Nqaba Finance 1 (RF) Ltd
(Registration number 2005/040050/07)
Annual financial statements
for the year ended 31 March 2016

Nqaba Finance 1 (RF) Ltd

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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 for the year ended 31 March 2016 of Nqaba Finance 1 (RF) Ltd have been prepared under the supervision of the financial manager, Ettienne Bester and were approved by the board of directors and signed on its behalf on 24 May 2016.

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

Published

24 May 2016

Nqaba Finance 1 (RF) Ltd

Statement of responsibilities and approval

The Companies Act of South Africa, 71 of 2008 requires the directors to ensure that Nqaba Finance 1 (RF) Ltd (Nqaba) keeps full and proper records of its 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 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 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 on 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 has access to adequate resources and facilities to be able to continue operations for the foreseeable future. Accordingly, the board has continued to adopt the going-concern basis in preparing the financial statements.

The financial statements have been prepared in terms of International Financial Reporting Standards and the Companies Act of South Africa, 71 of 2008. 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 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's annual financial statements and has recommended their approval to the board. The audit committee's approval is set out on page 3.

Nothing 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 2016 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 9 to 35, were approved by the board of directors on 24 May 2016 and are signed on its behalf by:

EM Southey	**BW Smith**
Director	Director
24 May 2016	24 May 2016

Nqaba Finance 1 (RF) Ltd

Report of the audit committee

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

In the conduct of its duties, the audit 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 annual financial statements; 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 internal audit department;
- the activities of the assurance and internal audit 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.

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

The audit committee is of the opinion, based on the information and explanations given by management 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 risk committee; and
- having considered the matters set out in section 94(8) of the Companies Act of South Africa, 71 of 2008, it is satisfied with the independence and objectivity of the external auditors.

Nothing significant has come to the attention of the audit 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 committee has evaluated the annual financial statements of Nqaba Finance 1 (RF) Ltd for the year ended 31 March 2016 and, based on the information provided to the audit 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 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 committee has, therefore, at its meeting held on 24 May 2016 recommended the adoption of the financial statements by the board of directors.

BW Smith
Chairman
24 May 2016

Nqaba Finance 1 (RF) Ltd

Statement by the 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.

Maitland Group South Africa Limited
Company secretary
24 May 2016

Directors' report

The directors are pleased to present their report for the year ended 31 March 2016.

1. Principal activities, state of affairs and business review

Nqaba Finance 1 (RF) Ltd (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 have been no material changes to the nature of the company's business from the prior year.

2. Results of operations

Revenue for the year was R176 million (2015: R167 million). Profit before tax amounted to R7 million (2015: R20 million), profit after taxation amounted to R5 million (2015: R14 million).

The detailed financial results of the company are set out on page 9 to 35 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 and prior financial years.

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	Date of resignation	Designation
EM Southey (Chairperson)	31 January 2009	n/a	Non-executive director
TL Myburgh	09 February 2006	n/a	Non-executive director
DP Towers	10 May 2013	29 February 2016	Non-executive director
D Lorimer	30 September 2014	n/a	Non-executive director
BW Smith	29 January 2016	n/a	Non-executive director

Directors' interest

The directors have no interests in contracts with the company.

Attendance at board and audit committee meetings:

	Board committee		Audit committee
Members	25-May-15	15-Mar-16	25-May-15
EM Southey	√	√	√
TL Myburgh	√	√	√
DP Towers	√	√	√
D Lorimer	A	√	A
BW Smith	n/a	A	n/a

The members of the audit committee are all independent, non-executive directors of the group.

The committee is satisfied that the members 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.

Legend

Present	√
Apology	A

6. Events subsequent to the 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 operations.

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. were the auditors during the current and prior financial periods.

9. Company secretary

Maitland Group South Africa Limited:

Business address
18 Fricker road
Illovo
Johannesburg
2196

Postal address
PO Box 781396
Sandton
2146

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 Ltd and is consolidated in the annual financial statements of Eskom Finance Company SOC Ltd.

11. Holding entity

Nqaba is a structured entity owned by Nqaba Finance 1 Owner Trust, a trust incorporated in the Republic of South Africa.

Sizwe Ntsaluba Gobodo

AUDIT • ADVISORY • FORENSICS

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, set out on pages 9 to 35, which comprise the statement of financial position at 31 March 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, the *General Notice* issued in terms thereof and 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nqaba Finance 1 (RF) Limited at 31 March 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

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Victor Sekese (Chief Executive)
A comprehensive list of all Directors is available at the company offices or registered office.
SizweNtsalubaGobodo Incorporated. Registration Number: 2005/034639/21own

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2016, we have read the Report of the audit 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.

Report on other legal and regulatory requirements

Public Audit Act Requirements

In accordance with the Public Audit Act of South Africa (PAA), and the *General Notice* issued in terms thereof, we report the following findings relevant to the reported performance against predetermined objectives, compliance with laws and regulations as well as internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

Predetermined objectives

We did not audit performance against predetermined objectives, as the entity is not required to prepare a report on its performance against predetermined objectives.

