279)
Income tax (expense) / credit	14	(9 854)	(9 854)	17 885
(Loss) / profit for the year		(70 681)	606 361	(41 394)
Other comprehensive income*		879 169	202 127	-
Total comprehensive income / (loss) for the year		808 488	808 488	(41 394)

* Refer to statement of changes in equity on page 17.

Bayport Securitisation (RF) Limited

Statement of changes in equity

For the 12 months ended 31 December 2016

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*				
- Insurance cells at fair value[#]	-	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

Company

R'000	**Share capital**	**Fair value reserve**	**Accumulated deficit**	**Total equity / (deficit)**
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)
IFRS9 transitional arrangements			(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*				
- Fair value at donation date	-	913 577	-	913 577
- Dividends received	-	(691 252)	-	(691 252)
- Revaluation of investment	-	(20 198)	-	(20 198)
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

* 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

Statement of cash flows

For the 12 months ended 31 December 2016

R'000	Notes	Group 31 December 2016	Company 31 December 2016	Company 31 December 2015
Cash flows from operating activities				
Cash generated by operations	15	387 265	387 273	99 099
Income taxes (paid) / received	16	(1)	-	2 714
Dividends received	17	17 474	691 252	
Cash generated by operating activities before changes in operating assets and liabilities		404 738	1 078 525	101 813
(Decrease) / increase in operating assets and liabilities		(2 363 783)	(2 362 783)	299 650
(Increase) / decrease in gross loans and advances		(126 117)	(126 117)	57 804
(Decrease) / increase in funding of loans and advances		(2 237 666)	(2 236 666)	241 846
Decrease in working capital		778 238	100 766	13 778
Decrease in trade and other receivables		3 378	3 378	13 896
Increase / (decrease) in trade and other payables		774 860	97 388	(118)
Net cash (utilised) / generated by operating activities		(1 585 545)	(2 262 017)	313 428
Cash flows from investing activities				
Increase in unlisted investments		(1 000)	-	-
Cash flows from financing activities				
Issue of shares		1 300 000	1 300 000	-
Net increase in cash for the year		118 193	116 508	415 241
Cash at beginning of the year		564 078	564 001	148 760
Cash at end of the year	18	682 271	680 509	564 001

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.

No prior year comparatives are presented for the group as the group only formed during the current year as a result of the donation of the entire issued ordinary share capital in Zenthyme Investments (Proprietary) Limited to the company on 4 August 2016.

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

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2016. Accordingly the information presented for 2015 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2016 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - the determination of the business model within which a financial asset is held; and
  - the designation of certain equity instruments not held for trading as at fair value through other comprehensive income.

1.2.1 Policy prior to 1 January 2016

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.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.1 Policy prior to 1 January 2016 (continued)

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.

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.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.1 Policy prior to 1 January 2016 (continued)

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.

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.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.1 Policy prior to 1 January 2016 (continued)

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.

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.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.1 Policy prior to 1 January 2016 (continued)

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.

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.

1.2.2 Policy post 1 January 2016

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)

1.2.2 Policy post 1 January 2016 (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)

1.2.2 Policy post 1 January 2016 (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.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.2 Policy post 1 January 2016 (continued)

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.

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.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.2 Policy post 1 January 2016 (continued)

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.

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.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.2 Policy post 1 January 2016 (continued)

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.

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).

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.2 Policy post 1 January 2016 (continued)

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.

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.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.2 Policy post 1 January 2016 (continued)

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.

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.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.2 Policy post 1 January 2016 (continued)

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.

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 invoiced sales in respect of the sale of goods, fees for rendering of services to customers, collection of owned book debts and finance charges on loans.

Revenue excludes non-operating income and value added taxation.

1. Accounting policies (continued)

1.3 Revenue recognition (continued)

1.3.2 Interest income

Policy prior to 1 January 2016

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 group 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. Similarly, the group defers any related operating costs which are directly attributable to individual transactions.

While monthly services 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.

Policy post 1 January 2016

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. Accounting policies (continued)

1.3 Revenue recognition (continued)

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.

1.4 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 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.

1. Accounting policies (continued)

1.7 Taxation (continued)

1.7.2 Deferred tax (continued)

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.

