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

Audited consolidated and separate annual financial statements for the year ended 31 December 2019

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

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

BAYPORT
SECURITISATION

Bayport Securitisation (RF) Limited

Annual financial statements

For the year ended 31 December 2019

General information

Country of incorporation:	South Africa
Date of incorporation:	11 February 2008
Nature of business:	Special purpose vehicle incorporated to house unsecured loans originated by Bayport Financial Services 2010 (Proprietary) Limited
Directors:	Jack Trevena (chairman) Olivia Ferreira Alfred Ramosedi Rishendrie Thanthony
Registered address:	Bayport House 3 Alice Lane Sandton 2196
Business address:	Bayport House 3 Alice Lane Sandton 2196
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:	BDO South Africa Incorporated Chartered Accountants Registered Accountants and Auditors
Company secretary:	Arthur Hlubi
Company registration:	2008/003557/06

Bayport Securitisation (RF) Limited

Annual financial statements

For the year ended 31 December 2019

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

Index

Directors' responsibilities and approval of the annual financial statements

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

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

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

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

The directors have reviewed the cash flow forecast for the year to 31 December 2020 and are satisfied that the group has access to adequate resources to continue as a going concern for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the financial statements. The financial statements have been examined by the external auditors and their report is presented on pages 7 to 10.

The annual financial statements set out on pages 4 to 64, which have been prepared on the going concern basis, were approved by the board of directors on 30 April 2020 and were signed on its behalf by:

These annual financial statements were signed by Jack Trevena on 30 April 2020. Copies of the version bearing such signature are available for inspection at the specified office of the company.	These annual financial statements were signed by Alfred Ramosedi on 30 April 2020. Copies of the version bearing such signature are available for inspection at the specified office of the company.
Jack Trevena	**Alfred Ramosedi**

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 2019 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 30 April 2020. Copies of the version bearing such signature are available for inspection at the specified office of the company.

Arthur Hlubi

Company secretary
30 April 2020

Bayport Securitisation (RF) Limited

Report of the audit committee

For the year ended 31 December 2019

The audit committee submits this report to the shareholders of Bayport Securitisation (RF) Limited in respect of the year ended 31 December 2019. This report has been prepared based on the requirements of section 94(7)(f) of the Companies Act of South Africa ("the Act"), as amended from time to time and in terms of the JSE Limited Listing Requirements.

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 is independent and at the date of this report consists of three independent directors: Olivia Ferreira, Jack Trevena and Rishendrie Thanthony. The audit committee meets at least bi-annually, as per its terms of reference, or more frequently should circumstances dictate.

The names of the members and attendance at meetings for the year under review are reflected below:

Name of members	9 April 2019	22 October 2019	4 December 2019
Olivia Ferreira (chairman)	✓	✓	✓
RishendrieThanthony	✓	Apologies	✓
Jack Trevena	✓	✓	✓

Functions of the audit committee

- Approving the external audit engagement terms;
- Reporting on the independence of the auditors BDO South Africa Incorporated;
- Reviewing the tenure of the auditors and rotation of the audit partner;
- Reviewing the performance and effectiveness of the external audit process;
- Assessing the nature and extent of non-audit services;
- Making submissions to the board on accounting policies, financial controls, records and reporting;
- Reviewing key audit matters as provided by BDO South Africa Incorporated; and
- Reviewing the annual financial statements to confirm compliance with International Financial Reporting Standards, the Companies Act of South Africa and the JSE Limited Listing Requirements.

Attendance by auditors and executive directors

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

Independence of external auditor

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

Internal financial controls, accounting practices and group annual financial statements

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

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

The report of the audit committee was signed by Olivia Ferreira on 30 April 2020. Copies of the version bearing such signature are available for inspection at the specified office of the company.

Olivia Ferreira

Chairman: audit committee
30 April 2020

Independent Auditor's Report
To the shareholders
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 14 to 64, which comprise the consolidated and separate statements of financial position as at 31 December 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate 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 Bayport Securitisation (RF) Limited as at 31 December 2019, 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 and company in accordance with sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Subsequent Event
Without qualifying our opinion, we draw attention to Note 23 to the financial statements, which describes that the potential impact of COVID-19 on the financial performance of the Group is likely to be adverse, however management is unable to quantify the magnitude of this impact at this stage, due to the rapidly evolving circumstances.

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
Impairment of Loans and Advances (consolidated and separate financial statements) Bayport Securitisation has a portfolio of financial instruments that fall within the scope of the IFRS 9 expected credit loss (ECL) impairment model.	We have performed the following audit procedures: • Assessing the design and implementation of key controls associated with the loans and advances process through originations, approvals, disbursements, cash collections and the ongoing credit monitoring; • Tested the operating effectiveness of key controls relating to the ECL model's validation and governance,

Significant judgement is required in estimating the ECL against these assets mentioned above and include assessing:

- probability of default (PD); loss given default (LGD), exposure at default (EAD);
- credit risk profile changes and macro-economic scenario assumptions (FLI)

The Group is required to recognise an allowance for either 12-month or lifetime ECLs depending on whether there has been a significant increase in credit risk (SICR) since initial recognition.

The relevant disclosures relating to the impairment of loans and advances have been provided in Notes 3 and 21 of these financial statements. Due to the significance of this balance, high degree of estimation uncertainty and management judgement, this has been raised as a key audit matter.

including the aging and staging criteria as well as the integrity of data transferred into the credit models;

- Performing credit reviews on the origination, approval, distribution, credit monitoring and collection processes in terms of the Group's credit policy and processes to ensure compliance with these policies and the National Credit Act.
- Testing the completeness, accuracy and validity of data inputs in the credit impairment model;
- We have engaged an external credit modelling expert and have assessed their competence, experience and independence of the Group
- With the involvement of our external credit modelling specialists, assessing the methodologies and assumptions applied to ensure compliance with IFRS 9, including:
    - the determination of PD, LGD, and EAD;
    - Validation of the IFRS 9 staging assignment;
    - Re-perform management's calculation of ECL;
    - Evaluating the methodology to incorporate forward-looking information into the calculation of ECL, and
    - Reviewing and assessing the adequacy of the impairment raised, as well as, the reasonableness of assumptions and variables used in the ECL model;
- We also performed analytical procedures on the IFRS 9 impairment and the components of the ECL to consider the trends and reasonableness of the components over the period to assess if there have been any outliers to investigate, as well as perform a retrospective review (back testing) of the credit impairments raised in the prior year financial statements with the actual bad debts written off during the year.
- We also focused on the adequacy of the disclosure in the financial statements in terms of IFRS 9 and 7.

Recognition and recoverability of deferred tax assets (consolidated and separate financial statements)

The recoverability of the deferred tax asset represents a key risk for the business. IAS 12 states that a deferred tax asset can only be recognised to the extent that it is probable that taxable profits are available against which the deferred tax asset can be utilised.

IAS 12 further states that the recognition of previously unrecognised deferred tax assets should be reassessed on an annual basis.

We identified that the key judgement areas management used to justify their recognition of the deferred tax asset were as follows:

- Management's ability to reasonably forecast profits;
- The assumptions made in management's periodic future forecasts and the likelihood of those assumptions holding true; and

We have performed the following audit procedures:

- Reviewed management's annual assessment for the recognition of the unrecognised and recognised deferred tax assets;
- Examined management's periodic future forecast, identifying key assumptions inherent in the forecasts and evaluate the assumptions for reasonability;
- Stress test management's assumptions inherent in the forecasts and determine the impact of the stress testing on the recognition of the recognised and unrecognised deferred tax assets.
- Consult our technical accounting specialist in terms of management's rationale for the recognition of the deferred tax asset based on the audit work performed.
- We also focused on the adequacy of the disclosure in the financial statements in terms of IAS 12.