Compliance with laws and regulations

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA.

Internal control

We considered internal control relevant to our audit of the financial statements, the performance in terms of the shareholders compact and compliance with legislation, but not for expressing an opinion on the effectiveness of internal control. We did not identify any significant internal control deficiencies.

In terms of the Independent Regulatory Board for Auditors Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Inc. has been the auditor of Nqaba Finance 1 (RF) Limited for 11 years.

SizweNtsalubaGobodo Inc.
Director: Pravesh Hiralall
Registered Auditor
Chartered Accountant (SA)

Johannesburg
24 May 2016

Nqaba Finance 1 (RF) Ltd

Statement of financial position at 31 March 2016

	Note	2016 R '000	2015 R '000
Assets			
Non-Current Assets			
Properties in possession	4	488	695
Loans receivable	5	1,904,978	1,904,763
Deferred tax	6	982	-
Derivatives held for risk management	7	-	3,576
		1,906,448	1,909,034
Current Assets			
Loans receivable	5	1,419	1,286
Derivatives held for risk management	7	1,173	2,469
Trade and other receivables	8	18,477	15,157
Taxation	9	10,253	6,622
Cash and cash equivalents	10	78,246	74,878
		109,568	100,412
Total Assets		**2,016,016**	**2,009,446**
Equity and Liabilities			
Equity			
Share capital	11	-	-
Retained income		45,682	41,830
		45,682	**41,830**
Liabilities			
Non-Current Liabilities			
Deferred tax	6	-	76
Derivatives held for risk management	7	288	-
Debt securities issued	12	1,231,000	1,344,000
		1,231,288	1,344,076
Current Liabilities			
Debt securities issued	12	443,815	329,559
First loss credit enhancement loan	13	293,720	293,269
Trade and other payables	14	1,511	712
		739,046	623,540
Total Liabilities		**1,970,334**	**1,967,616**
Total Equity and Liabilities		**2,016,016**	**2,009,446**

Nqaba Finance 1 (RF) Ltd

Statement of comprehensive income for the year ended 31 March 2016

	Note	2016 R '000	2015 R '000
Interest income	15	175,816	167,269
Finance expense	16	(160,864)	(153,203)
Net interest income		14,952	14,066
Other income	17	6,759	6,591
Operating profit		21,711	20,657
Net impairment (loss)/gain	18	(1,920)	749
Net fair value (loss)/gain on financial instruments	19	(5,160)	3,570
Operating expenses	20	(8,318)	(5,490)
Profit before tax		6,313	19,486
Taxation	21	(2,461)	(5,456)
Profit for the year		3,852	14,030
Other comprehensive income		-	-
Total comprehensive income for the year		**3,852**	**14,030**

Nqaba Finance 1 (RF) Ltd

Statement of changes in equity for the year ended 31 March 2016

	Note	Share capital R '000	Retained income R '000	Total equity R '000
Balance at 01 April 2014		-	27,800	27,800
Total comprehensive income for the year		-	14,030	14,030
Balance at 31 March 2015		**-**	**41,830**	**41,830**
Total comprehensive income for the year		-	3,852	3,852
Balance 31 March 2016	11	**-**	**45,682**	**45,682**

Nqaba Finance 1 (RF) Ltd

Statement of cash flows for the year ended 31 March 2016

	Note	2016 R '000	2015 R '000
Cash flows from operating activities			
Cash generated from operations	22	164,977	163,966
Finance income		6,759	6,591
Finance costs	16	(160,864)	(153,203)
Income tax paid	9	(7,150)	(2,891)
Net cash from operating activites		3,722	14,464
Cash flows from investing activities			
(Increase) / Decrease in non-current trade and other receivables		(1)	1,236
Increase in non-current loans receivable		(2,060)	(1,924)
Net cash from investing activities		(2,061)	(688)
Cash flows from financing activities			
Increase in borrowings		1,707	1,149
Net cash from financing activities		1,707	1,149
Net increase in cash and cash equivalents		3,368	14,925
Cash and cash equivalents at the beginning of the year		74,878	59,953
Cash and cash equivalents at the end of the year	10	**78,246**	**74,878**

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated, the nature and effect of such changes are discussed in note 28.

1.1 Basis of preparation and measurement

Statement of compliance

The financial statements of Nqaba Finance 1 (RF) Ltd at and for the year ended 31 March 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act of South Africa, 71 of 2008.

The financial statements have been prepared on a going concern basis.

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. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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 thousand), which is the company's functional and presentation currency.

1.2 Financial instruments

(a) Non-derivative financial instruments

Recognition, measurement and derecognition of financial assets

Non-derivative financial assets comprises of loans receivable, 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 in 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 when the company has transferred substantially all the risks and rewards of ownership.

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.

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

1.2 **Financial instruments (continued)**

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest 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 company 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 or 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 company, 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.