1.7.3 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. Accounting policies (continued)

1.9 Management estimates (continued)

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.

1.9.3 Impairment of financial assets

Policy prior to 1 January 2016

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.

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.

1. Accounting policies (continued)

1.9 Management estimates (continued)

1.9.3 Impairment of financial assets (continued)

Policy post 1 January 2016

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 in the annual financial statements.

1.10 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 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. Accounting policies (continued)

1.11 New standards or amendments issued but not yet effective

IAS / IFRS and title	**Effective for annual periods beginning on or after:**
IAS 7: Cash flow statement	1 January 2017
IAS 12: Income taxes	1 January 2017
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 group's consolidated financial statements.

R'000	Group 31 December 2016	Company 31 December 2016	Company 31 December 2015
2. Trade and other receivables			
Prepayments	2 936	2 936	6 329
Receivable from Bayport Tutari (Pty) Ltd	15	15	-
	2 951	2 951	6 329
3. Loans and advances			
IFRS 9 impact on gross loans and advances			
Gross loans and advances opening balance	4 889 170	4 889 170	-
IFRS 9 transitional adjustment (refer note 20)	422 023	422 023	-
Revised opening balance	5 311 193	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	5 437 310	5 437 310	4 889 170
Allowance for impairment	(2 949 180)	(2 949 180)	(1 922 400)
Carrying value of written-off book	-	-	479 930
	2 488 130	2 488 130	3 446 700
Gross loans and advances by asset type			
Unsecured loans	5 437 310	5 437 310	4 889 170

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 2016	Company 31 December 2016	Company 31 December 2015
3. Loans and advances (continued)			
Allowance for impairment			
Allowance for impairment opening balance	(1 922 400)	(1 922 400)	(1 761 308)
IFRS 9 transitional adjustment (refer note 20)	(564 470)	(564 470)	-
Revised opening balance	(2 486 870)	(2 486 870)	(1 761 308)
Impairment of loans and advances	(915 253)	(915 253)	(844 603)
Utilisation of allowance for write-offs	452 943	452 943	683 511
Balance at end of the year	(2 949 180)	(2 949 180)	(1 922 400)
ECL / impairment expense in profit and loss			
ECL / Impairment of loans and advances	(915 253)	(915 253)	(844 603)
Bad debts recovered	-	-	112 033
Movement in valuation of written-off book	-	-	(62 065)
Write-backs from the written-off book	-	-	328 830
IFRS 9 revenue reallocation	470 045	470 045	-
Net ECL / impairment expense recognised in profit and loss	(445 208)	(445 208)	(465 805)
Related credit risk exposure and enhancements:			
Maximum exposure to credit losses of loans and advances	2 488 130	2 488 130	3 446 700
4. Deferred tax asset			
Deferred tax is presented on the statement of financial position as follows:			
Deferred tax asset	223 935	223 935	233 789
The movements during the year / period are analysed as follows:			
Deferred tax asset at beginning of the year	233 789	233 789	217 261
Tax (charge) / credit to the statement of comprehensive income	(9 854)	(9 854)	16 528
Deferred tax asset at end of the year	223 935	223 935	233 789

4. Deferred tax asset (continued)

Group and company

R'000	Opening balance	Tax (charge) / credit	Closing balance
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 asset / (liability)	233 789	(9 854)	223 935
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 (liability) / asset	217 261	16 528	233 789

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 2014 reporting period. 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 2016	Company 31 December 2016	Company 31 December 2015
5. Investment in subsidiary			
Zenthyme Investments (Pty) Ltd:			
Fair value at donation date	-	913 577	-
Dividends received from investment	-	(691 252)	-
Revaluation of investment	-	(20 198)	-
	-	202 127	-

Bayport Management Limited (BML) donated the entire issued ordinary share capital in Zenthyme Investments (Proprietary) Limited to Bayport Securitisation (RF) Limited on 4 August 2016.

R'000	Group 31 December 2016	Company 31 December 2016	Company 31 December 2015
6. Other investments			
Shares at cost	1 510	-	-
Fair value reserve	191 236	-	-
Dividends receivable from Hollard Business Associates	8 618	-	-
	201 364	-	-

Other investments consist of 50 "AB" ordinary shares in Hollard Business Associates (Proprietary) Limited and 2 "L" ordinary shares in Guardrisk Life Limited held by Zenthyme Investments (Proprietary) Limited. The fair value is determined in accordance with the method documented in note 21.7.