- The time over which the deferred tax asset is expected to be recovered given the forecasts.

The relevant disclosures relating to the recognition and recoverability of deferred tax assets have been provided in Note 4 of these financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled the consolidated and separate annual financial statements for the year ended 31 December 2019, which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will 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 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 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.

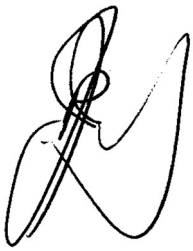
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 BDO South Africa Incorporated has been the auditor of Bayport Securitisation (RF) Limited for 1 year.

BDO South Africa Incorporated
Registered Auditors



Pierre Jacobs
Director
Registered Auditor

30 April 2020

The Wanderers Office Park
52 Corlett Drive
Illovo
Johannesburg, 2196

The directors present their report on the activities of the group for the year ended 31 December 2019.

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. Subsequent events

On 30 January 2020, the World Health Organisation (WHO) declared a global health emergency in respect of COVID-19 and elevated the severity of this virus to a pandemic on 11 March 2020. The South African government enforced a national lockdown with effect from 27 March 2020 and we believe this drastic but necessary measure will have a pervasive impact on the South African economy and consequently increase credit risk in the unsecured lending market.

In our view, this development constitutes a non-adjusting post balance sheet event for the annual financial statements ended 31 December 2019. In light of the current uncertainty, we have performed an assessment as at 30 April 2020 and have confirmed that the going concern assumption applied in the preparation of the annual financial statements for the current reporting period is still appropriate. Although the potential impact on the financial performance of the group is likely to be adverse, we are unable to quantify the magnitude of this impact due to the rapidly evolving circumstances.

3. 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.

3. Going concern (continued)

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 may seem.

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:

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

Having taken the aforementioned factors into account, including the impact of the lockdown announced by the South African government to combat the spread of COVID-19 as discussed in the subsequent events note in point 2 above, the directors consider the going concern basis of accounting appropriate for the ensuing twelve months.

4. Authorised and issued ordinary and preference share capital

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

5. Dividends paid

No dividend was declared or paid to the ordinary or preference shareholders during the 12 months ended 31 December 2019 (2018: 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.

7. 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 at least bi-annually. Invitees to the audit committee meetings include the external auditors, the internal auditors and representatives of BFS 2010.

The audit committee assists the board with:

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

7. Financial risk management and governance (continued)

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.

8. Adherence to the King IV Code of Corporate Governance

The company endeavours at all times to apply the principles of the King Code of Governance Principles for South Africa (King IV) in such a way that these requirements are met. For the period under review the audit committee indicated that it was satisfied with the way in which the company applied and explained the recommendations of King IV. The checklist highlights the company's application of 16 major principles contained in King IV. Principle 17 is not applicable to the company.

As at 31 December 2019 in terms of the JSE Debt Listings Requirements, the company has complied with the King IV principles. For a detailed checklist, please refer to the following website: www.bayportsa.com.

9. 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
Jack Trevena	Independent non-executive chairman	31 January 2013	
Bertus Korb	Independent non-executive chairman	31 December 2016	5 December 2018
Bryan Arlow	Non-executive director	27 September 2014	1 November 2018
Olivia Ferreira	Independent non-executive director	5 December 2018	
Alfred Ramosedi	Non-executive director	1 November 2018	
RishendrieThanthony	Independent non-executive director	31 January 2013	

10. External auditor

BDO South Africa Incorporated replaced Deloitte & Touche as external auditor of the company with effect from 22 October 2019. The appointment of a new audit firm is due to the early adoption of mandatory audit firm rotation.

11. Secretary

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

Name	Date appointed
Arthur Hlubi	1 June 2017

Bayport Securitisation (RF) Limited

Statements of financial position

As at 31 December 2019

R'000	Notes	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
Assets					
Cash	19	901 318	458 663	900 622	458 402
Trade and other receivables	2	31 607	17 011	31 607	17 011
Loans and advances	3	2 831 980	2 570 371	2 831 980	2 570 371
Deferred tax assets	4	141 952	312 402	141 952	312 402
Investment in subsidiary	5	-	-	95 474	116 520
Other financial assets	6	120 686	142 152	-	-
Total assets		4 027 543	3 500 599	4 001 635	3 474 706
Liabilities					
Tax liabilities		14	-	-	-
Trade and other payables	7	66 173	74 060	40 279	48 166
Interest bearing liabilities	8	3 230 974	2 629 638	3 230 974	2 629 638
Total liabilities		3 297 161	2 703 698	3 271 253	2 677 804
Equity					
Share capital and share premium	9	1 300 001	1 300 001	1 300 001	1 300 001
Accumulated deficit		(654 897)	(607 363)	(665 093)	(619 619)
Fair value reserve		85 278	104 263	95 474	116 520
Equity attributable to the owners of the company		730 382	796 901	730 382	796 902
Total equity		730 382	796 901	730 382	796 902
Total equity and liabilities		4 027 543	3 500 599	4 001 635	3 474 706

Bayport Securitisation (RF) Limited

Statements of comprehensive income

For the year ended 31 December 2019

R'000	Notes	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
Interest and other similar income	10	953 489	894 968	953 439	894 968
Interest and other similar expenses	10	(337 415)	(328 035)	(337 415)	(328 035)
Net interest income	10	616 074	566 933	616 024	566 933
Impairment of loans and advances	3	(604 054)	(365 630)	(604 054)	(365 630)
Risk adjusted net interest income		12 020	201 303	11 970	201 303
Non-interest income	11	318 718	46 484	320 813	48 261
Direct costs	12	(3 762)	(3 076)	(3 761)	(3 075)
Non interest gross profit		314 956	43 408	317 052	45 186
Indirect costs	13	(204 046)	(268 937)	(204 046)	(268 937)
Profit / (loss) before tax		122 930	(24 226)	124 976	(22 448)
Income tax (expense) / credit	14	(170 464)	103 334	(170 450)	103 334
(Loss) / profit for the year		(47 534)	79 108	(45 474)	80 886
Other comprehensive loss[1]					
Items that will not be reclassified to profit or loss:					
Movement on equity instruments designated at FVOCI	6 & 5	(18 985)	(27 315)	(21 046)	(29 092)
Total comprehensive (loss) / income for the year		(66 519)	51 793	(66 520)	51 794

[1] Refer to statement of changes in equity on pages 16 and 17.

Bayport Securitisation (RF) Limited

Statements of changes in equity

For the year ended 31 December 2019

Group

R'000	Share capital and share premium	Fair value reserve	Accumulated deficit	Total equity / (deficit)
Balance at 31 December 2017	1 300 001	131 578	(675 144)	756 435
Change in accounting policy [1]	-	-	(11 327)	(11 327)
Revised opening balance	1 300 001	131 578	(686 471)	745 108
Total comprehensive (loss) / income	-	(27 315)	79 108	51 793
- Profit for the year	-	-	79 108	79 108
- Other comprehensive income				
- Revaluation of insurance cells [2]	-	(27 315)	-	(27 315)
Balance at 31 December 2018	1 300 001	104 263	(607 363)	796 901
Total comprehensive (loss) / income	-	(18 985)	(47 534)	(66 519)
- Loss for the year	-	-	(47 534)	(47 534)
- Other comprehensive income				
- Revaluation of insurance cells [2]	-	(18 985)	-	(18 985)
Balance at 31 December 2019	1 300 001	85 278	(654 897)	730 382

[1] Reported as an IFRS 15 transitional adjustment in the prior year annual financial statements (refer note 3).
[2] Zenthyme Investments (Proprietary) Limited holds investments in Hollard Business Associates and Guardrisk Life Limited (refer note 6).