(b) **Recognition, measurement and derecognition of financial liabilities**

Non-derivative financial liabilities comprise debt securities issued, first loss credit enhancement loans and trade and other payables. 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).

1.2 Financial instruments (continued)

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.

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 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 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.

(c) **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 option pricing models which consider current market and contractual prices for the underlying instruments as well as the time value of money.

All derivative instruments 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 within other income or operating expenses.

1.3 Share capital

Ordinary shares are classified as equity.

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.

1.5 Deferred tax (continued)

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 company 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 Interest income and interest expense

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

Interest expense comprises of interest payable on debt securities issued.

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 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 diferrential is recognised as it accrues in profit or loss using the effective interest method.

1.8 Finance income

Finance income comprises interest received on cash and cash equivalents.

1.9 Finance expense

Finance expense comprises interest payable on debt securities issued.

1.10 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.

1.11 Loans receivable

EFC primarily extends home loans to employees of the Eskom Holdings SOC Ltd group and the Eskom Pension and Provident Fund. EFC's loan book comprises both fixed and variable rate loans. The home assets originated by EFC are sold to the issuer, Nqaba Finance 1 (RF) Ltd as soon as they adhere to the eligibility criteria set out in the Programme Memrandum. 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 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.

1.12 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 judgements and key sources of estimation uncertainty

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.

(a) Impairment provisions

EFC assesses the impact on impairment of the loan book based on loan loss history and underlying current economic conditions. This is done periodically to assess the potential loan loss provision.

Valuation

The value of the impairment is determined by assessing risk categories per loan class and applying loan loss history ratio to the loan balance. The assumptions used are:

Low risk loans
- Current mortgage loans

Medium risk loans
- Current personal loans
- Current ex-employees

High risk loans
- Debt reviews
- Legal actions
- Insolvent
- Under-administration
- Ill health retirement
- Deceased
- Pension
- Third party attachments
- Last payment date > 3 months

(b) Derivatives

Nqaba has entered into interest rate swap transactions to hedge against interest rate variability on the issued fixed rate notes. The swaps are linked to the main debt from the secured note holders.

Valuation

The fair value of these swaps is determined by using interest rate differentials and the forecast cash flow is determined and then discounted by the relevant interest rate curve. This will represent the value of cash flows which would have occurred if the rights and obligations arising from those instruments were closed out at a reporting date.

3. 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 there of, 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)

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 evaluates 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 Holdings SOC Ltd 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 registers mortgage bonds as security against advances.

Advances exceeding 80% of the property market value are guaranteed by Eskom Holdings SOC Ltd and its subsidiaries. The fair value of this guarantee approximates R87 million (2015: R92 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 Holdings SOC Ltd group employees are re-assessed when they leave Eskom's service. These ex-employees may arrange for a monthly debit order or make over-the-counter deposits to settle the monthly instalment.

The weighted average current loan-to-value ratio of the home loan book at 31 March 2016 was:

	2016	2015
Weighted average current loan to value ratio (%)	66.24%	65.69%
The average loan amount in relation to the total home loan book value at 31 March was:		
Average loan amount - Home loans	247,489	235,775
Loan amount as a percentage of the loan book (%)	0.015%	0.012%

3. Financial risk management (continued)

Management of credit risk

Financial instruments managed by the treasury 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.

(a) Credit exposure

The carrying amount of financial assets represents the maximum credit exposure at the reporting date (refer to note 5, 7, 8 and 10).

The following table represents an analysis per credit rating level (as determined by rating agencies) of the credit risk of financial assets, as indicated.

	Cash and cash equivalents R '000	Derivatives held for risk management R '000	Loans receivable R '000	Trade and other receivables R '000
2016				
AAA	78,246	1,173	-	-
Unrated	-	-	1,906,397	18,477
	78,246	**1,173**	**1,906,397**	**18,477**
2015				
AAA	74,878	6,045	-	-
Unrated	-	-	1,906,049	15,157
	74,878	**6,045**	**1,906,049**	**15,157**

No credit limits 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:

	2016 R '000	2015 R '000
Loans and advances		
Home loans	1,906,397	1,906,049
	1,906,397	**1,906,049**
Other receivables		
Sundry receivables	18,477	15,157
	18,477	**15,157**

	Carrying amount R '000	Not past due R '000	0 - 30 days R '000	Days past due 31 - 60 days R '000	>60 days R '000
2016					
Collectively assesssed for impairment					
Home loans	1,911,850	1,864,270	21,325	4,946	21,309
Impairment					
Home loans	(5,453)	(3,109)	(404)	(180)	(1,760)
	1,906,397	**1,861,161**	**20,921**	**4,766**	**19,549**

3. **Financial rRisk management (continued)**

	Carrying amount R '000	Not past due R '000	Days past due 0 - 30 days R '000	31 - 60 days R '000	>60 days R '000
2015					
Collectively assesssed for impairment					
Home loans	1,910,252	1,873,169	12,892	5,633	18,558
Impairment					
Home loans	(4,203)	(2,035)	(166)	(72)	(1,930)
	1,906,049	**1,871,134**	**12,726**	**5,561**	**16,628**