R'000	Group 31 December 2016	Company 31 December 2016	Company 31 December 2015
7. Trade and other payables			
Trade payables and accruals	18 654	18 654	14 571
Interest payable	72 770	72 770	-
Value added taxation payable	354	354	1 069
Payable to Bayport Financial Services 2010 (Pty) Ltd	3 284	-	-
Payable to West Road South No. 4 (RF) (Pty) Ltd	18 966	18 966	-
Payable to Zenthyme Investments (Pty) Ltd	-	2 284	-
	114 028	113 028	15 640

R'000	Group 31 December 2016	Company 31 December 2016	Company 31 December 2015
8. Interest bearing liabilities			
Debentures and loans			
Senior debt	2 019 850	2 019 850	2 091 813
Mezzanine debt	457 071	457 071	465 504
Junior debentures:			
Bayport Financial Services 2010 (Pty) Ltd	199 000	199 000	199 000
Loan from			
Bayport Financial Services 2010 (Pty) Ltd	140 546	140 546	2 296 816
	2 816 467	2 816 467	5 053 133
Payable within 12 months	1 075 036	1 075 036	603 189
Payable thereafter	1 741 431	1 741 431	4 449 944
	2 816 467	2 816 467	5 053 133
Fixed rate loans	565 534	565 534	2 546 261
Variable rate loans	2 250 933	2 250 933	2 506 872
	2 816 467	2 816 467	5 053 133
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 MBD 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 (2016) and company (2016 and 2015)

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		

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		

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

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		

Company

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		

8. Interest bearing liabilities (continued)

Junior debentures

Group (2016) and company (2016 and 2015)

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 2016, R141 million (2015: R547 million) of the Bayport Financial Services 2010 (Proprietary) Limited loan is interest bearing. There are no fixed repayment terms.

R'000	Group 31 December 2016	Company 31 December 2016	Company 31 December 2015
9. Share capital and share premium			
Authorised share capital			
100 non-redeemable preference shares of R1 each	0.1	0.1	0.1
45 ordinary shares of R20 each	0.9	0.9	0.9
	1.0	1.0	1.0
Issued share capital			
100 non-redeemable preference shares of R1 each	0.1	0.1	0.1
25 ordinary shares of R20 each	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	-
	1 300 000.6	1 300 000.6	0.6

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 2016	Company 31 December 2016	Company 31 December 2015
10. Net interest income			
Interest and other similar income is earned from:			
Cash	38 620	38 620	15 489
Loans and advances	953 640	953 640	1 079 211
Service fees	52 916	52 916	-
	1 045 176	1 045 176	1 094 700
Interest and other similar expenses are paid on:			
Interest bearing liabilities	363 367	363 367	440 952
	363 367	363 367	440 952
Interest and other similar income	1 045 176	1 045 176	1 094 700
Interest and other similar expense	(363 367)	(363 367)	(440 952)
	681 809	681 809	653 748
11. Non-interest revenue			
Dividends received from:			
- Zenthyme Investments (Pty) Ltd	-	691 252	-
- Hollard Business Associates (HBA)*	14 218	-	-
Cellular subscription income	5 130	5 130	16 195
Legal collection recoveries	6 134	6 134	9 889
Service fees	-	-	77 872
	25 482	702 516	103 956

* 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. 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 2016	Company 31 December 2016	Company 31 December 2015
12.	**Direct costs**			
	Transactional costs	145	145	63
	Funding and listing fees	1 186	1186	2 257
	Legal collection costs	851	851	642
		2 182	2 182	2 962
13.	**Indirect costs**			
	Management fees	282 171	282 171	310 630
	VAT disallowed	35 849	35 849	37 004
	Penalties	-	-	251
	Directors fees	192	192	179
	Compliance costs	149	149	147
	Consulting fees	2 367	2 359	5
		320 728	320 720	348 216
14.	**Income tax (expense) / credit**			
	South African normal taxation:			
	Current taxation	-	-	1 357
	Current year	-	-	-
	Prior period / year	-	-	1 357
	Deferred taxation	(9 854)	(9 854)	16 528
	Current year	(9 854)	(9 854)	16 528
	Prior year	-	-	-
		(9 854)	(9 854)	17 885
	Tax rate reconciliation:			
	South African corporate tax rate	28%	28%	28%
	Dividends received not taxable	7%	(31%)	-
	Other exempt income	1%	-	-
	Expenses not deductible	(53%)	5%	1%
	Effective tax rate	(17%)	2%	29%

