

NQABA FINANCE 1 (RF) LIMITED
(Registration number 2005/040050/07)
Annual Financial Statements
for the year ended 31 March 2014

NQABA FINANCE 1 (RF) LIMITED

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

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The annual financial statements of Nqaba 1 (RF) Limited have been prepared under the supervision of the financial manager, Mr ET Bester.

The annual financial statements have been audited in compliance with section 30 of the Companies Act.

Published
29 May 2014

NQABA FINANCE 1 (RF) LIMITED

Statement of responsibilities and approval

The Public Finance Management Act requires the directors to ensure that Nqaba Finance 1 (RF) Limited (Nqaba) keeps full and proper records of their financial affairs. The annual financial statements should fairly present the state of affairs of Nqaba, its financial results for the year and its financial position at the end of the year in terms of International Financial Reporting Standards.

To enable the directors to meet the above mentioned responsibilities, the Nqaba board of directors sets standards and management implements systems of internal control. The controls are designed to provide cost-effective assurance that assets are safeguarded, and that liabilities and working capital are efficiently managed. Policies, procedures, structures and approval frameworks provide direction, accountability and division of responsibilities, and contain self-monitoring mechanisms. The controls throughout Nqaba focus on those critical risk areas identified by operational risk management and confirmed by executive management. Both management and the internal audit department closely monitor the controls, and actions are taken to correct deficiencies as they are identified.

The preparation and fair presentation of the Nqaba annual financial statements are the responsibility of the directors. The external auditors are responsible for independently auditing the financial statements in accordance with International Standards of Auditing and the Public Audit Act, 25 of 2004.

The directors have made an assessment of the ability of Nqaba to continue as a going concern in the foreseeable future and are satisfied that Nqaba have access to adequate resources and facilities to be able to continue operations for the foreseeable future. Accordingly, the board have continued to adopt the going-concern basis in preparing the financial statements.

The financial statements of Nqaba have been prepared in terms of International Financial Reporting Standards, the Companies Act of South Africa, 71 of 2008, and the Public Finance Management Act, 1 of 1999, as amended. These annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates and are prepared on the going-concern basis.

Based on the information and explanations given by management, the internal audit function and discussions held with the independent external auditors, the directors are of the opinion that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the annual financial statements and that accountability for assets and liabilities is maintained.

The audit and risk committee has reviewed the effectiveness of Nqaba's internal controls and considers the systems appropriate for the effective operation of Nqaba. The committee has evaluated Nqaba annual financial statements and has recommended their approval to the board. The audit and risk committee's approval is set out on pages 3-4.

Nothing significant has come to the attention of the directors to indicate that any material breakdown has occurred in the functioning of these controls, procedures and systems during the year under review.

In the opinion of the directors, based on the information available to date, the annual financial statements fairly present the financial position of Nqaba at 31 March 2014 and the results of its operations and cash flow information for the year then ended.

The annual financial statements of Nqaba set out on pages 8 to 36, were approved by the Board of directors of Nqaba on 29 May 2014 and are signed on its behalf by:



KW van Staden (Chairperson)
Director
29 May 2014



EM Southey
Director
29 May 2014

NQABA FINANCE 1 (RF) LIMITED

Report of the audit and risk committee

Report in terms of the Public Finance Management Act, 1 of 1999 and Companies Act, 71 of 2008, section 94(7)(f)

Eskom Holdings SOC Limited (Eskom) has exercised the option in terms of section 94(2) of the Companies Act to enable its audit and risk committee to perform the functions required by the Act on behalf of Nqaba Finance 1 (RF) Limited.

The audit and risk committee reports that it has adopted appropriate formal terms of reference as its audit and risk committee charter, has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

In the conduct of its duties, the audit and risk committee has, inter alia, reviewed the following:

Finance function

- the expertise, resources and experience of the finance function

Internal control, management of risks and compliance with legal and regulatory provisions

- the effectiveness of the internal control systems;
- all factors and risks that may impact on the integrity of the integrated report; and
- the effectiveness of the system and process of risk management including the following specific risks:
 - financial reporting;
 - internal financial controls;
 - fraud risks relating to financial reporting;
 - information technology risks relating to financial reporting; and
 - the effectiveness of the entity's compliance with legal and regulatory provisions

Financial and sustainability information provide

- the adequacy, reliability and accuracy of financial information provided by management

Internal and external audit

- the effectiveness of the assurance and forensic department (internal audit);
- the activities of the assurance and forensic department, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendation
- the independence and objectivity of the external auditors; and
- accounting and auditing concerns identified as a result of internal and external audits, including reportable irregularities

Eskom is applying a combined assurance model to ensure coordinated assurance activities. The audit and risk committee oversees the assurance activities. The committee also oversees the establishment of effective systems of internal control to provide reasonable assurance that Eskom's financial and non financial objectives are achieved.

The audit and risk committee is of the opinion, based on the information and explanations given by management and the assurance and forensic department and discussions with the independent external auditors that:

- the expertise, resources and experience of the finance function are adequate;
- the system and process of risk management and compliance processes are adequate;
- the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained;
- the effectiveness of the assurance and forensic department is adequate and the internal audit charter was approved by the audit and risk committee; and
- having considered the matters set out in section 94(8) of the Companies Act of South Africa, 71 of 2008, and is satisfied with the independence and objectivity of the external auditors

NQABA FINANCE 1 (RF) LIMITED

Report of the audit and risk committee

Nothing significant has come to the attention of the audit and risk committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The audit and risk committee has evaluated the annual financial statements of Eskom Finance Company for the year ended 31 March 2014 and, based on the information provided to the audit and risk committee, considers that they comply, in all material respects, with the requirements of the Companies Act of South Africa, 71 of 2008, the Public Finance Management Act, 1 of 1999, as amended, and International Financial Reporting Standards. The audit and risk committee concurs with the board of directors and management that the adoption of the going concern premise in the preparation of the annual financial statements is appropriate. The audit and risk committee has therefore, at its meeting held on 27 May 2014 recommended the adoption of the financial statements by the board of directors.




B Luthuli
Chairperson
29 May 2014

Statement by company secretary

Declaration by the Company secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, I certify that the company has filed with the Companies and Intellectual Property Commission all such returns and notices in terms of this Act, and all such returns appear to be true, correct and up to date.



ET Bester
Company secretary
29 May 2014

NQABA FINANCE 1 (RF) LIMITED

Directors' report

The directors are pleased to present their report for the year ended 31 March 2014.

1. Principles activities, state of affairs and business review

Nqaba Finance 1 (RF) Limited (Nqaba), is incorporated and domiciled in South Africa. Nqaba manages a pool of mortgage backed securities which are listed on the Interest Rate Market of the Johannesburg Security Exchange Limited (JSE), using a securitisation structure.

There has been no material changes to the nature of the companies business from the prior year.

2. Results of operations

Revenue for the year was R157 million (2013: R159 million). Profit before tax amounted to R2.4 million (2013: R21 million), profit after taxation amounted to R1.8 million (2013: R16 million).