Mortgage advances include an amount of R21 million (2015: R21 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 properties in possession, home loans during the year is as follows:

	2016 R '000	2015 R '000
Balance at the beginning of the year	4,400	6,200
Impairment loss (reversal) recognised	1,457	(1,800)
Balance at the end of the year	**5,857**	**4,400**
Comprising:		
Home loans	5,453	4,203
Properties in possession	404	197
	5,857	**4,400**

Nqaba establishes an allowance for impairment that represents its estimate of incurred losses in respect of properties in possession and home loans. This allowance consisits of a specific loss component that relates to individual exposures, 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 for specified movements in interest rates.

Loans receivable

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.

3. Financial risk management (continued)

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 increases and decreases.

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 for 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 remain constant. 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.

	2016 +100 basis point R' 000	**2016 -100 basis point R' 000**	**2015 +100 basis point R' 000**	**2015 -100 basis point R' 000**
Effect on Profit/ (Loss)				
Rand interest rate	3,301	(3,301)	3,251	(3,251)

The company has elected not to hedge interest risk.

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 liquidity risk 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.

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.

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 principal and accrued interest by giving not less than 20 days' notice to the note holders and Nqaba Finance 1 Security SPV (RF) (Pty) Ltd.

The objective of the company's liquidity and funding management is to ensure that all foreseeable operational and loan commitment 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.

3. Financial risk management (continued)

Contractual cash flows

The management of 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 short-term liquidity as well as 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 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 and cash inflows from maturing financial assets purchased.

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.

Nqaba Finance 1 Structure is an evergreen structure that aims to refinance all scheduled maturing notes.

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

	Carrying amount			Cash flows				
	Non-current	**Current**	**Total**	**Nominal inflow or outflow**	**0 - 3 months**	**4 - 12 months**	**1 - 5 years**	**More than 5 years**
	R' 000	**R' 000**	**R' 000**	**R' 000**	**R' 000**	**R' 000**	**R' 000**	**R' 000**
2016								
Financial assets								
Loans receivable	1,904,978	1,419	1,906,397	1,906,397	63,957	191,182	984,100	2,940,208
Derivatives held for risk management	-	1,173	1,173	1,173	435	738	-	-
Trade and other receivables	-	18,477	18,477	18,477	18,477	-	-	-
Cash and cash equivalents	-	78,246	78,246	78,246	78,246	-	-	-
	1,904,978	**99,315**	**2,004,293**	**2,004,293**	**161,115**	**191,920**	**984,100**	**2,940,208**
Financial liabilities								
Debt securities issued	1,231,000	443,815	1,674,815	1,674,815	443,815	-	1,231,000	-
First loss credit enhancement loan	-	293,720	293,720	293,720	293,720	-	-	-
Derivatives held for risk management	288	-	288	288	-	-	288	-
Trade and other payables	-	1,511	1,511	1,511	1,511	-	-	-
	1,231,288	**739,046**	**1,970,334**	**1,970,334**	**739,046**	**-**	**1,231,288**	**-**
Liquidity gap	**673,690**	**(639,731)**	**33,959**	**33,959**	**(577,931)**	**191,920**	**(247,188)**	**2,940,208**

3. Financial risk management (continued)

	Carrying amount			Cash flows				
	Non-current	Current	Total	Nominal inflow or outflow	0 - 3 months	4 - 12 months	1 - 5 years	More than 5 years
	R' 000	R' 000	R' 000	R' 000	R' 000	R' 000	R' 000	R' 000
2015								
Financial assets								
Loans receivable	1,904,763	1,286	1,906,049	1,906,049	60,227	180,223	929,013	2,767,835
Derivatives held for risk management	3,576	2,469	6,045	6,045	700	1,769	3,517	59
Trade and other receivables	-	15,157	15,157	15,157	15,157	-	-	-
Cash and cash equivalents	-	74,878	74,878	74,878	74,878	-	-	-
	1,908,339	**93,790**	**2,002,129**	**2,002,129**	**150,962**	**181,992**	**932,530**	**2,767,894**
Financial liabilities								
Debt securities issued	1,344,000	329,559	1,673,559	1,673,559	329,559	-	1,208,000	136,000
First loss credit enhancement loan	-	293,269	293,269	293,269	293,269	-	-	-
Trade and other payables	-	712	712	712	712	-	-	-
	1,344,000	**623,540**	**1,967,540**	**1,967,540**	**623,540**	**-**	**1,208,000**	**136,000**
Liquidity gap	**564,339**	**(529,750)**	**34,589**	**34,589**	**(472,578)**	**181,992**	**(275,470)**	**2,631,894**

3. Financial risk management (continued)

Accounting classification and fair value

The company has applied IFRS 13 Fair value measurement in considering the measurement of fair value where applicable. A number of the company's accounting policies and disclosures require the measurement of fair values for both financial assets and financial liabilities.