Bayport Securitisation (RF) Limited

Statements of changes in equity (continued)

For the year ended 31 December 2019

Company

R'000	Share capital and share premium	Fair value reserve	Accumulated deficit	Total equity / (deficit)
Balance at 31 December 2017	1 300 001	145 612	(689 178)	756 435
Change in accounting policy [1]	-	-	(11 327)	(11 327)
Revised opening balance	1 300 001	145 612	(700 505)	745 108
Total comprehensive (loss) / income	-	(29 092)	80 886	51 794
- Profit for the year	-	-	80 886	80 886
- Other comprehensive loss	-	(29 092)	-	(29 092)
Investment in Zenthyme at fair value				
- Revaluation of investment	-	(29 092)	-	(29 092)
Balance at 31 December 2018	1 300 001	116 520	(619 619)	796 902
Total comprehensive (loss) / income	-	(21 046)	(45 474)	(66 520)
- Loss for the year	-		(45 474)	(45 474)
- Other comprehensive loss	-	(21 046)	-	(21 046)
Investment in Zenthyme at fair value				
- Revaluation of investment [2]	-	(21 046)	-	(21 046)
Balance at 31 December 2019	1 300 001	95 474	(665 093)	730 382

[1] Reported as an IFRS 15 transitional adjustment in the prior year annual financial statements (refer note 3).
[2] Refer to note 5.

Bayport Securitisation (RF) Limited

Statements of cash flows

For the year ended 31 December 2019

R'000	Notes	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
Cash flows from operating activities					
Cash generated / (utilised) by operations	15	315 090	(539 463)	315 041	(539 462)
Dividends received	17	40 523	40 559	40 137	40 302
Increase in trade and other receivables	2	(14 596)	(5 116)	(14 596)	(5 116)
(Increase) / decrease in gross loans and advances	3	(481 800)	327 231	(481 800)	327 231
Decrease in trade payables and accruals	7	(3 377)	9 728	(3 377)	9 728
Cash utilised by operating activities		(144 160)	(167 061)	(144 595)	(167 317)
Cash flows from financing activities					
Decrease in intercompany payables	7	(14 521)	(65 930)	(14 521)	(65 864)
Increase / (decrease) in intercompany loans	8	236 999	(5 826)	236 999	(5 826)
Increase / (decrease) in senior and mezzanine debt	18	364 337	(46 546)	364 337	(46 546)
Cash generated / (utilised) by financing activities		586 815	(118 302)	586 815	(118 236)
Net increase / (decrease) in cash for the year		442 655	(285 363)	442 220	(285 553)
Cash at beginning of the year		458 663	744 026	458 402	743 955
Cash at end of the year	19	901 318	458 663	900 622	458 402

1. Accounting policies

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

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

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

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

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

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

The principle accounting policies are set out below:

1.1 Basis of consolidation

Subsidiary companies and other controlled entities

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

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

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

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

1. Accounting policies (continued)

1.1 Basis of consolidation (continued)

Special purpose entities

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

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

Business combinations

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

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

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

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

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

1. Accounting policies (continued)

1.1 Basis of consolidation (continued)

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

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

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

1.2 Financial instruments

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

Initial recognition

The group initially recognises financial assets and financial liabilities on the date on which the group becomes party to the contractual provisions of the financial instrument.

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

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

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

1. Accounting policies (continued)

1.2 Financial instruments (continued)

Classification

Financial assets

Financial assets are classified and measured at either:

- amortised cost; or
- fair value through other comprehensive income.

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

A financial asset is measured at amortised cost if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment

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

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

1. Accounting policies (continued)

1.2 Financial instruments (continued)

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

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

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

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

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

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

Financial liabilities

Financial liabilities are classified and measured at amortised cost.

Subsequent measurement

Fair value through other comprehensive income – equity instruments

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

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

1. Accounting policies (continued)

1.2 Financial instruments (continued)

Amortised cost

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

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

Impairment

The group recognises loss allowances for expected credit losses on the following financial assets:

- Loans and advances; and
- Trade and other receivables.

No impairment loss is recognised on equity investments.

Impairments are measured as 12-month expected credit losses upon origination (referred to as stage1). 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 (referred to as stage 2).

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

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

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

- Financial assets that are not credit impaired at the reporting date – as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expect to receive) (stages 1 and 2);
- 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 (stage 3).

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

Significant increase in credit risk

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

1. Accounting policies (continued)

1.2 Financial instruments (continued)

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

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

Credit risk

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

Generating a PD term structure

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

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

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

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.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

Collective versus individual impairment

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

Modelling techniques

In assessing collective impairment the group statistically models the following:

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

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

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

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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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)

Fair value (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)

Loan write-offs

Loans are only derecognised or written-off when the loan account is settled in the debtors management system. This typically happens after 3 years of non-payment (prescription of debt).

Partial derecognition

When a customer has not paid any amount in the preceding 12 months and the contractual delinquency is greater than or equal to 12, the group considers there to be no reasonable expectation of recovery. At this point the gross carrying amount of these loans are derecognised to the extent of their carrying value as determined by the expected credit loss model.

Partially derecognised loans are categorised as stage 3 for the purposes of calculating expected credit losses.

Modifications

Although payment arrangements may be entered into with customers through debt review, emolument attachment orders (EAOs) or administration orders, the original contract terms of these loans are not modified. The gross carrying amounts of these loans are not recalculated and no profit or loss is recognised. The revised expected future cashflows of these loans are however taken into account in the ECL model and are included in both the allowance for impairment and the credit impairment expense lines in the statements of financial performance and comprehensive income respectively.

1.3 Interest income

Interest income is recognised in profit or loss for all instruments measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to the gross carrying amount of the financial asset. When calculating the effective interest rate for financial instruments other than credit-impaired assets, the group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses.

For credit impaired financial assets, interest income is recognised by applying the effective interest rate to the net carrying value, being the gross carrying value after deducting the impairment provision for expected credit losses. The group accordingly ceases to recognise, in profit or loss, the portion of the contractual interest charged on credit impaired assets, thus equating to the result of the net carrying value of the credit impaired exposure being multiplied by the applicable effective interest rate.

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.

With effect from 1 January 2018, incremental collection costs were excluded from the calculation of the effective interest rate.

1. Accounting policies (continued)

1.4 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.

1.5 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 Non-interest income

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

1.7 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.

1.8 Investments in subsidiaries

Investments in subsidiaries are accounted for at fair value with movements recorded through other comprehensive income.

1.9 Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid instruments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

On the statement of cashflows, cash and cash equivalents comprise:

- Balances with banks
- Money on call deposits

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes and are carried at cost, which due to their short-term nature, approximate fair value.

There are two cash reserves held within the group:

- The capital redemption reserve is a cash reserve requirement during the six months prior to the maturity date of any class A, B or C note that is repayable as a bullet payment; and
- The liquidity reserve is a cash reserve of R250 million held within the group.

1. Accounting policies (continued)

1.10 Share capital

Proceeds received upon the issuance of shares are included in equity, net of directly attributable transaction costs. Dividends and other distributions made to equity holders are recognised as a reduction in equity when they are no longer at the discretion of the entity.

1.11 Taxation

Current

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

Deferred tax

Deferred tax is calculated using the liability method.

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

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

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

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

Indirect taxation

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

1.12 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. Accounting policies (continued)

1.13 Segment reporting

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

1.14 Management estimates

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

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

Deferred tax

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

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.