	R'000	Group 31 December 2016	Company 31 December 2016	Company 31 December 2015
15.	**Cash generated by operations**			
	(Loss) / profit before tax	(60 827)	616 215	(59 279)
	Movement in allowance for impairment	462 310	462 310	161 092
	Write-down of tax payable	-	-	(2 714)
	Dividends received	(14 218)	(691 252)	-
		387 265	387 273	99 099
16.	**Income taxes paid / (received)**			
	Amounts receivable at beginning of the year	-	-	(1 357)
	Charged in the statement of comprehensive income	1	-	(1 357)
	Amounts payable at end of the year	-	-	-
		1	-	(2 714)
17.	**Dividends received**			
	Amounts receivable at beginning of the year	11 874	-	-
	Dividends received for the year	14 218	691 252	-
	Amounts receivable at end of the year	(8 618)	-	-
		17 474	691 252	-
18.	**Cash**			
	Bank balances	682 271	680 509	564 001
		682 271	680 509	564 001

At 31 December 2016 bank balances carry interest at rates ranging from 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).

R'000	Group 31 December 2016	Company 31 December 2016	Company 31 December 2015
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
Loan from Bayport Financial Services 2010 (Proprietary) Limited	140 546	140 546	2 296 816
Payable to Bayport Financial Services 2010 (Proprietary) Limited	3 284	-	-
Payable to West Road South No. 4 (RF) (Pty) Ltd	18 966	18 966	-
Payable to Zenthyme Investments (Proprietary) Limited	-	2 284	-
Related party transactions			
Interest expense on junior debentures: Bayport Financial Services 2010 (Proprietary) Limited	27 448	27 448	21 773
Interest expense on loan: Bayport Financial Services 2010 (Proprietary) Limited	54 105	54 105	68 915
Management fee expense: Bayport Financial Services 2010 (Proprietary) Limited	282 171	282 171	310 630
Dividends received: Zenthyme Investments (Proprietary) Limited	-	691 252	-

R'000	Opening balance IAS 39 2016	IFRS 9 initial application	Opening balance IFRS 9 2016	Changes to categorisation IAS 39	Changes to categorisation 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 2016**	**31 December 2016**	**31 December 2015**
Investments	201 364	202 127	-
Loans and advances	2 488 130	2 488 130	3 446 700
Trade and other receivables	2 951	2 951	6 329
Cash	682 271	680 509	564 001
	3 374 716	3 373 717	4 017 030

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	Investments	Loans & receivables	Total
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

Company

R'000	Investments	Loans & receivables	Total
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 *Impaired financial assets – comparative information under IAS 39*

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

In determining the extent of impairment to be recognised, the group 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. The group is of the opinion that the ten year forecast is appropriate and can demonstrate cash received on loan and advances accounts post five years on book.

The group 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.

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

R'000	Cash	Trade & other receivables	Loans & advances	Total
31 December 2015				
Company				
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

21. Financial risk management and governance (continued)

21.1 Credit risk (continued)

21.1.4 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
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
2015						
Company						
Loans and advances	-	-	-	-	-	-
	-	-	-	-	-	-

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

R'000		Group 31 December 2016	Company 31 December 2016	Company 31 December 2015
Credit risk				
	Low	594 729	594 729	918 932
	Medium	568 582	568 582	998 429
	High	28 201	28 201	154 225
Neither past due nor impaired		1 191 512	1 191 512	2 071 586

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

The year on year decrease in the neither past due nor impaired loans and advances category is due to categorisation amendments on the adoption of IFRS 9. Previously, cured CD 0 accounts were classified as neither past due nor impaired but under IFRS 9 these accounts have been reclassified as past due but not impaired.