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
2016					
Financial assets					
Non-current					
Loans receivable	-	1,904,978	-	1,904,978	1,774,305
	-	**1,904,978**	**-**	**1,904,978**	**1,774,305**
Current					
Loans receivable	-	1,419	-	1,419	1,260
Derivatives held for risk management	1,173	-	-	1,173	1,173
Trade and other receivables	-	18,477	-	18,477	18,477
Cash and cash equivalents	-	78,246	-	78,246	78,246
	1,173	**98,142**	**-**	**99,315**	**99,156**
Total financial assets	**1,173**	**2,003,120**	**-**	**2,004,293**	**1,873,461**
Financial liabilities					
Non-current					
Debt securities issued	-	-	1,231,000	1,231,000	1,231,000
Derivatives held for risk management	288	-	-	288	288
	288	**-**	**1,231,000**	**1,231,288**	**1,231,288**
Current					
Debt securities issued	-	-	443,815	443,815	443,815
First loss credit enhancement loan	-	-	293,720	293,720	293,720
Trade and other payables	-	-	1,511	1,511	1,511
	-	**-**	**739,046**	**739,046**	**739,046**
Total financial liabilities	**288**	**-**	**1,970,046**	**1,970,334**	**1,970,334**

Loans receivable are held to maturity and there would therefore be no impact on equity arising from fair value gains or losses.

3. Financial risk management (continued)

	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
2015					
Financial assets					
Non-current					
Loans receivable	-	1,904,763	-	1,904,763	1,774,915
Derivatives held for risk management	3,576	-	-	3,576	3,576
	3,576	**1,904,763**	**-**	**1,908,339**	**1,778,491**
Current					
Loans receivable	-	1,286	-	1,286	718
Derivatives held for risk management	2,469	-	-	2,469	2,469
Trade and other receivables	-	15,157	-	15,157	15,157
Cash and cash equivalents	-	74,878	-	74,878	74,878
	2,469	**91,321**	**-**	**93,790**	**93,222**
Total financial assets	**6,045**	**1,996,084**	**-**	**2,002,129**	**1,871,713**
Financial liabilities					
Non-current					
Debt securities issued	-	-	1,344,000	1,344,000	1,344,000
	-	**-**	**1,344,000**	**1,344,000**	**1,344,000**
Current					
Debt securities issued	-	-	329,559	329,559	329,559
First loss credit enhancement loan	-	-	293,269	293,269	293,269
Trade and other payables	-	-	712	712	712
	-	**-**	**623,540**	**623,540**	**623,540**
Total financial liabilities	**-**	**-**	**1,967,540**	**1,967,540**	**1,967,540**

Collateral obtained

There were no debtors that defaulted on their accounts and as a result, no mortgage bonds were called upon (2015: R0.2 million).

Fair value hierarchy

The table below analyses fair value measurements for financial assets and financial liabilities. These fair value measurements 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).

3. Financial risk management (continued)

The company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred.

The valuation techniques used are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Nqaba has no items fair valued using quoted prices (unadjusted) in active markets.

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.

Nqaba has items which are fair valued using inputs other than quoted prices included within level 1 that are observable for the asset or liability.

Level 3: Inputs for the financial asset or financial liability that are not based on observable market data (unobservable inputs).

Nqaba has no items fair valued using inputs not based on observable market data.

	Fair value		
	Level 1	**Level 2**	**Level 3**
2016	**R '000**	**R '000**	**R '000**
Assets measured at fair value			
Derivatives held for risk management			
Interest rate swaps	-	1,173	-
	-	**1,173**	**-**
Assets not measured at fair value			
Loans receivables			
Residential mortgage backed securities	-	1,775,565	-
Trade and other receivables	-	18,477	-
Cash and cash equivalents	-	78,246	-
	-	**1,872,288**	**-**
Liabilities measured at fair value			
Derivatives held for risk management			
Interest rate swaps	-	288	-
	-	**288**	**-**
Liabilities not measured at fair value			
Debt securities issued			
Commercial paper	-	1,674,815	-
First loss credit enhancement loan			
Subordinated loan	-	293,720	-
Trade and other payables	-	1,511	-
	-	**1,970,046**	**-**

3. Financial risk management (continued)

	Fair value		
	Level 1	**Level 2**	**Level 3**
2015	**R '000**	**R '000**	**R '000**
Assets measured at fair value			
Derivatives held for risk management			
Interest rate swaps	-	6,045	-
	-	**6,045**	**-**
Assets not measured at fair value			
Loans receivables			
Residential mortgage backed securities	-	1,775,633	-
Trade and other receivables	-	15,157	-
Cash and cash equivalents	-	74,878	-
	-	**1,865,668**	**-**
Liabilities measured at fair value			
Derivatives held for risk management			
Interest rate swaps	-	-	-
	-	**-**	**-**
Liabilities not measured at fair value			
Debt securities issued			
Commercial paper	-	1,673,559	-
First loss credit enhancement loan			
Subordinated loan	-	293,269	-
Trade and other payables	-	712	-
	-	**1,967,540**	**-**

Valuation techniques

Interest rate swaps

The fair value of swaps is determined by using interest rate differentials and the forecast cash flow is determined and then discounted by the relevant interest rate curve. This will represent the value of cash flows which would have occurred if the rights and obligations arising from those instruments were closed out at the reporting date.