Impairment of financial assets

Financial assets are impaired using the approach prescribed in IFRS 9, unless the asset is considered to be credit impaired on initial recognition, in which case those specific requirements as contained in IFRS 9 will be applied. 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. Accounting policies (continued)

1.14 Management estimates (continued)

Provisions, contingent liabilities and contingent assets

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

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

1.15 New and amended accounting standards and interpretations

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

IFRS / IAS and title	Details of change
IFRS 16: Leases	The group did not enter into any leases and therefore this new standard has no impact on the annual financial statements.
IFRIC 23: Uncertainty Over Income Tax Treatments	There is no uncertainty over income tax treatments for the group and therefore this new interpretation note has no impact on the annual financial statements.

1.16 New standards or amendments issued but not yet effective

IFRS / IAS and title	Details of change	Effective for periods beginning on or after
IFRS 3: Business Combinations	The definition of a business has been amended in order to resolve difficulties that arise when an entity determines whether it has acquired a business or a group of assets	1 January 2020
IAS 1: Presentation of Financial Statements	The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS standards	1 January 2020
IFRS 17: Insurance Contracts	The standard established the principles for the recognition, measurement, presentation and disclosure of insurance contracts	1 January 2021

The above standards and amendments are not expected to have a material impact on the annual financial statements of the group.

R'000	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
2. Trade and other receivables				
Prepayments	8 421	3 176	8 421	3 176
Receivable from West Road South No. 4 (Pty) Ltd	19 073	-	19 073	-
Sundry debtors	35	36	35	36
Value added taxation receivable	4 078	13 799	4 078	13 799
	31 607	17 011	31 607	17 011
3. Loans and advances				
Gross loans and advances	5 646 848	5 165 048	5 646 848	5 165 048
Allowance for impairment	(2 814 868)	(2 594 677)	(2 814 868)	(2 594 677)
	2 831 980	2 570 371	2 831 980	2 570 371
Gross loans and advances by asset type				
Unsecured loans	5 646 848	5 165 048	5 646 848	5 165 048

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.

Loans and advances and the related allowance for impairment are split into IFRS 9 stages in note 21.1.2.

R'000	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
3. Loans and advances (continued)				
Allowance for impairment				
Allowance for impairment opening balance	(2 594 677)	(2 985 962)	(2 594 677)	(2 985 962)
Change in accounting policy (refer to note below)	-	(15 732)	-	(15 732)
Revised opening balance	(2 594 677)	(3 001 694)	(2 594 677)	(3 001 694)
Impairment of loans and advances	(705 870)	(455 926)	(705 870)	(455 926)
Impairments purchased from Bayport Tutari (RF) (Pty) Ltd	(31 423)	(25 224)	(31 423)	(25 224)
Utilisation of allowance for write-offs	517 102	888 167	517 102	888 167
Balance at end of the year	(2 814 868)	(2 594 677)	(2 814 868)	(2 594 677)
Impairment expense in profit or loss				
Impairment of loans and advances	(705 870)	(455 926)	(705 870)	(455 926)
Unrecognised interest on credit-impaired loans and advances	101 816	90 296	101 816	90 296
Net impairment expense recognised in profit or loss	(604 054)	(365 630)	(604 054)	(365 630)
Related credit risk exposure and enhancements:				
Maximum exposure to credit losses of loans and advances	2 831 980	2 570 371	2 831 980	2 570 371

Change in accounting policy in the prior period

With effect from 1 January 2018, the group excluded incremental collection costs from the calculation of the effective interest rate. This was previously reflected as an IFRS 15 transitional adjustment however it should rather have been reflected as a change in accounting policy. This reclassification has no impact on the statement of financial position at 31 December 2018 or on the annual financial statements for 2019.

R'000	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
4. Deferred tax assets				
Deferred tax assets	141 952	312 402	141 952	312 402
Movements during the year:				
Deferred tax asset at beginning of year	312 402	204 663	312 402	204 663
Tax (charge) / credit to the statement of comprehensive income	(170 450)	103 334	(170 450)	103 334
Credit to retained earnings for change in accounting policy [1]	-	4 405	-	4 405
Net deferred tax asset at end of the year	141 952	312 402	141 952	312 402

[1] Reported as "credit to retained earnings for IFRS 15" in the prior year annual financial statements (refer note 3).

Group and company

R'000	Opening balance	Credit to retained earnings	Tax (charge) / credit	Closing balance
2019				
Impairment of loans and advances	316 581	-	(170 201)	146 380
Revenue and expense recognition timing differences	(4 179)	-	(249)	(4 428)
Net deferred tax assets	312 402	-	(170 450)	141 952
2018				
Impairment of loans and advances	33 953	4 405	278 223	316 581
Estimated tax losses	176 180	-	(176 180)	-
Revenue and expense recognition timing differences	(5 470)	-	1 291	(4 179)
Net deferred tax assets	204 663	4 405	103 334	312 402

In accordance with IAS12: Income Taxes the recognition of previously unrecognised deferred tax assets should be reassessed on an annual basis. In addition, deferred tax assets should be recognised only to the extent that it is probable that there will be future taxable profit against which deductible temporary differences can be recognised.

The unrecognised deferred tax assets arose as a result of historical methodology adjustments to impairment calculations. As at 31 December 2019 the unrecognised asset was R359 million (2018: R213 million) comprising of R27 million relating to tax losses and R332 million relating to impairment timing differences (2018: R89 million and R124 million respectively).

Management chose not to recognise the asset during 2019 due to:

- expected future taxable income as determined through the 2020 board approved budget; and
- uncertainty with regard to the income tax treatment of bad and doubtful debts under IFRS 9.

R'000	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
5. Investment in subsidiary				
Zenthyme Investments (Pty) Ltd				
Donated shares at cost	-	-	-	-
Fair value reserve	-	-	95 474	116 520
	-	-	95 474	116 520

The decrease in the fair value reserve of R21 046 000 for the year under review is included as other comprehensive losses in the company's statement of comprehensive income.

R'000	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
6. Other financial assets				
Investments in insurance cells	120 686	142 152	-	-
Shares at cost	28 160	28 160	-	-
Fair value reserve	85 278	104 263	-	-
Dividends receivable	7 248	9 729	-	-
Interest rate cap	-	-	-	-
Derivative cost	-	8 555	-	8 555
Fair value through profit or loss	-	(8 555)	-	(8 555)
	120 686	142 152	-	-

Investments in insurance cells

The investments consist of 50 "AB" ordinary shares in Hollard Business Associates (Proprietary) Limited ("HBA") and 3 "L" ordinary shares in Guardrisk Life Limited held by Zenthyme Investments (Proprietary) Limited.

The decrease in the fair value reserve of R18 985 000 for the year under review is included as other comprehensive losses in the group's statement of comprehensive income. The fair value is determined in accordance with the method documented in note 21.7.

Interest rate cap

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

R'000	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
7. Trade and other payables				
Trade payables and accruals	30 268	33 645	30 268	33 645
Interest payable	10 011	-	10 011	-
Payable to Bayport Financial Services 2010 (Pty) Ltd	25 894	25 894	-	-
Payable to West Road South No. 4 (RF) (Pty) Ltd	-	14 521	-	14 521
	66 173	74 060	40 279	48 166
8. Interest bearing liabilities				
Debentures and loans				
Senior debt	2 158 511	1 877 174	2 158 511	1 877 174
Mezzanine debt	525 000	442 000	525 000	442 000
Junior debentures: Bayport Financial Services 2010 (Pty) Ltd	199 000	199 000	199 000	199 000
Loan: Bayport Financial Services 2010 (Pty) Ltd	348 463	111 464	348 463	111 464
	3 230 974	2 629 638	3 230 974	2 629 638
Payable within 12 months	1 082 212	685 828	1 082 212	685 828
Payable thereafter	2 148 762	1 943 810	2 148 762	1 943 810
	3 230 974	2 629 638	3 230 974	2 629 638
Fixed rate loans	794 853	472 405	794 853	472 405
Variable rate loans	2 436 121	2 157 233	2 436 121	2 157 233
	3 230 974	2 629 638	3 230 974	2 629 638
Undrawn facility at year end	500 000	-	500 000	-

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

A maturity analysis of actual future cash flows is included in the liquidity risk management section (refer to note 21.3).