The detailed financial results of the company are set out on page 8 to 36 of the accompanying annual financial statements.

3. Share capital and dividends

No shares were issued during the year under review. Shares issued to date amount to 100 ordinary shares of R1 each and 100 preference shares of 1 cent each.

No dividends were paid during the current financial year. (2013: R12 million)

4. Going concern

The directors are of the opinion that the company will have access to adequate financial resources to continue in operational existence for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the annual financial statements.

5. Directors

The directors in office at the date of this report are as follows:

Directors	Date of appointment	Executive / non-executive
KW van Staden (Chairperson)	01-Jan-09	Non-executive
TL Myburgh	09-Feb-06	Non-executive
EM Southey	01-Mar-11	Non-executive

Directors interest

The directors have no interests in contracts with the company.

Attendance at board meetings

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

Name	Board	Audit and risk
Total number of meetings		
B Luthuli	9	9
C Mabude	9	9
Y Masithela	9	9
BL Fanaroff	7	7
L Zondo	11	6

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

6. Events subsequent to reporting date

The directors are not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the report or financial statements that would significantly affect the operations of the company, or the results of their operations.

NQABA FINANCE 1 (RF) LIMITED

Directors' report

7. Liquidity and solvency

The directors have performed the required liquidity and solvency tests required by the Companies Act of South Africa, 71 of 2008 and are satisfied with the liquidity and solvency of Nqaba.

8. Auditors

SizweNtsalubaGobodo Inc. continued in office as auditors for the company for 2014.

9. Company secretary

ET Bester

Business address

9 Simba Road
Block B Sunninghill Place
Sunninghill
Sandton
2157

Postal address

PO Box 1091
Johannesburg
2000

10. Company

In terms of *IFRS 12 Appendix A*, a structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Nqaba is a structured entity of Eskom Finance Company SOC Limited and is consolidated in the annual financial statements of Eskom Finance Company SOC Limited.

11. Holding company

Nqaba is a structured entity own by Eskom Finance Company SOC Limited, a company incorporated in the Republic of South Africa.

**Independent auditor's report
To the shareholder of Nqaba Finance 1 (RF) Limited**

We have audited the financial statements of Nqaba Finance 1 (RF) Limited as set out on pages 8 to 37, which comprise the statement of financial position at 31 March 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nqaba Finance 1 (RF) Limited at 31 March 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Other matter

The supplementary schedule set out on pages 38 to 39 does not form part of the financial statements and is presented as additional information. We have not audited this schedule and accordingly we do not express an opinion on it.

Other Reports Required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2014, we have read the Report of the audit and risk committee, the Statement by company secretary and the Directors' report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.


SizweNtsalubaGobodo Inc.
Registered Auditor

Per Darshen Govender
Chartered Accountant (SA)
Registered Auditor
Director
29 May 2014
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Woodmead
2191

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Statements of financial position at 31 March 2014

	Notes	2014 R '000	2013 R '000
Assets			
Non-Current Assets			
Properties in possession	4	1 625	4 096
Mortgage advances	5	1 902 913	1 922 181
Deferred tax	6	4 337	1 248
Derivatives held for risk management	7	-	9 224
		1 908 875	1 936 749
Current Assets			
Mortgage advances	5	769	513
Derivatives held for risk management	7	2 708	4 089
Tax receivable	8	4 775	6 446
Trade and other receivables	9	17 880	24 050
Cash and cash equivalents	10	59 953	40 527
		86 085	75 625
Total Assets		1 994 960	2 012 374
Equity and Liabilities			
Equity			
Share capital	11	-	-
Retained income		27 800	26 011
		27 800	26 011
Liabilities			
Non-Current Liabilities			
Derivatives held for risk management	7	233	-
Residential mortgage backed securities	13	1 278 000	1 063 000
		1 278 233	1 063 000
Current Liabilities			
First loss credit enhancement loan	12	293 060	293 043
Residential mortgage backed securities	13	394 619	608 221
Trade and other payables	14	1 248	22 099
		688 927	923 363
Total Liabilities		1 967 160	1 986 363
Total Equity and Liabilities		1 994 960	2 012 374

NQABA FINANCE 1 (RF) LIMITED

Statements of comprehensive income for the year ended 31 March 2014

	Notes	2014 R '000	2013 R '000
Revenue	15	157 474	159 167
Other income	17	4 216	3 933
Operating expenses	18	(5 580)	(5 887)
Operating expenses		156 110	157 213
Net impairment loss	16	(2 320)	(873)
Net fair value gain/(loss) on financial instruments		(10 838)	5 981
Finance costs	19	(140 467)	(140 601)
Profit before taxation		2 485	21 720
Taxation	20	(696)	(6 082)
Profit for the year		1 789	15 638
Other comprehensive income		-	-
Total comprehensive income for the year		1 789	15 638
Profit attributable to :			
Owners of the parent		1 789	15 638
Non-controlling interest - Continuing operations		-	-
		1 789	15 638

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Statements of changes in equity for the year ended 31 March 2014

	Share capital	Retained Income	Total equity
	R '000	R '000	R '000
Balance at 01 April 2012	-	22 373	22 373
Profit for the year	-	15 638	15 638
Total comprehensive income for the year	-	15 638	15 638
Dividends	-	(12 000)	(12 000)
Balance at 01 April 2013	-	26 011	26 011
Profit for the year	-	1 789	1 789
Total comprehensive income for the year	-	1 789	1 789
Balance at 31 March 2014	-	27 800	27 800

Note 11

NQABA FINANCE 1 (RF) LIMITED

Statements of cash flows for the year ended 31 March 2014

	Notes	2014 R '000	2013 R '000
Cash flows from operating activities			
Cash generated from operations	21	136 170	156 705
Interest income		6 674	2 991
Finance costs		(140 467)	(140 601)
Income taxes paid		(2 114)	(13 702)
Net cash from operating activities		263	5 393
Cash flows from investing activities			
Decrease/(increase) in mortgage advances		17 524	(483)
Decrease/(increase) in properties in possession		1 639	365
Net cash from investing activities		19 163	(118)
Cash flows from financing activities			
Dividends paid		-	(12 000)
Total cash movement for the year		19 426	(6 725)
Cash at the beginning of the year		40 527	47 252
Total cash at end of the year	10	59 953	40 527

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these statements are set out below, except for the new or revised statements and interpretations implemented during the year. The nature and effect of the changes to the accounting policies are discussed in note 28.

1.1 Basis of preparation and measurement

Statement of compliance

The financial statements of Nqaba Finance 1 (RF) Limited at and for the year ended 31 March 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act, 1 of 1999, as amended, and the Companies Act of South Africa, 71 of 2008.

Basis of measurement

The financial statements are prepared on the historical cost basis except for derivatives held for risk management which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed where relevant.

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (functional currency). The financial statements are presented in South African rand (rounded to the nearest thousands), which is the company's functional and presentation currency.