Residential mortgage backed securities

The fair value of these instruments is determined by using risk profiles of those asset classes categorised into:

- Current mortgage loans
- Current ex-employee mortgage loans
- Vacant land
- High risk mortgage loans
- Personal housing loans
- Current personal and micro loans
- High risk current personal and micro loans

Debt securities issued

Fair values for debt securities are determined using a discounted cash flow technique, which uses expected cash flows and a market-related discount rate.

		2016 R '000	2015 R '000
4.	**Properties in possession**		
	Gross	892	892
	Impairments	(404)	(197)
		488	**695**

5.	**Loans receivable**		
	Secured by mortgage	1,906,397	1,906,049
		1,906,397	**1,906,049**
	Maturity analysis		
	Non-current	1,904,978	1,904,763
	Current	1,419	1,286
		1,906,397	**1,906,049**

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

		2016 R '000	2015 R '000
6.	**Deferred tax**		
	Deferred tax assets/(liability)		
	Balance at the beginning of the year	(76)	4,337
	Recognised in profit or loss	1,058	(4,413)
		982	**(76)**
	Reconciliation of deferred tax asset/(liability)		
	Balance at beginning of year	(76)	4,337
	Prior year under or over adjustment	(693)	-
	Doubtful debts allowances S11(j)	(103)	126
	Originating differences on provisions	408	(504)
	Reversing differences on fair value swaps	1,446	(4,035)
		982	**(76)**

Recognition of deferred tax asset/(liability)

The deferred tax asset arises from:

- Prior year adjustments;
- Doubtful debts allowances
- Originating differences from provisions on loan losses
- Differences on fair value swaps

7. Derivatives held for risk management

	2016			2015		
	Assets	Liabilities	Carrying value	Assets	Liabilities	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Interest rate derivatives						
Interest rate swaps	1,173	(288)	885	6,045	-	6,045
	1,173	**(288)**	**885**	**6,045**	**-**	**6,045**
Reconciliation						
Derivatives held for risk management						
Balance at the beginning of the year	6,278	(233)	6,045	2,708	(233)	2,475
Charged to profit or loss	(5,105)	(55)	(5,160)	3,570	-	3,570
	1,173	**(288)**	**885**	**6,278**	**(233)**	**6,045**
Maturity analysis						
Non-current	-	(288)	(288)	3,576	-	3,576
Current	1,173	-	1,173	2,469	-	2,469
	1,173	**(288)**	**885**	**6,045**	**-**	**6,045**

Interest rate swaps are used to economically hedge the interest expense variability of the issued fixed rate notes issued on 22 May 2010. The interest rate swaps are linked to the main debt to 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 cashflows (either positive or negative) which would have occurred if the rights and obligation arising from those instruments were closed out at year end.

The interest differential earned during the year on this swap agreement was R2.7 million (2015: R3.6 million).

8. Trade and other receivables

	2016	2015
	R '000	R '000
Gross	18,477	15,157
Impairment	-	-
	18,477	**15,157**

9. Income tax paid

	2016	2015
Balance at the beginning of the year	6,622	4,775
Current tax for the year recognised in profit or loss	(3,519)	(1,044)
Balance at the end of the year	(10,253)	(6,622)
	(7,150)	**(2,891)**

10. Cash and cash equivalents

	2016	2015
Bank balances	78,246	74,878

11. Share capital

	2016	2015
Authorised		
1000 Ordinary shares of R1 each	1	1
100 Cumulative redeemable preference shares of R0.01 each	-	-
Issued		
100 Ordinary shares of R1 each	-	-
100 Cumulative redeemable preference shares of R0.01 each	-	-

The un-issued ordinary shares are under the control of the directors of the company until the next annual general meeting.

12. **Debt securities issued**	**2016 R '000**	**2015 R '000**
Commercial paper	1,674,815	1,673,559
Maturity analysis		
Non-current	1,231,000	1,344,000
Current	443,815	329,559
	1,674,815	**1,673,559**