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

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

8. Interest bearing liabilities (continued)

Senior debt

Group and company

2019	**Balance R'000**	**Interest**	**Maturity**
Fixed rate loans	460 000	11.17% to 12.4%	30 June 2020 to 31 March 2026
Variable rate loans	1 698 511	JIBAR plus 3.65% to JIBAR plus 5.5%	30 June 2020 to 1 July 2024
	2 158 511		

2018	**Balance R'000**	**Interest**	**Maturity**
Fixed rate loans	372 000	11.17% to 13.15%	30 June 2020 to 31 March 2023
Variable rate loans	1 505 174	JIBAR plus 3.75% to JIBAR plus 5.5%	31 March 2019 to 30 September 2022
	1 877 174		

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 19).

Mezzanine debt

Group and company

2019	**Balance R'000**	**Interest**	**Maturity**
Variable rate loans	525 000	JIBAR plus 6% to JIBAR plus 8%	30 September 2020 to 30 September 2024
	525 000		

2018	**Balance R'000**	**Interest**	**Maturity**
Variable rate loans	442 000	JIBAR plus 6% to JIBAR plus 8%	31 March 2020 to 30 September 2023
	442 000		

8. Interest bearing liabilities (continued)

Junior debentures

Group and company (2019 and 2018)

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 2019, only R52 million (2018: R49 million) of the Bayport Financial Services 2010 (Proprietary) Limited loan is interest bearing. There are no fixed repayment terms.

	Group		Company	
R'000	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**

9. Share capital and share premium

Authorised share capital				
100 non-redeemable preference shares of R1 each	0.1	0.1	0.1	0.1
45 ordinary shares of R20 each	0.9	0.9	0.9	0.9
	1.0	1.0	1.0	1.0
Issued share capital				
100 non-redeemable preference shares of R1 each	0.1	0.1	0.1	0.1
25 ordinary shares of R20 each	0.5	0.5	0.5	0.5
Share premium				
Share premium on buy-back and re-issue of 1 preference share	1 300 000.0	1 300 000.0	1 300 000.0	1 300 000.0
	1 300 000.6	1 300 000.6	1 300 000.6	1 300 000.6

R'000	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
10. Net interest income				
Interest and other similar income is earned from:				
Loans and advances	967 420	888 621	967 420	888 621
Unrecognised interest on credit-impaired loans and advances	(101 816)	(90 296)	(101 816)	(90 296)
	865 604	798 325	865 604	798 325
Cash	32 438	41 112	32 388	41 112
Service fees	55 447	55 531	55 447	55 531
	953 489	894 968	953 439	894 968
Interest and other similar expenses are paid on:				
Interest bearing liabilities	337 415	328 035	337 415	328 035
	337 415	328 035	337 415	328 035
Interest and other similar income	953 489	894 968	953 439	894 968
Interest and other similar expense	(337 415)	(328 035)	(337 415)	(328 035)
	616 074	566 933	616 024	566 933
11. Non-interest income				
Dividends received from:				
- Zenthyme Investments (Pty) Ltd	-	-	40 137	40 302
- Hollard Business Associates (HBA)	586	1 076	-	-
- Guardrisk Life Limited	37 456	37 449	-	-
Legal collection costs on-charged to customers	6 063	7 959	6 063	7 959
Reversal of management fees paid	274 613	-	274 613	-
	318 718	46 484	320 813	48 261

Reversal of management fees paid

Bayport Financial Services 2010 (Pty) Ltd re-evaluated their management fees charged to the company over previous years resulting in a reversal of management fees for previous years during 2019. This also resulted in VAT disallowed being reversed during 2019 (refer to note 13 below).

The management fees charged by Bayport Financial Services 2010 (Pty) Ltd in previous years were within the limits allowed by the management agreement and the correct governance processes were followed for the reversal. The management fees charged were between group companies and no other party was impacted.

R'000	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
12. Direct costs				
Transactional costs	431	179	430	178
Funding and listing fees	3 330	2 896	3 330	2 896
Legal collection costs	1	1	1	1
	3 762	3 076	3 761	3 075
13. Indirect costs				
Management fees	211 354	233 782	211 354	233 782
VAT disallowed	(7 839)	32 012	(7 839)	32 012
Directors fees	228	217	228	217
Compliance costs	241	258	241	258
Consulting fees	62	230	62	230
Write-down of interest rate cap to fair value	-	2 438	-	2 438
	204 046	268 937	204 046	268 937
14. Income tax (expense) / credit				
South African normal taxation:				
Current taxation	(14)	-	-	-
Deferred taxation	(170 450)	103 334	(170 450)	103 334
Current year	(170 450)	119 267	(170 450)	119 267
Prior year	-	(15 933)	-	(15 933)
	(170 464)	103 334	(170 450)	103 334
Tax rate reconciliation:				
South African corporate tax rate	28%	28%	28%	28%
Dividends received not taxable	(9%)	45%	(9%)	50%
Expenses not deductible	-	(1%)	-	(1%)
Derecognition / recognition of off-balance sheet deferred tax	120%	420%	117%	455%
Prior year taxes	-	(66%)	-	(71%)
Effective tax rate	139%	426%	136%	461%

R'000	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
15. Cash generated / (utilised) by operations				
Profit / (loss) before tax	122 930	(24 226)	124 976	(22 448)
Deduct interest income	(898 042)	(839 437)	(897 992)	(839 437)
Add back interest expenses	337 415	328 035	337 415	328 035
Add back interest received	898 042	839 437	897 992	839 437
Deduct interest paid	(327 404)	(400 168)	(327 404)	(400 168)
Adjusted for non-cash items:				
Write-down of interest rate cap to fair value	-	2 438	-	2 438
Movement in allowance for impairment	220 191	(391 285)	220 191	(391 285)
Change in accounting policy [1]	-	(15 732)	-	(15 732)
Dividends received	(38 042)	(38 525)	(40 137)	(40 302)
	315 090	(539 463)	315 041	(539 462)

[1] Reported as "IFRS 15 transitional adjustment" in the prior year annual financial statements (refer note 3).

16. Income taxes (received) / paid				
Amounts receivable at beginning of the year	-	-	-	-
Charged in the statement of comprehensive income	14	-	-	-
Amounts payable at end of the year	(14)	-	-	-
	-	-	-	-
17. Dividends received				
Amounts receivable at beginning of the year	9 729	11 763	-	-
Dividends declared for the year	38 042	38 525	40 137	40 302
Amounts receivable at end of the year	(7 248)	(9 729)	-	-
	40 523	40 559	40 137	40 302

R'000	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
18. Increase / (decrease) in senior and mezzanine debt				
Senior debt:				
Carrying value at beginning of the year	1 877 174	2 094 720	1 877 174	2 094 720
Raising new debt	1 042 701	837 174	1 042 701	837 174
Debt repayments	(761 364)	(1 054 720)	(761 364)	(1 054 720)
Carrying value at end of the year	2 158 511	1 877 174	2 158 511	1 877 174
Mezzanine debt:				
Carrying value at beginning of the year	442 000	271 000	442 000	271 000
Raising new debt	218 000	251 000	218 000	251 000
Debt repayments	(135 000)	(80 000)	(135 000)	(80 000)
Carrying value at end of the year	525 000	442 000	525 000	442 000
Senior and mezzanine debt:				
Raising new debt	1 260 701	1 088 174	1 260 701	1 088 174
Debt repayments	(896 364)	(1 134 720)	(896 364)	(1 134 720)
Increase / (decrease) in senior and mezzanine debt	364 337	(46 546)	364 337	(46 546)
19. Cash				
Bank balances	901 318	458 663	900 622	458 402

At 31 December 2019 bank balances carry interest at rates ranging from 4.00% to 8.01% (2018: 4.25% to 8.02%) per annum. There are no overdraft facilities on any of the bank accounts. Bank balances are ceded as security for interest bearing liabilities issued by the company (refer note 8).