1.2 Financial instruments

Non-derivative financial instruments

Recognition, measurement and derecognition of financial assets

Non-derivative financial assets comprises of mortgage advances, trade and other receivables and cash and cash equivalents.

Cash and cash equivalents comprise balances with local and international banks, monies in call accounts, short-term assets and money market assets with an original maturity of less than 90 days. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

All non-derivative financial assets are recognised on the date of commitment to purchase (trade date). Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the group has transferred substantially all the risks and rewards of ownership. Realised gains or losses on derecognition are determined using the last-in-last-out (LIFO) method.

Non-derivative financial assets plus any directly attributable transaction costs are recognised initially at fair value. Directly attributable transaction costs related to financial assets at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred. Subsequent to initial recognition, non-derivative financial assets are measured per asset category (as stated below). The appropriate classification of the financial asset is determined at the time of commitment to acquire the financial asset.

Held to maturity investments (*Loans and receivables*)

Trade and other receivables are classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that management intends to sell immediately or in the short term, which are classified as held-for-trading;
- those that upon initial recognition are designated as available-for-sale;

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Notes to the financial statements

1.2 Financial instruments (continued)

- those for which the group may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

Fair value

Included in the financial trading assets are derivatives held for risk management.

The fair values of trading assets are based on quoted bid prices if available. For assets that are not quoted in an active market, valuation techniques are used. Where pricing models are used, inputs are based on market-related measures at the reporting date. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a financial asset with similar terms and conditions at the reporting date.

The fair value of trade and other receivables for disclosure purposes is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Impairment (loans and receivables)

At each reporting date the group assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired;

- A review for impairment indicators is carried out at each financial year end to determine whether there is any objective evidence that a financial asset not carried at fair value through profit or loss is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost or adverse changes in the technological, market, economic environment in which the entity operates are considered to be indicators that the securities are impaired.
- An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.
- All impairment losses are recognised in profit or loss within net impairment (loss)/reversal.

For amounts due to the group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Where an asset has been impaired, the carrying amount of the asset is reduced through an allowance account.

Recognition, measurement and derecognition of financial liabilities

Non-derivative financial liabilities comprise residential backed mortgage securities, first loss credit enhancement loans and trade and other payables.

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

1.2 Financial instruments (continued)

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs except for financial liabilities at fair value through profit or loss. Directly attributable transaction costs related to liabilities recognised at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred. Subsequent to initial recognition, non-derivative financial liabilities are measured at amortised cost or fair value as per the relevant liability category (as described below).

All non-derivative financial liabilities are recognised on the date of commitment (trade date) and are derecognised when the obligation expires, is discharged or cancelled, or there is a substantial modification to the terms of the liability. Realised gains and losses are determined using the amortised costs.

Financial liabilities at fair value through profit or loss (held-for-trading)

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. An instrument may only be designated at fair value through profit or loss when certain criteria are met. The company has not elected to designate financial liabilities at fair value through profit or loss.

A financial liability is classified as held-for-trading if it is:

- incurred principally for the purpose of selling or repurchasing it in the near term;
- part of a portfolio of identified financial instruments that is managed together and for which there is evidence of a recent pattern of short-term profit taking; or
- a derivative instrument.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss continue to be measured at fair value.

Financial liabilities at amortised cost

Financial liabilities that are not held-for-trading are classified as financial liabilities at amortised cost. Residential backed mortgage securities, that are not held-for-trading are classified as held at amortised cost. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. The trade and other payables of the group are classified as financial liabilities at amortised cost.

Fair value

The fair value of financial trading liabilities is based on quoted offer prices. For liabilities that are not quoted in an active market, valuation techniques are used. Where pricing models are used, inputs are based on market related measures at the reporting date. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a financial liability with similar terms and conditions at the reporting date.

Derivative financial instruments

Recognition

A derivative is a financial instrument whose value changes in response to an underlying variable, requires little or no initial investment and is settled at a future date. All derivatives are classified as held-for-trading instruments, unless they meet the criteria for hedge accounting and have been designated for purposes of applying hedge accounting. Derivatives are initially recognised at fair value and remeasured subsequently at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models which consider current market and contractual prices for the underlying instruments as well as the time value of money.

All derivative instruments of the company are included in the statement of financial position as derivatives held for risk management. Realised and unrealised gains or losses for derivatives used for economic hedging are recognised in profit or loss within net fair value gain/(loss) on financial instruments.

1.3 Share capital

Ordinary shares are classified as equity.

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

1.4 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is expected tax payable on taxable income for the year, using tax rates (and laws) enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

1.5 Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction, affects neither accounting nor taxable profit or loss. However, deferred tax is provided in respect of the temporary differences arising on the assets. Deferred tax is determined using tax rates (and laws) enacted or substantively enacted at the reporting date and that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and reversed if it is no longer probable that the related tax benefits will be realised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

1.6 Impairment of non-financial assets

The carrying amounts of the company's non-financial assets, deferred tax assets and tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. Assets that have an indefinite useful life, for example land, are not subject to depreciation or amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that were subject to impairment are reviewed for possible reversal of the impairment at each reporting date. The impairment (loss)/reversal is recognised in profit or loss within net impairment (loss)/reversal.

1.7 Revenue

Revenue comprises interest income. Interest income comprises interest receivable on loans and advances. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity, the cost can be reliably measured and specific criteria have been met for each of the company's activities as described below. The company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Other income

Other income is recognised when the significant risks and rewards of ownership are transferred to the buyer and the amount of revenue can be measured reliably.

Other income comprises commission income, rentals on repossessed property and income from financial market investments. Interest income earned on swap differential is recognised as it accrues in profit or loss using the effective interest method.

1.8 Finance costs

Finance cost comprises interest payable on borrowings and interest resulting from the unwinding of discount on liabilities. Borrowing costs which are not capitalised are recognised in profit or loss.

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Notes to the financial statements

1.9 Related-party transactions

IAS 24 Related party disclosures provide government related entities an exemption which eliminates the requirements to disclose the related party transactions and outstanding balances, including commitments.

1.10 Mortgage advances

EFC primarily extends home loans to employees of the Eskom group and the Eskom Pension and Provident Fund. EFC's loan book comprises both fixed and variable rate loans. The rates applicable to fixed rate loans are based on market rates at the date of disbursement and remain fixed for the full term of the loan. Variable interest rates are determined and adjusted from time to time taking into account the current market conditions. The unsecured loans comprise of micro loans and are only secured by compulsory credit life insurance policies. The personal home loans are fully guaranteed by the individual's employer.

1.11 Properties in possession

Properties in possession are recognised initially at the lower of fair value of the property or outstanding balance. Properties in possession are subsequently measured at the lower of fair value of the property or the initially recognised value. Valuations are performed semi-annually by independent assessors.

2. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Estimates and judgements are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are recognised in the period in which they are revised and future periods they affect.