Notes	**Currency**	**Interest rate**		**Maturity date**	**Nominal**		**Carrying value**	
		2016 %	**2015 %**		**2016 R' 000**	**2015 R' 000**	**2016 R' 000**	**2015 R' 000**
Floating rate notes								
Class A15	ZAR	-	7.01	May-15	-	303,000	-	305,171
Class B14	ZAR	-	7.20	May-15	-	8,000	-	8,059
Class C14	ZAR	-	7.55	May-15	-	5,000	-	6,050
Class A11	ZAR	8.24	7.35	May-16	205,000	205,000	206,808	206,532
Class D6	ZAR	9.63	8.74	May-16	24,000	24,000	24,247	24,213
Class A16	ZAR	7.84	6.95	May-16	200,000	200,000	201,679	201,414
Class A18	ZAR	7.94	7.05	May-17	318,000	318,000	320,695	320,272
Class B16	ZAR	8.14	7.25	May-17	32,000	32,000	32,278	32,235
Class C16	ZAR	8.39	7.50	May-17	32,000	32,000	32,287	32,243
Class A17	ZAR	8.09	7.20	May-18	302,000	302,000	304,616	304,211
Class B15	ZAR	8.24	7.35	May-18	40,000	40,000	40,353	40,299
Class C15	ZAR	8.34	7.45	May-18	25,000	25,000	25,223	25,189
Class D7	ZAR	8.54	7.65	May-18	30,000	30,000	30,274	30,233
Class A19	ZAR	8.38	-	May-18	303,000	-	305,711	-
Class D5	ZAR	8.81	9.35	May-20	5,000	5,000	5,055	5,048
Class B17	ZAR	8.54	-	May-20	8,000	-	8,075	-
Class C17	ZAR	9.24	-	May-20	5,000	-	5,049	-
Fixed rate notes								
Class A10	ZAR	10.44	10.44	May-20	115,000	115,000	116,282	116,216
Class B10	ZAR	10.64	10.64	May-20	11,000	11,000	11,125	11,119
Class C10	ZAR	10.84	10.84	May-20	5,000	5,000	5,058	5,055
					1,660,000	**1,660,000**	**1,674,815**	**1,673,559**

During the period, there were no loans overdue.

Class A11, A16, A17, A18, A19, B15, B16, B17, C15, C16, C17, D5, D6 and D7 are Secured floating rate notes.

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

- 1.25% per annum in relation to Class A11 Notes;
- 0.85% per annum in relation to Class A16 Notes;
- 1.10% per annum in relation to Class A17 Notes;
- 0.95% per annum in relation to Class A18 Notes;
- 1.39% per annum in relation to Class A19 Notes;
- 1.25% per annum in relation to Class B15 Notes;
- 1.15% per annum in relation to Class B16 Notes;
- 1.82% per annum in relation to Class B17 Notes;
- 1.35% per annum in relation to Class C15 Notes;
- 1.40% per annum in relation to Class C16 Notes;
- 2.25% per annum in relation to Class C17 Notes;
- 3.25% per annum in relation to Class D5 Notes;
- 2.64% per annum in relation to Class D6 Notes; and
- 1.55% per annum in relation to Class D7 Notes;

12. Debt securities issued (continued)

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 C10 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.

Loan covenants and triggers

Loan covenants and triggers are standardised and are monitored on an on-going basis with formal testing reported to the board. The Arrears Reserve trigger that was breached in the 2015 financial year remains in breach at its trigger level of 1.5%. The consequence is a cash provision in the priority of payments. The Issuer (Nqaba) must pay the Arrears Reserve Required Amount, being R6,6 million into the Arrears Reserve, in accordance with the Programme Memorandum.

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 2016.

	2016 R '000	2015 R '000
13. First loss credit enhancement loan		
Subordinated loan - Eskom Finance Company SOC Limited	290,000	290,000
Accrued interest	3,720	3,269
	293,720	**293,269**

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.

	2016	2015
14. Trade and other payables		
Accruals	1,511	712
Maturity analysis		
Current	1,511	712
15. Interest income		
Interest revenue	175,816	167,269
16. Finance expense		
Interest paid on debt securities issued	127,865	121,405
Interest paid on sub loan	32,999	31,798
	160,864	**153,203**

Nqaba Finance 1 (RF) Ltd

Notes to the financial statements for the year ended 31 March 2016

		2016 R '000	2015 R '000
17.	**Other income**		
	Swap income received	2,718	3,151
	Call account - ABSA Bank Limited	4,041	3,440
		6,759	**6,591**
18.	**Net impairment loss**		
	Impairment charge / (reversal)	1,457	(1,800)
	Loan losses	463	1,051
		1,920	**(749)**
19.	**Net fair value (loss)/gain on financial instruments**		
	Interest rate swaps	(5,160)	3,570
		(5,160)	**3,570**
20.	**Other operating expenses**		
	Auditors fees	589	330
	Management fees	570	571
	Servicer fees	3,307	3,272
	Liquidity facility fee	196	42
	Redraw facility fees	2,477	479
	Back up servicer fees	193	191
	JSE fixed fee	80	53
	Owner trustee fee	237	170
	Rating fee	245	245
	Rating fee expense	(19)	-
	National Credit Regulator fee	87	87
	Credit ombudsman	80	50
	Bond issue fees	57	-
	Strate fixed fee	219	-
		8,318	**5,490**
21.	**Taxation**		
	Major components of tax expense		
	Income tax	3,519	1,044
	Deferred tax	(1,058)	4,412
	Total income tax in profit or loss	**2,461**	**5,456**
	Reconciliation of tax expense		
	Taxation as a percentage of profit before tax	38.98%	28.00%
	Taxation effect of:		
	Expenses not deductible for tax purposes	-1.48%	0.00%
	Prior year adustments	-9.50%	0.00%
	Other	0.00%	0.00%
	Standard tax rate	**28.00%**	**28.00%**
22.	**Cash generated from operations**		
	Profit before taxation	6,313	19,486
	Adjustments for:		
	Irrecoverable advances written off	463	1,051
	Finance income	(6,759)	(6,591)
	Finance costs	160,864	153,203
	Net impairment loss (excluding bad debts recovered)	1,457	(1,800)
	Net fair value gain/(loss) on financial instruments	5,160	(3,570)
	Changes in working capital:		
	Trade and other receivables	(3,320)	2,723
	Trade and other payables	799	(536)
		164,977	**163,966**