In terms of the Bayport Securitisation Programme Memorandum, R250 million of cash is held as a liquidity reserve as at 31 December 2019 (2018: R250 million).

R'000	Group 31 December 2019	Group 31 December 2018	Company 31 December 2019	Company 31 December 2018
20. 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 for terms)	(199 000)	(199 000)	(199 000)	(199 000)
Loan from Bayport Financial Services 2010 (Proprietary) Limited (refer note 8 for terms)	(348 463)	(111 464)	(348 463)	(111 464)
Payable to Bayport Financial Services 2010 (Proprietary) Limited	(25 894)	(25 894)	-	-
Receivable from / (payable to) West Road South No. 4 (RF) (Pty) Ltd	19 073	(14 521)	19 073	(14 521)
Related party transactions				
Interest expense on junior debentures: Bayport Financial Services 2010 (Proprietary) Limited	(27 016)	(26 943)	(27 016)	(26 943)
Interest expense on loan: Bayport Financial Services 2010 (Proprietary) Limited	(4 649)	(9 010)	(4 649)	(9 010)
Management fee reversal / (expense): Bayport Financial Services 2010 (Proprietary) Limited	63 259	(233 782)	63 259	(233 782)
Dividends received: Zenthyme Investments (Proprietary) Limited	-	-	40 137	40 302

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 at least bi-annually. Invitees to the audit committee meetings include the external auditors, the internal auditors as well as representatives 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, under normal trading conditions, 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 not been adjusted for forward looking information as no logical correlation could be found between the variables tested.

Measurement of expected credit losses (ECL)

The key inputs into the measurement of ECL are 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 outstanding balance at this default point and the expected losses during default. For financial assets that have shown a significant 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 the 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

Although payment arrangements may be entered into with customers through debt review, emolument attachment orders (EAOs) or administration orders, the original contract terms of these loans are not modified. The gross carrying amounts of these loans are not recalculated and no profit or loss is recognised. The revised expected future cashflows of these loans are however taken into account in the ECL model and are included in both the allowance for impairment and the credit impairment expense lines in the statements of financial performance and comprehensive income respectively.

Impact of COVID-19 on IFRS 9 models

Due to the rapidly evolving circumstances, it is not possible at this time to incorporate any specific effects of COVID-19 together with any potential relief offered by government, regulatory bodies and other institutions' in the ECL model on a reasonable and supportable basis. Further disclosure has been included in the going concern and subsequent event sections of the directors' report.

21.1.2 Financial assets subject to credit risk

	Group		Company	
R'000	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Cash	901 318	458 663	900 622	458 402
Trade and other receivables	31 607	17 011	31 607	17 011
Loans and advances	2 831 980	2 570 371	2 831 980	2 570 371
Other financial assets	120 686	142 152	-	-
	3 885 591	3 188 197	3 764 209	3 162 304

The table below summarises the IFRS 9 categories of expected credit losses (ECL) for financial assets:

	Definition	Calculation of ECL
Stage 1	Low credit risk or no significant increase in credit risk since initial recognition	12 month expected credit losses
Stage 2	Significant increase in credit risk since initial recognition but not credit-impaired	Lifetime expected credit losses
Stage 3	Objective evidence that asset has become credit-impaired since initial recognition	Lifetime expected credit losses

21. Financial risk management and governance (continued)

21.1 Credit risk (continued)

21.1.2 Financial assets subject to credit risk (continued)

The following table shows the gross carrying amount of loans and advances carried at amortised cost and the expected credit loss (ECL) per IFRS 9 stage:

Group and company

R'000	Gross book	Expected credit loss (ECL)	Net book	ECL % of gross book
31 December 2019				
Stage 1	1 428 884	(143 710)	1 285 174	10.1%
Stage 2	442 304	(173 113)	269 191	39.1%
Stage 3	3 775 660	(2 498 045)	1 277 615	66.2%
Total	5 646 848	(2 814 868)	2 831 980	49.8%
31 December 2018				
Stage 1	1 207 581	(105 867)	1 101 714	8.8%
Stage 2	416 148	(143 305)	272 843	34.4%
Stage 3	3 541 319	(2 345 505)	1 195 814	66.2%
Total	5 165 048	(2 594 677)	2 570 371	50.2%

The contractual balances of loans partially derecognised that are still subject to enforcement activity amounted to R4 452 million at the reporting date. An amount of R784 million in respect of these balances has been recognised as stage 3 loans.

Cash and trade and other receivables are carried at amortised cost and have been assessed to have no expected credit loss.

The other financial assets comprise the investments in insurance cells (refer note 6) and are measured at fair value through other comprehensive income.

21. Financial risk management and governance (continued)

21.1 Credit risk (continued)

21.1.3 Reconciliation of loans and advances' expected credit loss (ECL)

R'000	Stage 1	Stage 2	Stage 3	Total
Group and company				
2019				
Opening balance	(105 867)	(143 305)	(2 345 505)	(2 594 677)
Originations	(103 690)	(94 796)	(136 212)	(334 698)
Purchases of loans	(41 536)	(24 541)	(4 249)	(70 326)
Existing book movements	45 678	50 092	(534 430)	(438 660)
Partial derecognition	-	19 043	384 687	403 730
Derecognition (settlements in the ordinary course of business)	61 705	20 394	137 664	219 763
Total ECL	(143 710)	(173 113)	(2 498 045)	(2 814 868)
2018				
Opening balance	(115 630)	(172 683)	(2 697 649)	(2 985 962)
Originations	(69 610)	(68 660)	(134 311)	(272 581)
Purchases of loans	(37 712)	(16 709)	(772)	(55 193)
Existing book movements	60 964	83 170	5 058	149 192
Partial derecognition	-	10 816	354 726	365 542
Derecognition (settlements in the ordinary course of business)	56 121	20 761	127 443	204 325
Total ECL	(105 867)	(143 305)	(2 345 505)	(2 594 677)

21.1.4 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. Loans and advances to customers are at fixed interest rates and thus are not subject to interest rate risk.

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					
2019					
Borrowing / unsecured lending	(2 436 121)	(794 853)	901 318	2 831 980	502 324
	(2 436 121)	(794 853)	901 318	2 831 980	502 324
2018					
Borrowing / unsecured lending	(2 163 167)	(466 471)	458 663	2 570 371	399 396
	(2 163 167)	(466 471)	458 663	2 570 371	399 396
Company					
2019					
Borrowing / unsecured lending	(2 436 121)	(794 853)	900 622	2 831 980	501 628
	(2 436 121)	(794 853)	900 622	2 831 980	501 628
2018					
Borrowing / unsecured lending	(2 163 167)	(466 471)	458 402	2 570 371	399 135
	(2 163 167)	(466 471)	458 402	2 570 371	399 135

21. Financial risk management and governance (continued)

21.2 Interest rate risk (continued)

21.2.2 Weighted average interest rates are as follows:	Bank balances	Borrowings
Group and company		
2019		
Interest bearing assets / (liabilities)	5.9%	(10.6%)
2018		
Interest bearing assets / (liabilities)	6.9%	(11.9%)

21. Financial risk management and governance (continued)

21.2 Interest rate risk (continued)

21.2.3 Sensitivity analysis

The impacts of a 1% move in interest rates on the group's profit before tax per asset or liability that is sensitive to a change in interest rates are shown below. An increase in interest rates contributes positively to profit before tax for assets and negatively to profit before tax for liabilities. The opposite impact arises for a decrease in interest rates.