3. Risk management

Financial risk management

The company has an integrated risk management framework. The company's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement and reporting. Three types of risks are reported as part of the risk profile, namely operational, strategic and business continuity risks. Operational risks are events, hazards, variances or opportunities which could influence the achievement of Nqaba's compliance and operational objectives. For Nqaba, a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored in to the organisation's strategy and business model which could have an impact on the company's performance. Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of Nqaba. The financial risks, as defined by IFRS 7 Financial instruments: disclosures, and the management thereof, form part of this key risk area.

The Board of Directors (the board) has delegated the management of enterprise wide risk to the audit and risk management committee which operates through various sub committees. One of the committee's objectives is to ensure that the company is not unduly exposed to financial risks. Most of the financial risks arising from financial instruments are managed in the finance function of Eskom Finance Company SOC Limited (EFC).

The company's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated.

The company has exposure to the following risks as a result of its financial instruments:

- credit risk (refer to note 3.1)
- market rate risk (refer to note 3.2)
- liquidity risk (refer to note 3.3)

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

3. Risk management (continued)

3.1 Credit risk

Credit risk is the risk of financial loss to the company if a customer or other counter party (including financial institutions) to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from mortgage loan advances and related services in the ordinary course of business and financial instruments managed in the finance activities. Credit risk includes counterparty risk and delivery or settlement risk.

Counter party risk is the risk that a counter party is unable to meet its financial and/ or contractual obligations during the period of a transaction. Delivery or settlement risk is the risk that a counter party does not deliver on its contractual commitment on maturity date (including the settlement of money and delivery of securities).

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board.

Nqaba purchases eligible home loans originated by EFC, to staff employed by the Eskom group. Policies that govern credit risk are in place. These policies require that various criteria around valuation, affordability and credit history are met, in compliance with the National Credit Act, prior to the approval of a loan. Credit risk is the risk that an asset, in the form of a monetary claim against a counter party, may not result in a cash receipt (or equivalent) in accordance with the terms of the contract. Credit risk in the company arises from various forms of lending. Financial assets, which potentially subject the company to concentrations of high credit risk, consist primarily of mortgage advances. Loans and advances are presented net of impairment provisions. The company register mortgage bonds as security against advances.

Advances exceeding 80% of the property market value are guaranteed by Eskom and its subsidiaries. The fair value of this guarantee approximates R79 million (2013: R81 million).

The amounts advanced are secured by first mortgages on the property purchased and are repayable over an average period of 27 years. The risk of default by the employee is reduced as the monthly instalments are deducted from the employee's salary. Credit risk of Eskom group employees are re-assessed when they leave Eskom's service. These ex-employees may arrange for a monthly debit order or makeover-the-counter deposits to settle the monthly instalment.

The weighted average current loan-to-value ratio of the home loan book at 31 March 2014 was:

	2014	2013
Weighted average current loan-to-value ratio	60.46%	62.8%
The average loan amount in relation to the total home loan book value at 31 March was(R):	223 865	231 000
Loan amount as a percentage of the loan book	0.012%	0.012%

Management of credit risk

Financial instruments managed by the finance function

Credit risk arises from cash and cash equivalents and derivatives held for risk management. Processes are in place to identify, measure, monitor, control and report credit risk. The objective of Eskom's credit risk management framework is firstly to protect cash and investments and, secondly to project and maximise the rate of return of financial market investments.

Credit exposure

The carrying amount of financial assets represents the maximum credit exposure at the reporting date (refer to note 5, 7, 8 and 9). The following table represents an analysis per credit rating level (as determined by rating agencies) of the credit risk of financial assets, as indicated.

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

3. Risk management (continued)

	Cash and cash equivalents R'000	Derivatives held for risk management R'000	Mortgage advances R '000	Trade and other receivables R '000
2014				
AAA	59 953	2 475	-	-
Unrated	-	-	1 903 682	17 880
	59 953	2 475	1 903 682	17 880
2013				
AAA	40 527	-	-	-
Unrated	-	13 313	1 922 694	24 050
	40 527	13 313	1 922 694	24 050

No credit limit were exceeded during the reporting period, nor does management expect any losses from non-performance by these counterparties.

The maximum exposure to credit risk for mortgage advances and trade and other receivables per class was:

	2014 R '000	2013 R '000
Mortgage advances		
Mortgage loans	1 903 682	1 922 694
Other receivable		
Sundry receivables	17 880	24 050

The analysis per credit rating level of credit risk of mortgage advances and trade and other receivables was: Unrated

	Carrying amount R'000	Not past due R'000	0-30 R'000	31-60 R'000	>60 R'000
Mortgage advances					
2014					
Collectively assessed for impairment					
Gross					
Home loans	1 909 378	1 863 739	12 083	8 479	25 077
Impairment	(5 696)	(5 596)	(27)	(20)	(53)
Home loans					
Total carrying amount	1 903 682	1 858 143	12 056	8 459	25 024
2013					
Collectively assessed for impairment					
Gross					
Home loans	1 928 077	1 874 564	14 840	10 220	28 453
Impairment	(5 383)	(2 304)	(503)	(285)	(2 291)
Home loans					
Total carrying amount	1 922 694	1 872 260	14 337	9 935	26 162

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

3. Risk management (continued)

Mortgage advances include an amount of R40 million (2013: R35 million) relating to receivables that were renegotiated. These mortgage advances would have been past due had their terms not been renegotiated.

Allowance for impairment

The movement in the allowance for impairment in respect of trade and other receivables during the year was:

	2014 R'000	2013 R'000
Balance at the beginning of the year	5 943	5 974
Impairment loss (reversal) recognised (net of reversals)	257	(31)
Balance at the end of the year	6 200	5 943
Comprising:		
Housing loans	5 696	5 383
Properties in possession	504	560
	6 200	5 943

Nqaba establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance consists of a specific loss component that relates to individual exposure, and a collective loss component established for groups of similar customers in respect of losses that have been incurred but not yet identified.

3.2 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates, commodity prices, interest rates and equity prices.

Market risk is the potential impact on earnings of unfavourable changes in interest rates, prices, market volatilities and liquidity. Eskom Treasury monitors, analyses and reports market risk to EFC's Finance Committee. The board implemented a funding strategy that aims to protect the company from major interest rate changes and liquidity challenges.

Market risk exposures for funding activities are measured using sensitivity analysis. The current sensitivity analysis measures the impact on net profit of specified movements in interest rates.

Mortgage advances

Market risks in respect of loans receivable arise from changes in interest rates and market prices. Market risk is monitored and analysed through the treasury department and reported to the EFC Finance committee. A strategy aimed at protecting the company from changes in market risk that may have a negative impact on earnings has been implemented. The cost of funding is based on prevailing conditions in the South African money market. Rates charged on outstanding loan receivables are based on movements in the South African Reserve Bank repurchase rate.