23. Commitments

	2016 R '000	2015 R '000
Nqaba further loans approved but not yet disbursed		
Loans and advances	5,186	380,916

These commitments will be financed by operations or a redraw facility.

24. Guarantees and contingent liabilities

Legal claims

There were no legal claims nor guarantees against the company for the period under review (2015: nil).

25. Related parties

Related party transactions with Eskom Finance Company SOC Limited

Eskom Finance Company SOC Ltd (EFC) is a related party as Nqaba is a structured entity, established to securitise residential mortgage backed advances originated by EFC and EFC is the appointed service provider to Nqaba. The following transactions took place between EFC and Nqaba.

Financing

A Credit Enhancement loan has been provided by EFC, details of which are set out in note 13 above. Total interest on this loan during the period amounted to R33 million (2015: R32 million).

Servicing fees

EFC is the appointed servicing agent to Nqaba.

EFC has been appointed under the servicing agreement as agent for Nqaba, to administer the pool of mortgage advances, including the collection of payments, arrears and foreclosure procedures.

EFC is entitled to charge fees for its services under the servicing agreement which are payable on each interest payment date. Such fees are limited to an amount equal to 0.15% per annum of the average principal balance of the home loan pool during the immediately preceding collection period.

Management fees

ABSA Corporate and Investment bank has been appointed under Management Agreement as agent for Nqaba to advise Nqaba in relation to the management of the Programme. A management fee is charged and accordingly becomes due in respect of each interest period only to the extent that, on any interest payment date, cash is available for the payment of such fee in accordance with the Priority of Payments.

Related party balances	2016 R '000	2015 R '000
Payables and amounts owed to related parties		
First loss credit enhancement loan	290,000	290,000
Interest payable on first loss credit enhancement loan	3,720	3,269
Servicing fees	315	299
	294,035	**293,568**
Transactions		
Purchases of goods and services		
Servicing fees	3,281	3,272
Finance cost		
Eskom Finance Company SOC Limited	32,999	31,798

25. Related parties (continued)

Other related party transactions

These transactions comprise those entered into with Maitland Trustees Proprietary Limited, the trustee of the Issuer and of Nqaba Finance 1 Security SPV (RF) Pty Ltd and relates to trustee fees paid during the period and owed to the Trustees at the end of the period.

	2016 R '000	2015 R '000
Transactions		
Owner trustee fees	170	170
Outstanding balances (due by related parties)		
Owner trustee fees	50	20
	50	**20**

26. Significant events

Matured notes re-financing

The Residential Mortgaged Backed Securities in note 12 of these financial statements, scheduled for maturity on 22 May 2016, are scheduled to be re-financed on 22 May 2016. None of the notes became a "matured note" as defined in note 2 of these financial statements.

EFC disposal

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) Pty Ltd. 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.

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 and have not been adopted early. The company is currently in the process of evaluating the detailed requirements of the following amendments to assess the possible impact on the financial statements:

IFRS 9, Financial instruments (effective 1 January 2018)

IFRS 9 retains but simplifies the mixed measurement model in IAS 39 and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset includes a new expected credit loss model that replaces the incurred loss model used in IAS 39.

There are no changes to classification and measurement for financial liabilities except changes in own credit risk for liabilities designated at fair value through profit or loss are recognised in other comprehensive income.

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 2016. The nature and effect of the changes are as follows:

Annual improvements 2012 (effective 1 July 2014)

These improvements amend standards from the 2010 – 2012 reporting cycle. The changes affect IFRS 2 Share based payments, IFRS 3 Business combinations, IFRS 8 Operating segments, IFRS 13 Fair value, IFRS 16 Property, plant and equipment and IAS 24 Related party disclosures.

Annual improvements 2013 (effective 1 July 2014)

These improvements amend standards from the 2011 – 2013 reporting cycle. The changes affect IFRS 1 First time adoption of IFRS, IFRS 3 Business combinations, IFRS 13 Fair value and IAS 40 Investment property.