21. Financial risk management and governance (continued)

21.1.6 Impairment provision reconciliation

Loans and advances impairment provision	12 month expected credit losses	Lifetime expected credit losses	Credit impaired financial assets	Total
2016				
Group and company				
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					
2016					
Unsecured lending	(2 250 933)	(565 534)	682 271	2 488 130	353 934
Total	(2 250 933)	(565 534)	682 271	2 488 130	353 934
Company					
2016					
Unsecured lending	(2 250 933)	(565 534)	680 509	2 488 130	352 172
Total	(2 250 933)	(565 534)	680 509	2 488 130	352 172
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)

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		
2016		
Interest bearing assets / (liabilities)	7.1%	(8.8%)
Company		
2016		
Interest bearing assets / (liabilities)	7.1%	(8.6%)
2015		
Interest bearing assets / (liabilities)	5.9%	(9.0%)

21.2.3 Sensitivity analysis

The group'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 2016			
Assets			
Investment	201 364	-	201 364
Loans and advances	2 488 130	-	2 488 130
Trade and other receivables	2 951	-	2 951
Cash	682 271	6 823	682 271
	3 374 716	6 823	3 374 716
Liabilities			
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
Trade and other payables	114 028	-	114 028
	2 930 495	20 859	2 930 495

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:

R'000	Fair value	Effect on profit before tax of 1% change in rates	Total carrying value of asset / liability class
31 December 2016			
Assets			
Investments	202 127	-	202 127
Loans and advances	2 488 130	-	2 488 130
Trade and other receivables	2 951	-	2 951
Cash	680 509	6 805	680 509
	3 373 717	6 805	3 373 717
Liabilities			
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
Trade and other payables	113 028	-	113 028
	2 929 495	20 859	2 929 495
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

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				
2016				
Liabilities				
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				
2016				
Liabilities				
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
2015				
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

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 2016

R'000	Fair value through other comprehensive income	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 deficit	-	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 2016

R'000	Fair value through other comprehensive income	Financial assets carried at amortised cost	Non-financial assets	Total
Assets				
Cash	-	680 509	-	680 509
Tax receivable	-	-	-	-
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 deficit	-	668 157	668 157
	2 929 141	668 511	3 597 652

Company - 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

21. Financial risk management and governance (continued)

21.6 Categorisation – statement of comprehensive income

Group

R'000	Loans and receivables	Financial liabilities carried at amortised cost	Available-for-sale	Non-financial assets and liabilities / equity	Total
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)

Company

R'000	Loans and receivables	Financial liabilities carried at amortised cost	Available-for-sale	Non-financial assets and liabilities / equity	Total
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
2015					
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)

21. Financial risk management and governance (continued)

21.7 Level disclosures

R'000	Level 1	Level 2	Level 3	Total
2016				
Group				
Financial assets at fair value through other comprehensive income				
Investments in unlisted entities	-	-	191 236	191 236
Total	-	-	191 236	191 236
Company				
Financial assets at fair value through other comprehensive income				
Investment in subsidiary	-	-	202 127	202 127
Total	-	-	202 127	202 127

Reconciliation of level 3 fair value measurements of financial assets

R'000	Fair value through other comprehensive income	Total
2016		
Group		
Opening balance	-	-
Total gain in other comprehensive income	191 236	191 236
Closing balance of fair value measurement	191 236	191 236
Cost of investments	1 510	1 510
Dividends receivable	8 618	8 618
Closing balance of available-for-sale investment	201 364	201 364
Company		
Opening balance	-	-
Donation received	913 577	913 577
Dividends received	(691 252)	(691 252)
Movement in valuation	(20 198)	(20 198)
Closing balance of available-for-sale investment	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 - 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

Company – 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 by group companies	Services to other group companies: Paid by related parties	Paid to provident fund	Total
2016					
Bertus Korb [#]	-	-	-	-	-
Brendan Harmse, Jack Trevena, RishendrieThanthony	192*	-	-	-	192
Bryan Arlow	-	4 440	-	-	4 440
Christo Koch	-	1 693	-	-	1 693
David Rajak	-	2 433	-	-	2 433
	192	8 566	-	-	8 758
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

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

23. Subsequent events

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 interest rate cap.