Interest rate risk

Interest rate risk is the risk that the company's financial position may be adversely affected as a result of changes in interest rate levels, yield curves and spreads

The company's interest rate risk arises mainly from debt securities issued. Debt securities issued at variable rates expose the company to cash flow interest rate risk. Debt securities issued at fixed rates expose the company to fair value interest rate risk. During increasing and decreasing interest rate market conditions the interest rate risk management strategy followed was to re-price assets in conjunction with the repo rate and decreases.

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

3. Risk management (continued)

Sensitivity analysis

The company analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined interest rate shifts. For each simulation, the same interest rate shift is used for all currencies.

The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The calculation excludes borrowing costs capitalised in terms of the company's accounting policy. The analysis relates to variable-rate instruments and has been performed on the same basis as the prior year.

The simulation is performed on a monthly basis to verify that the maximum loss potential is within the limit set by management. The results of the simulation are included in the table below.

	2014 +100 basis points R'000	2014 -100 basis points R'000	2013 +100 basis points R'000	2013 -100 basis points R'000
Profit/(loss) Rand interest rate	3 093	(3 093)	4 386	(4 386)
	3 093	(3 093)	4 386	(4 386)

The company has elected not to hedge interest rate risk and therefore there would be no impact on equity.

3.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Borrowings are of a revolving nature and are expected to be refinanced with new loans raised in the market upon repayment date.

The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the company's financial liabilities and into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Carrying amount	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
2014					
Debt securities issued	1 672 619	394 619	382 000	760 000	136 000
First loss credit enhancement loan	293 060	293 060	-	-	-
Other liabilities	1 248	1 248	-	-	-
Derivatives held for risk management	233	-	-	233	-
2013					
Debt securities issued	1 671 221	608 221	382 000	545 000	136 000
First loss credit enhancement loan	293 043	293 043	-	-	-
Other liabilities	22 099	22 099	-	-	-

Liquidity risk is the risk that the company will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows from revenue and capital and operational out flows. Nqaba is an evergreen structure where notes issued have a final legal maturity of 30 years and a scheduled maturity of up to 7 years.

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

3. Risk management (continued)

In the event that notes are not refinanced on the scheduled maturity date, notes will start amortising from principal collections on the pool of assets plus the excess margin in the priority of payments.

In this instance the note will be termed a "matured note" and will not constitute an early amortisation event or an event of default.

On each payment date after the scheduled maturity date, the Issuer will partially redeem each matured note in reducing order of rank in accordance with the revolving period priority of payments.

The transaction remains in the revolving period but no new loans will be purchased until the matured notes are redeemed in full.

The Issuer has the option to redeem all the matured notes on any payment date after the scheduled maturity at the outstanding principle and accrued interest by giving not less than 20 days' notice to the note holders and Nqaba Finance 1 Security SPV (RF) Proprietary.

The objective of the company's liquidity and funding management is to ensure that all foreseeable operational and loan commitment expenditure can be met under both normal and stressed conditions. The company has adopted an overall statement of financial position approach, which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, profitability and interest rate considerations.

The management of consolidated liquidity and funding risk is centralised in the finance department in accordance with practices and limits set by the board. The company's liquidity and funding management process includes:

- projecting cash flows and considering the cash required by the company and optimising the short-term liquidity as well as the long-term funding;
- monitoring financial position liquidity ratios;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- actively managing the funding risk by evaluating optimal entry points into the various markets per the official funding plan and
- maintaining liquidity and funding contingency plans

Primary sources of funding and unused facilities

The primary sources to meet liquidity requirements are cash generated from operations, cash inflows from maturing financial assets purchased.

Contractual cash flows

The table below indicates the contractual undiscounted cash flows of the company's financial assets and liabilities on the basis of their earliest possible contractual maturity. The undiscounted cash flows in respect of the company's financial assets are presented net of impairment losses and include estimates where there are no contractual repayment terms or the receivable is past due. The cash flows of the company's financial liabilities are indicated on a gross undiscounted basis.

The cash flows for derivatives are presented as gross inflows and out flows even though physically they are settled simultaneously. Contractual cash flows are a function of forward exchange rates and forward interest rates and is a point in time calculation that is impacted by market conditions at that time.

The table contains only cash flows relating to financial instruments. It does not include future cash flows expected from the normal course of business.

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

3. Risk management (continued)

	Carrying amount				Cash flows			
	Non-current	Current	Total	Nominal inflow or outflow	0 to 3 Months	4 to 12 months	1 to 5 years	More than 5 years
	R '000	R '000	R '000	R '000	R '000	R '000	R'000	R'000
2014								
Financial assets								
Mortgage advances	1 902 913	769	1 903 682	1 903 682	106	663	49 842	1 853 071
Derivatives held for risk management	-	2 708	2 708	2 708	824	1 884	-	-
Trade and other receivables	-	17 880	17 880	17 880	17 880	-	-	-
Cash and cash equivalents	-	59 953	59 953	59 953	59 953	-	-	-
	1 902 913	81 310	1 984 223	1 984 223	78 763	2 547	49 842	1 853 071
Financial liabilities								
Debt securities issued	1 278 000	394 619	1 672 619	1 672 619	394 619	-	1 242 000	136 000
First loss credit enhancement loan	-	293 060	293 060	293 060	293 060	-	-	-
Derivatives held for risk management	233	-	233	233	-	-	233	-
Trade and other payables	-	1 248	1 248	1 248	1 248	-	-	-
	1 278 233	688 927	1 967 160	1 967 160	688 927	-	1 242 233	136 000
Liquidity gap	624 680	(607 617)	17 063	17 063	(610 164)	2 547	(1 192 391)	1 717 071
2013								
Financial assets								
Mortgage advances	1 922 181	513	1 922 694	1 922 694	93	420	41 985	1 880 196
Derivatives held for risk management	9 224	4 089	13 313	13 313	1 031	3 058	8 806	418
Trade and other receivables	-	24 050	24 050	24 050	24 050	-	-	-
Cash and cash equivalents	-	40 527	40 527	40 527	40 527	-	-	-
	1 931 405	69 179	2 000 584	2 000 584	65 701	3 478	50 791	1 880 614
Financial liabilities								
Debt securities issued	1 063 000	608 221	1 671 221	1 671 221	608 221	-	927 000	136 000
First loss credit enhancement loan	-	293 043	293 043	293 043	293 043	-	-	-
Trade and other payables	-	22 099	22 099	22 099	22 099	-	-	-
	1 063 000	923 363	1 986 363	1 986 363	923 363	-	927 000	136 000
Liquidity gap	868 405	(854 184)	14 221	14 221	(857 662)	3 478	(876 209)	1 744 614

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

3. Risk management (continued) Accounting classifications and fair values

The classification of each class of financial assets and liabilities, and their fair values are:

	Held for trading	Loans and receivables	Liabilities at amortised cost	Total carrying amount	Fair value
	R '000	R '000	R '000	R '000	R '000
2014					
Financial assets					
Non-current					
Mortgage advances	-	1 902 913	-	1 902 913	1 766 868
Current					
Mortgage advances	-	769	-	769	769
Derivatives held for risk management	2 708	-	-	2 708	2 708
Trade and other receivables	-	17 880	-	17 880	17 880
Cash and cash equivalents	-	59 953	-	59 953	69 953
	2 708	78 602	-	81 310	91 310
Total financial assets	2 708	1 981 515	-	1 984 223	1 858 178
Financial liabilities					
Non-current					
Debt securities issued	-	-	1 278 000	1 278 000	1 278 000
Derivatives held for risk management	233	-	-	233	233
	233	-	1 278 000	1 278 233	1 278 233
Current					
Debt securities issued	-	-	394 619	394 619	394 619
First loss credit enhancement loan	-	-	293 060	293 060	293 060
Trade and other payables	-	-	1 248	1 248	1 248
	-	-	688 927	688 927	688 927
Total financial liabilities	233	-	1 966 927	1 967 160	1 967 160

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

3. Risk management (continued)

2013

Financial assets

Non-current

Mortgage advances

Derivatives held for risk management

-	1 992 181	-	1 922 181	1 922 181
9 224	-	-	9 224	9 224
9 224	1 992 181	-	1 931 405	1 931 405

	Held for trading	Loans and receivables	Liabilities at amortised cost	Total carrying amount	Fair value
	R'000	R'000	R'000	R'000	R'000
Current					
Mortgage advances	-	513	-	513	513
Derivatives held for risk management	4 089	-	-	4 089	4 089
Trade and other receivables	-	24 050	-	24 050	24 050
Cash and cash equivalents	-	40 527	-	40 527	40 527
	4 089	65 090	-	69 179	69 179
Total financial assets	13 313	2 057 271	-	1 990 584	1 990 584

Financial liabilities

Non-current

Debt securities issued

-	-	1 063 000	1 063 000	1 063 000
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Current

Debt securities issued

First loss credit enhancement loan

Trade and other payables

-	-	608 221	608 221	608 221
-	-	293 043	293 043	293 043
-	-	22 099	22 099	22 099
-	-	923 363	923 363	923 363

Total financial liabilities

-	-	1 986 363	1 986 363	1 986 363
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Nqaba Finance 1 (RF) Limited took possession of properties from debtors who have defaulted on their accounts. The carrying amount of the mortgage bonds which were called upon is R0.4 million (2013: R1.0 million).

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

3. Risk management (continued)

Fair value hierarchy

The table on below analyses fair value measurements for financial assets and financial liabilities. These fair value measurements which are categorised into the different levels in the fair value hierarchy based on the inputs to the valuation techniques used. Other than the application of IFRS 13 there has been no change in the valuation technique applied. The hierarchy levels are defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e as prices) or indirectly (i.e derived from prices). These quotes are tested for reasonableness by discounting expected future cash flows using a market interest rate for a similar instrument at the measurement date. Fair values reflect the credit risk of the instruments and include adjustments for the credit risk of the group entity and counterparty when appropriate
- Level 3: Inputs for the financial asset or financial liability that are not based on observable market data (unobservable inputs).

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

3. Risk management (continued)

2014

Assets measured at fair value

Derivatives held for risk management
-Interest rate swaps

	Level 1 R '000	Fair value Level 2 R '000	Level 3 R '000
	-	2 708	-
	-	2 708	-

Assets not measured at fair value

Mortgage advances
Trade and other receivables
Cash and cash equivalents
-Bank balances

	-	1 903 682	-
	-	17 880	-
	-	59 953	-
	-	1 981 515	-

Liabilities measured at fair value

Derivatives held for risk management
-Interest rate swaps

	-	233	-
	-	233	-

Liabilities not measured at fair value

Residential mortgage backed securities
First loss credit enhancement loan
Trade and other payables

	-	1 672 619	-
	-	293 060	-
	-	1 248	-
	-	1 966 927	-

2013

Assets measured at fair value

Derivatives held for risk management
-Interest rate swaps

	-	13 313	-
	-	13 313	-

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

3. Risk management (continued)

	Level 1 R '000	Fair value Level 2 R '000	Level 3 R '000
Assets not measured at fair value			
Mortgage advances	-	1 922 694	-
Trade and other receivables	-	24 050	-
Cash and cash equivalents	-	40 527	-
-Bank balances	-	-	-
	-	1 987 271	-
Liabilities not measured at fair value			
Residential mortgage backed securities	-	1 671 221	-
First loss credit enhancement loan	-	293 043	-
Trade and other payables	-	22 099	-
	-	1 986 363	-

4. Properties in possession

	2014 R '000	2013 R '000
Properties in possession	2 129	4 656
Less impairments	(504)	(560)
	1 625	4 096

5. Mortgage advances

Mortgage loans	1 903 682	1 922 694
Maturity analysis		
Non current	1 902 913	1 922 181
Current	769	513
	1 903 682	1 922 694

The mortgage advances are split into non-current and current based on the maturity dates of the loans.

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

	2014 R '000	2013 R '000
6. Deferred tax		
Deferred tax asset		
Balance at beginning of year	1 248	1 255
Recognised in profit or loss	3 089	(7)
	4 337	1 248
Reconciliation of deferred tax asset/(liability)		
Balance at beginning of the year	1 248	1 255
Doubtful debt allowance (S11J)	3 089	(7)
	4 337	1 248

Recognition of deferred tax asset / (liability)

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal temporary differences; and
- the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

7. Derivatives held for risk management

	2014		2013			
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
	R '000	R '000	R '000	R '000	R '000	R '000
Derivatives held for risk management						
Interest rate swaps	2 708	233	2 475	13 313	-	13 313
	2 708	233	2 475	13 313	-	13 313
Maturity analysis						
Non-current	-	(233)	(233)	9 224	-	9 224
Current	2 708	-	2 708	4 089	-	4 089
	2 708	(233)	2 475	13 313	-	13 313
Reconciliation						
Derivatives held for risk management						
Opening balance	13 313	-	13 313	7 332	-	7 332
Charged to profit or loss	(10 605)	(233)	(10 838)	5 981	-	5 981
Closing balance	2 708	(233)	2 475	13 313	-	13 313

Interest rate swaps are used to hedge the interest expense variability of the issued fixed rate notes issued on 22 May 2010. No hedge accounting is applied. The interest rate swaps are linked to the main debt from the secured note holders. Quarterly payments or receipts are based on the difference between the Johannesburg Interbank Agreed Rate plus an agreed fixed interest spread and the fixed rate of the swap agreement. The fair value of a derivative represents the value of cash flows (either positive or negative) which would have occurred if the rights and obligation arising from those instruments were closed out in the market place at year end.

The interest differential earned during the year on this swap agreement was R4.2 million (2013: R3.9 million).

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

8. Tax paid

Balance at beginning of the year	6 446	(1 181)
Current tax for the year recognised in profit or loss	(3 785)	(6 075)
Balance at the end of the year	(4 775)	(6 446)
Tax paid	(2 114)	(13 702)

9. Trade and other receivables

Trade receivables	17 880	24 050
Maturity analysis		
Non-current	-	-
Current	17 880	24 050
	17 880	24 050

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The company does not any collateral as security.