Group R'000	Fair value	Effect on profit before tax of 1% change in rates	Total carrying value of asset / liability classes
31 December 2019			
Assets			
Cash	901 318	9 013	901 318
Trade and other receivables	31 607	-	31 607
Loans and advances	2 831 980	-	2 831 980
Other financial assets	120 686	-	120 686
	3 885 591	9 013	3 885 591
Liabilities			
Trade and other payables	66 173	-	66 173
Interest bearing borrowings	3 230 974	19 361	3 230 974
- Variable rate borrowings	2 436 121	19 361	2 436 121
- Fixed rate borrowings	794 853	-	794 853
	3 297 147	19 361	3 297 147
31 December 2018			
Assets			
Cash	458 663	4 587	458 663
Trade and other receivables	17 011	-	17 011
Loans and advances	2 570 371	-	2 570 371
Other financial assets	142 152	-	142 152
	3 188 197	4 587	3 188 197
Liabilities			
Trade and other payables	74 060	-	74 060
Interest bearing borrowings	2 629 638	16 632	2 629 638
- Variable rate borrowings	2 163 167	16 632*	2 163 167
- Fixed rate borrowings	466 471	-	466 471
	2 703 698	16 632	2 703 698

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

21. Financial risk management and governance (continued)

21.2 Interest rate risk (continued)

21.2.3 Sensitivity analysis (continued)

The impacts of a 1% move in interest rates on the company's profit before tax per asset or liability that is sensitive to a change in interest rates are shown below. An increase in interest rates contributes positively to profit before tax for assets and negatively to profit before tax for liabilities. The opposite impact arises for a decrease in interest rates.

Company **R'000**	**Fair value**	**Effect on profit before tax of 1% change in rates**	**Total carrying value of asset / liability classes**
31 December 2019			
Assets			
Cash	900 622	9 006	900 622
Trade and other receivables	31 607	-	31 607
Loans and advances	2 831 980	-	2 831 980
Investment in subsidiaries	95 474	-	95 474
	3 859 683	9 006	3 859 683
Liabilities			
Trade and other payables	40 279	-	40 279
Interest bearing borrowings	3 230 974	19 361	3 230 974
- Variable	2 436 121	19 361	2 436 121
- Fixed	794 853	-	794 853
	3 271 253	19 361	3 271 253
31 December 2018			
Assets			
Cash	458 402	4 584	458 402
Trade and other receivables	17 011	-	17 011
Loans and advances	2 570 371	-	2 570 371
Investment in subsidiaries	116 520	-	116 520
	3 162 304	4 584	3 162 304
Liabilities			
Trade and other payables	48 166	-	48 166
Interest bearing borrowings	2 629 638	16 632	2 629 638
- Variable	2 163 167	16 632*	2 163 167
- Fixed	466 471	-	466 471
	2 677 804	16 632	2 677 804

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

21. Financial risk management and governance (continued)

21.3 Liquidity risk management

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

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

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

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

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

R'000	0 to 3 months	4 to 12 months	> 12 months	Total
Group				
2019				
Trade and other payables	66 187	-	-	66 187
Interest bearing liabilities	240 309	1 158 948	3 040 681	4 439 938
Cash flows from financial liabilities	306 496	1 158 948	3 040 681	4 506 125
2018				
Trade and other payables	74 060	-	-	74 060
Interest bearing liabilities	346 900	614 284	2 742 876	3 704 060
Cash flows from financial liabilities	420 960	614 284	2 742 876	3 778 120

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				
2019				
Trade and other payables	40 279	-	-	40 279
Interest bearing liabilities	240 309	1 158 948	3 040 681	4 439 938
Cash flows from financial liabilities	280 588	1 158 948	3 040 681	4 480 217
2018				
Trade and other payables	48 166	-	-	48 166
Interest bearing liabilities	346 900	614 284	2 742 876	3 704 060
Cash flows from financial liabilities	395 066	614 284	2 742 876	3 752 226

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 2019

R'000	Fair value through other comprehensive income	Fair value through profit or loss	Financial assets carried at amortised cost	Non-financial assets	Total
Assets					
Cash	-	-	901 318	-	901 318
Trade and other receivables	-	-	19 108	12 499	31 607
Loans and advances	-	-	2 831 980	-	2 831 980
Deferred tax assets	-	-	-	141 952	141 952
Other financial assets	120 686	-	-	-	120 686
	120 686	-	3 752 406	154 451	4 027 543

R'000	Financial liabilities carried at amortised cost	Non-financial liabilities / equity	Total
Equity and liabilities			
Trade and other payables	66 173	-	66 173
Tax liabilities	-	14	14
Interest bearing liabilities	3 230 974	-	3 230 974
Shareholder's surplus	-	730 382	730 382
	3 297 147	730 396	4 027 543

Group – 31 December 2018

R'000	Fair value through other comprehensive income	Fair value through profit or loss	Financial assets carried at amortised cost	Non-financial assets	Total
Assets					
Cash	-	-	458 663	-	458 663
Trade and other receivables	-	-	36	16 975	17 011
Loans and advances	-	-	2 570 371	-	2 570 371
Deferred tax assets	-	-	-	312 402	312 402
Other financial assets	142 152	-	-	-	142 152
	142 152	-	3 029 070	329 377	3 500 599

R'000	Financial liabilities carried at amortised cost	Non-financial liabilities / equity	Total
Equity and liabilities			
Trade and other payables	74 060	-	74 060
Interest bearing liabilities	2 629 638	-	2 629 638
Shareholder's surplus	-	796 901	796 901
	2 703 698	796 901	3 500 599

21. Financial risk management and governance (continued)

21.5 Categorisation – statement of financial position (continued)

Company - 31 December 2019

R'000	Fair value through other comprehensive income	Fair value through profit or loss	Financial assets carried at amortised cost	Non-financial assets	Total
Assets					
Cash	-	-	900 622	-	900 622
Trade and other receivables	-	-	19 108	12 499	31 607
Loans and advances	-	-	2 831 980	-	2 831 980
Deferred tax assets	-	-	-	141 952	141 952
Investment in subsidiaries	95 474	-	-	-	95 474
	95 474	-	3 751 710	154 451	4 001 635

R'000	Financial liabilities carried at amortised cost	Non-financial liabilities / equity	Total
Equity and liabilities			
Trade and other payables	40 279	-	40 279
Interest bearing liabilities	3 230 974	-	3 230 974
Shareholder's surplus	-	730 382	730 382
	3 271 253	730 382	4 001 635

Company - 31 December 2018

R'000	Fair value through other comprehensive income	Fair value through profit or loss	Financial assets carried at amortised cost	Non-financial assets	Total
Assets					
Cash	-	-	458 402	-	458 402
Trade and other receivables	-	-	36	16 975	17 011
Loans and advances	-	-	2 570 371	-	2 570 371
Deferred tax assets	-	-	-	312 402	312 402
Investment in subsidiaries	116 520	-	-	-	116 520
	116 520	-	3 028 809	329 377	3 474 706

R'000	Financial liabilities carried at amortised cost	Non-financial liabilities / equity	Total
Equity and liabilities			
Trade and other payables	48 166	-	48 166
Interest bearing liabilities	2 629 638	-	2 629 638
Shareholder's surplus	-	796 902	796 902
	2 677 804	796 902	3 474 706