10. Cash and cash equivalents

Bank balances	59 953	40 527
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11. Share capital

Authorised

1000 Ordinary shares of R1 each

100 Cumulative redeemable preference shares of R0.01 each

	-	-
	-	-

Issued

100 Ordinary shares R1 each

100 Cumulative redeemable preference shares of R0.01 each

	-	-
	-	-

12. First loss credit enhancement loan

Subordinated loan - Eskom Finance Company SOC Limited	290 000	290 000
Accrued interest	3 060	3 043
	293 060	293 043

The aggregate principal amount of the subordinated loan is R290 million and shall be used by the Issuer solely to:

- fund a portion of the purchase price of home loans; and
- to repay, on any scheduled maturity date, the refinanced notes and any subordinated loan associated with the refinanced notes

The First Loss Credit Enhancement Loan or such balance as shall remain outstanding from time to time, bears interest at 3 month JIBAR plus 5.0%. Although interest accrues on a daily basis, it only becomes owing in respect of each Interest Period to the extent that the notional amount of net income accrued to Nqaba, after taking account of all other income and expenses, exceeds the interest to be accrued, Nqaba shall not incur any obligation, then or at any later date, to pay such excess. Any interest which is owing is payable by Nqaba in arrears on each Interest Payment Date, provided that the payment is made in accordance with the Priority of Payments.

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

13. Residential mortgage backed securities

	Interest rate		Maturity date	Nominal		Carrying value	
	2014 %	2013 %		2014 R '000	2013 R '000	2014 R '000	2013 R '000
Commercial paper							
Floating rate notes							
Class A9	-	6.53	May 2013	-	127 000	-	127 864
Class B9	-	6.93	May 2013	-	30 000	-	30 216
Class C9	-	7.43	May 2013	-	12 000	-	12 093
Class D4	-	8.08	May 2013	-	30 000	-	30 252
Class A14	-	5.62	May 2013	-	375 000	-	377 195
Class B13	-	5.98	May 2013	-	10 000	-	10 062
Class C13	-	6.43	May 2013	-	13 000	-	13 087
Class A12	6.69	6.09	May 2014	318 000	318 000	320 105	320 018
Class B11	7.03	6.43	May 2014	32 000	32 000	32 222	32 215
Class C11	7.43	6.83	May 2014	32 000	32 000	32 235	32 228
Class A15	6.59	5.99	May 2015	303 000	303 000	304 977	304 890
Class B14	6.78	6.18	May 2015	8 000	8 000	8 054	8 052
Class C14	7.13	6.53	May 2015	5 000	5 000	6 047	5 034
Class D6	8.32	7.72	May 2016	24 000	24 000	24 197	24 193
Class A11	6.93	6.33	May 2016	205 000	205 000	206 406	206 352
Class A16	6.53	-	May 2016	200 000	-	201 292	-
Class A17	6.78	-	May 2018	302 000	-	304 026	-
Class B15	6.93	-	May 2018	40 000	-	40 274	-
Class C15	7.03	-	May 2018	25 000	-	25 174	-
Class D7	7.23	-	May 2018	30 000	-	30 214	-
Class A10	10.44	10.44	May 2020	115 000	115 000	116 184	116 249
Class B10	10.64	10.64	May 2020	11 000	11 000	11 115	11 122
Class C10	10.84	10.84	May 2020	5 000	5 000	5 053	5 056
Class D5	8.93	8.33	May 2020	5 000	5 000	5 044	5 043
				1 660 000	1 660 000	1 672 619	1 671 221

Maturity analysis

	2014 R '000	2013 R '000
Non-current	1 278 000	1 063 000
Current	394 619	608 221
	1 672 619	1 671 221

During the period there were no loans overdue.

Class A8, A9, A11, A12, A13, A14, A15, B9, B11, B12, B13, B14, C9, C11, C12, C13, C14, D4, D5 and D6 are Secured floating rate notes

Interest on the notes is payable at an annual rate equal to the sum of the Johannesburg Interbank Acceptance Rate ("JIBAR") for 3 Months Rand deposits plus a margin of:

- 1.31% per annum in relation to Class A8 Notes;
- 1.25% per annum in relation to Class A11 Notes;
- 1.01% per annum in relation to Class A12 Notes;
- 0.55% per annum in relation to Class A13 Notes;
- 0.91% per annum in relation to Class A15 Notes;
- 0.85% per annum in relation to Class A16 Notes;
- 1.10% per annum in relation to Class A17 Notes;
- 1.35% per annum in relation to Class B11 Notes;
- 1.00% per annum in relation to Class B12 Notes;
- 1.10% per annum in relation to Class B14 Notes;
- 1.25% per annum in relation to Class B15 Notes;
- 1.75% per annum in relation to Class C11 Notes;
- 1.48% per annum in relation to Class C12 Notes;
- 1.45% per annum in relation to Class C14 Notes;

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

13. Residential mortgage backed securities (continued)

- 1.35% per annum in relation to Class C15 Notes;
- 3.25% per annum in relation to Class D5 Notes; and
- 2.64% per annum in relation to Class D6 Notes;
- 1.55% per annum in relation to Class D7 Notes;

Class A10, B10 and C10 are Secured fixed rate notes

The fixed interest rate of these notes were:

- 10.435% per annum in relation to Class A10 Notes;
- 10.635% per annum in relation to Class B10 Notes; and
- 10.835% per annum in relation to Class D4 Notes;

The interest rate swap agreement rates applicable to these notes are:

- 2.100% per annum in relation to Class A10 Notes;
- 2.300% per annum in relation to Class B10 Notes; and
- 2.500% per annum in relation to Class C10 Notes;

Interest is payable quarterly on the 22nd day of February, May, August and November or if the 22nd is not a business day, the next business day.

Interest payable on each class of notes will occur in descending order of rank and with notes of equal rank being paid parri passu, until the interest due and payable in respect of each such class of notes has been paid in full.

The Notes are solely the obligations of Nqaba and are neither the obligations of, nor the responsibility of and nor are they guaranteed by EFC.

Covenants

Covenants are standardised wherever possible and are monitored on an on-going basis with formal testing reported to the board. The company continues to comply with all borrowing obligations and financial covenants. All financial covenants have been tested and complied with as at 31 March 2014.