21. Financial risk management and governance (continued)

21.6 Categorisation – statement of comprehensive income

Group

R'000	Financial assets carried at amortised cost	Financial liabilities carried at amortised cost	Fair value through other comprehen -sive income	Non-financial assets and liabilities	Total
2019					
Interest income	953 489	-	-	-	953 489
Interest expense	-	(337 415)	-	-	(337 415)
Net impairment	(604 054)	-	-	-	(604 054)
Legal collection costs on-charged to customers	6 063	-	-	-	6 063
Loan fee expense	(3 762)	-	-	-	(3 762)
Dividends received	-	-	38 042	-	38 042
Indirect costs	-	-	-	70 567	70 567
Profit before tax for the year	351 736	(337 415)	38 042	70 567	122 930
2018					
Interest income	894 968	-	-	-	894 968
Interest expense	-	(328 035)	-	-	(328 035)
Net impairment	(365 630)	-	-	-	(365 630)
Legal collection costs on-charged to customers	7 959	-	-	-	7 959
Loan fee expense	(3 076)	-	-	-	(3 076)
Dividends received	-	-	38 525	-	38 525
Indirect costs	-	-	-	(268 937)	(268 937)
Loss before tax for the year	534 221	(328 035)	38 525	(268 937)	(24 226)

21. Financial risk management and governance (continued)

21.6 Categorisation – statement of comprehensive income (continued)

Company

R'000	Financial assets carried at amortised cost	Financial liabilities carried at amortised cost	Fair value through other comprehen -sive income	Non-financial assets and liabilities	Total
2019					
Interest income	953 439	-	-	-	953 439
Interest expense	-	(337 415)	-	-	(337 415)
Net impairment	(604 054)	-	-	-	(604 054)
Legal collection costs on-charged to customers	6 063	-	-	-	6 063
Loan fee expense	(3 761)	-	-	-	(3 761)
Dividends received	-	-	40 137	-	40 137
Indirect costs	-	-	-	70 567	70 567
Profit before tax for the year	351 687	(337 415)	40 137	70 567	124 976
2018					
Interest income	894 968	-	-	-	894 968
Interest expense	-	(328 035)	-	-	(328 035)
Net impairment	(365 630)	-	-	-	(365 630)
Legal collection costs on-charged to customers	7 959	-	-	-	7 959
Loan fee expense	(3 075)	-	-	-	(3 075)
Dividends received	-	-	40 302	-	40 302
Indirect costs	-	-	-	(268 937)	(268 937)
Loss before tax for the year	534 222	(328 035)	40 302	(268 937)	(22 448)

21. Financial risk management and governance (continued)

21.7 Level disclosures

The table below provides an analysis of financial instruments that are measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statements of financial position.

R'000	Level 1	Level 2	Level 3	Total
Group				
2019				
Investment in insurance cells (note 6)	-	-	120 686	120 686
Total	-	-	120 686	120 686
2018				
Investment in insurance cells (note 6)	-	-	142 152	142 152
Total	-	-	142 152	142 152
Company				
2019				
Investment in Zenthyme Investments (Pty) Ltd (note 5)	-	-	95 474	95 474
Total	-	-	95 474	95 474
2018				
Investment in Zenthyme Investments (Pty) Ltd (note 5)	-	-	116 520	116 520
Total	-	-	116 520	116 520

21. Financial risk management and governance (continued)

21.7 Level disclosures (continued)

Reconciliation of level 3 fair value measurements of financial assets

R'000	Interest rate cap	Investment in insurance cells	Total
Group			
2019			
Opening balance	-	142 152	142 152
Purchases	-	-	-
Total losses			
- in other comprehensive income	-	(18 985)	(18 985)
- in profit and loss	-	-	-
Dividends receivable	-	(2 481)	(2 481)
Closing balance	-	120 686	120 686
2018			
Opening balance	2 438	171 501	173 939
Purchases	-	-	-
Total losses			
- in other comprehensive income	-	(27 315)	(27 315)
- in profit and loss	(2 438)	-	(2 438)
Dividends receivable	-	(2 034)	(2 034)
Closing balance	-	142 152	142 152

R'000	Interest rate cap	Investment in Zenthyme Investments (Pty) Ltd	Total
Company			
2019			
Opening balance	-	116 520	116 520
Purchases	-	-	-
Total losses			
- in other comprehensive income	-	(21 046)	(21 046)
- in profit and loss	-	-	-
Dividends receivable	-	-	-
Closing balance	-	95 474	95 474
2018			
Opening balance	2 438	145 612	148 050
Purchases	-	-	-
Total losses			
- in other comprehensive income	-	(29 092)	(29 092)
- in profit and loss	(2 438)	-	(2 438)
Dividends receivable	-	-	-
Closing balance	-	116 520	116 520

21. Financial risk management and governance (continued)

21.7 Level disclosures (continued)

Sensitivity analysis of valuation using unobservable inputs

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

Group - for valuation of investments in insurance cells (note 6) and
Company - for valuation of investment in Zenthyme Investments (Pty) Ltd (note 5)[1]

31 December 2019

R'000	Significant unobservable parameters	Potential effect recorded directly in equity	
Valuation of investment/s			
- Flex 10% favourable	(i), (ii)	14 078	
- Flex 10% unfavourable	(i), (ii)		(13 450)
		14 078	(13 450)

31 December 2018

R'000	Significant unobservable parameters	Potential effect recorded directly in equity	
Valuation of investment/s			
- Flex 10% favourable	(i), (ii)	14 771	
- Flex 10% unfavourable	(i), (ii)		(14 094)
		14 771	(14 094)

Unobservable parameters used for flex:

i. Risk-free yield curve
ii. Claims ratio

[1] The investment in insurance cells is the main asset of Zenthyme Investments (Pty) Ltd.

22. Directors' remuneration

R'000	Services to BaySec paid by BaySec	Services to other group companies		Paid to provident fund	Total
		Paid by group companies	Paid by related parties		
2019					
Jack Trevena [1, 2]	76	76	-	-	152
Olivia Ferreira [2]	76	75	-	-	151
Alfred Ramosedi	-	3 955	-	218	4 173
RishendrieThanthony [2]	76	75	-	-	151
	228	4 181	-	218	4 627
2018					
Bertus Korb [1, 2]	73	72	-	-	145
Jack Trevena [1, 2]	72	72	-	-	144
Olivia Ferreira [2]	-	-	-	-	-
RishendrieThanthony [2]	72	71	-	-	143
Bryan Arlow	-	-	4 354	-	4 354
Alfred Ramosedi	-	634	-	35	669
	217	849	4 354	35	5 455

[1] Chairman

[2] The director is employed by TMF Corporate Services (SA) (Pty) Ltd (TMF). The company pays TMF directly for their services and the amounts are split evenly amongst the TMF directors. No amounts are paid directly to the director.

23. Subsequent events

On 30 January 2020, the World Health Organisation (WHO) declared a global health emergency in respect of COVID-19 and elevated the severity of this virus to a pandemic on 11 March 2020. The South African government enforced a national lockdown with effect from 27 March 2020 and we believe this drastic but necessary measure will have a pervasive impact on the South African economy and consequently increase credit risk in the unsecured lending market.

In our view, this development constitutes a non-adjusting post balance sheet event for the annual financial statements ended 31 December 2019. In light of the current uncertainty, we have performed an assessment as at 30 April 2020 and have confirmed that the going concern assumption applied in the preparation of the annual financial statements for the current reporting period is still appropriate. Although the potential impact on the financial performance of the group is likely to be adverse, we are unable to quantify the magnitude of this impact due to the rapidly evolving circumstances.