14. Trade and other payables

	2014 R '000	2013 R '000
Accruals	1 248	1 988
Eskom Finance Company SOC Limited	-	20 111
	1 248	22 099

15. Revenue

Mortgage advances	155 016	156 176
Call account - ABSA Bank Limited	2 458	2 991
	157 474	159 167

16. Net impairment loss

Mortgage loans	1 488	850
Properties in possession	832	23
	2 320	873

17. Other income

Interest differential earned on swap agreements	4 216	3 933
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NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

	2014 R '000	2013 R '000
18. Operating expenses		
Auditors fees	336	311
Management fees	570	570
Servicer fees	3 284	3 278
Liquidity facility fee	42	42
Redraw facility fees	474	464
Back up servicer fees	192	192
JSE fixed fee	53	52
JSE variable fee	56	15
Owner trustee fee	167	167
Rating fee	245	605
National credit regulator fee	88	87
Credit ombudman	57	50
Strate fixed fee	16	54
	5 580	5 887
19. Finance costs		
Interest paid on borrowings	140 467	140 601
20. Income tax		
Major components of the tax expense		
Current		
Current tax	3 785	6 075
Deferred		
Deferred tax	(3 089)	7
Total income tax in profit or loss	696	6 082
Reconciliation of the tax expense		
	%	%
Taxation as a percentage of profit before tax	28	28
Taxation effect of:		
Expenses not deductible for tax purposes	-	-
Standard tax rate	28	28
21. Cash generated from operations		
Profit before taxation	2 485	21 720
Adjustments for:		
Net fair value (gain)/loss on financial instruments	10 838	(4 522)
Net impairment loss	2 320	873
Finance costs	140 467	140 601
Finance income	(6 674)	(2 991)
Changes in working capital:		
Increase/(Decrease) in trade and other receivables	6 170	2 312
(Increase)/Decrease in interest payable	1 415	(1 288)
Increase in trade and other payables	(20 851)	-
	136 170	156 705

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

25. Other related party transactions

These transactions comprise those entered into with Maitland Trustees Proprietary Limited, the trustee of the Issuer and of Nqaba Finance1 Security SPV (RF) Proprietary Limited and relates to Trustee fees paid during the period and owed to the Trustees at the end of the period.

	2014 R '000	2013 R '000
Transactions		
Purchases of goods and services	-	-
Owner trustee fees	167	167
	167	167
Outstanding balances (due to related parties)		
Payables and amounts owed to related parties	-	-
Owner trustee fees	-	9
	-	9
Outstanding balances (due by related parties)		
Payables and amounts owed by related parties	-	-
Owner trustee fees	2	-
	2	-

26. Significant events

The Residential Mortgaged Backed Securities in note 12 of these financial statements, scheduled for maturity on 22 May 2014, have been successfully re-financed on 22 May 2014. None of the notes became a "matured note" as defined in note 2 of these financial statements.

The Eskom board of directors is currently in the process of developing a project plan and strategy for the disposal of EFC in terms of a directive from the Department of Public Enterprises. An estimation of the financial effect of this event cannot be determined at the date of these annual financial statements.

27. Directors' emoluments

The directors do not receive individual remuneration from the company. Due to the nature of the securitisation structure Maitland Trustees Proprietary Limited (Maitland) acts as Trustees of the Issuer and of Nqaba Finance 1 Security SPV (RF) Proprietary Limited. Employees of Maitland serve as directors of the company. The fee paid to Maitland for their services to the securitisation structure is disclosed in note 25.

NQABA FINANCE 1 (RF) LIMITED

Notes to the financial statements

28. New Standards and Interpretations

28.1 Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, interpretations and amendments to existing standards have been published that are applicable for future accounting periods but have not been adopted early by the company:

Amendments to IAS 32 *Financial instruments: presentation* (effective 1 January 2014)

The amendments to IAS 32 were issued to address inconsistencies in current practice when applying the offsetting criteria in IAS 32 *Financial Instruments: Presentation*. The amendments clarify the meaning of currently has a legally enforceable right of set-off, and that certain gross settlement systems may be considered equivalent to net settlement. The company is currently in the process of evaluating the detailed requirements of this amendment to assess the possible impact on the company's financial statements.

IFRS 7 *Financial instruments: disclosure* (effective 1 January 2014)

The amendments to IFRS 7 require additional disclosure on transfer transactions of financial assets, including the possible effects of any residual risks that the transferring entity retains, if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments also requires additional disclosure on offsetting financial assets and financial liabilities. These amendments are not expected to have a significant impact on the company's financial statements.

IFRS 9 *Financial instruments* (effective date unknown)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The company is continuously assessing the possible impact. The company is currently in the process of evaluating the detailed requirements of this new standard to assess the possible impact on the company's financial statements.

Amendments to IAS 36 *Impairment of assets* (effective 1 January 2014)

The amendment on recoverable amount disclosures addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment removed certain disclosures of the recoverable amount of CGU's which have been included in IAS 36 by the issue of IFRS 13. The company is busy assessing the impact.

28.2 Standards, interpretations and amendments to published standards that are effective and applicable to the company

The company has adopted the following new standards, interpretation and amendments to existing standards for the first time for the financial year ended 31 March 2014. The nature and effect of the changes are as follows:

IFRS 13 *Fair value measurement* (effective 1 January 2013)

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, and when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements regarding fair value measurements in other IFRSs, including IFRS 7 *Financial instruments: Disclosures*. The company included additional disclosures in this regard (refer note 3).

In accordance with the transitional provisions of IFRS 13, the company has applied the new fair value measurement guidance prospectively.

Amendments to IAS 1 *Presentation of financial statements* (effective 1 January 2013)

The amendment to IAS 1 gives clarity on when a third statement of financial position is required. This is only required if a retrospective change in accounting policy, a retrospective correction of an error or a reclassification has a material effect on information in the statement of financial statement. The effect of the change is regarded as being immaterial.

Amendments to IAS 32 *Financial instruments: presentation* (effective 1 January 2013)

The amendment to IAS 32 delete the words 'net of tax' in the distribution to equity holders. The tax effect will be treated in terms of IAS 12. The adoption of the amendment had no impact on the company's financial statements.

NQABA FINANCE 1 (RF) LIMITED

Detailed statements of comprehensive income

	Notes	2014 R '000	2013 R '000
Interest received		157 474	159 167
Interest expense		(140 467)	(140 601)
Net interest income	15	17 007	18 566
Other income			
SWAP received		4 216	3 933
Fair value gains/(losses)		(10 838)	5 981
		(6 622)	9 914
Expenses (Refer to page 38)		(7 900)	(6 760)
Profit before taxation		2 485	21 720
Taxation	20	696	6 082
Profit for the year		1 789	15 638

NQABA FINANCE 1 (RF) LIMITED

Detailed statements of comprehensive income

	Notes	2014 R '000	2013 R '000
Operating expenses			
Management fees - Absa bank Limited			
Auditors remuneration		(570)	(570)
Back-up servicer fees - Absa bank Limited		(336)	(311)
Impairment charge		(192)	(192)
JSE listing fees		(2 063)	(873)
Liquidity facility fee - Absa Bank Limited		(109)	(68)
NCR fees		(42)	(41)
Credit ombudsman		(88)	(87)
Rating fees		(57)	(50)
Redraw facility fees - Absa Bank Limited		(245)	(604)
Servicer fees - Eskom Finance Company SOC Limited		(474)	(465)
STRATE fees		(3 284)	(3 277)
Trustee fees		(16)	(55)
Provision for losses		(167)	(167)
		(257)	-
		(7 900)	(6 760)