Nqaba Finance 1 (RF) Ltd

(Registration number 2005/040050/07)

Annual financial statements

for the year ended 31 March 2018

Nqaba Finance 1 (RF) Ltd

Index

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

The annual financial statements for the year ended 31 March 2018 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 31 July 2018.

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

Published

31 July 2018

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 report is set out on pages 4 to 8.

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 2018 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 16 to 44, were approved by the board of directors on 31 July 2018 and are signed on its behalf by:

PBE Coombe	**T Myburgh**
Director	Director
31 July 2018	31 July 2018

Nqaba Finance 1 (RF) Ltd

Report of the audit committee

Mandate and terms of reference

The audit and risk committee (the committee) presents its report in terms of the requirements of the Companies Act (section 94(7)(f)) and in accordance with the King Code of Governance Principles for South Africa for the financial year ended 31 March 2018.

The role of the committee is defined in its mandate. It covers, amongst others, its statutory duties and the assistance to the board with the oversight of financial and non-financial reporting and disclosure, internal control system, risk management, internal and external audit functions.

The committee fulfilled all its statutory duties as required by section 94(7)(f) of the Companies Act. The 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.

Execution of functions

In the conduct of its duties the committee has, inter alia, reviewed the following areas:

Going concern assumption

The committee considered the following:

- robustness of budgets and business results
- cash flow projections
- funding plan
- going concern as the basis of preparation of the annual financial statements

Oversight of financial and non-financial reporting and disclosure

The committee considered the following:

- annual financial statements for fair presentation with the relevant requirements of the Companies Act and IFRS
- adequacy, reliability and accuracy of financial and non-financial information provided by management
- the expertise, resources and experience of the finance function

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

The committee considered the following:

- effectiveness of internal control systems and governance processes
- reviewed legal matters that could have a material impact on the group
- 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
  – the effectiveness of the entity's compliance with legal and regulatory requirements

Internal and external audit

The committee considered the following:

- charter, annual audit plan, independence, effectiveness, coordination with external auditors and performance of the assurance and forensic department
- appointment of the external auditors in terms of the Companies Act and other applicable requirements
- external audit plan, audit budget, actual fee and terms of engagement of the external auditors
- the independence and objectivity of the external auditors
- accounting, sustainability and auditing concerns identified as a result of the internal and external audits, including reportable irregularities

Opinion

The committee is of the opinion, based on the information and explanations provided by management and the Eskom's assurance and forensic department during the year and at year end as well as 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 internal audit charter approved by the committee was adhered to
- the expertise, resources and experience of the assurance and forensic department are adequate
- the assurance and forensic department operated effectively
- Nqaba Finance 1 (RF) Ltd has access to adequate resources and facilities to be able to continue their operations for the foreseeable future, supporting the going concern assumption that was examined and found to be effective
- it is satisfied with the independence and objectivity of the external auditors having considered the matters set out in section 94(8) of the Companies Act

King IV compliance

The directors of the company support the Code of Governance Principles set out in the King IV report (the "Code") and recognise the need to conduct the affairs of the company with integrity and accountability. The company is a solvent entity operating in accordance with the provisions of the Programme Memorandum, (PM), with no employees and no administrative infrastructure of its own. Accordingly, the principles contained in the King IV Code are applied to the extent that they are relevant to the company.

In terms of the JSE Debt Listing Requirements, the company has complied with the King IV Report on Corporate Governance™ (hereafter referred to as King IV) to the extent applicable, and is required to provide an explanation of which principles are not applied along with reasons for non-application. The table below sets out the application of the 17 corporate governance principles by the company as recommended by King IV.

Principle	Application of Principle
1. Leadership: The governing body should lead ethically and effectively.	The company is a ring-fenced special purpose vehicle, and as such, its business affairs are to be strictly conducted and managed within the ambit of its restrictions as set out in its Memorandum of Incorporation ("MOI") and in compliance with its PM. The Board of Directors ("the Board") is the Governing Body ("GB") and committed to the good corporate governance principles as set forth in King IV. The Board subscribes to those generally accepted norms of conduct to the extent applicable to the companies' status as described above. The Board meets at least 2 times a year to consider the companies' strategy, financial performance, etc. Directors' interests are disclosed before every board meeting. The GB ensures that they have sufficient working knowledge of the company and its industry as well as the key laws, rules, codes and standards applicable to the company. All directors may, as per the MOI, seek independent advice, at the company's expense, if required. The directors also have unrestricted access to the Chairman of the GB, the Debt Sponsor and the appointed Servicer of the company, and has the ability to consult with, and receive the full co-operation from the Debt Sponsor of the company where necessary to fulfil its responsibilities.
2. Organisational ethics: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	The company is a ring-fenced special purpose vehicle. The company does not have any employees and all its functions have been outsourced to the Servicer. The Servicer is required to strictly perform their functions as set out in the PM.
3. Responsible Corporate Citizenship: The governing body should ensure that the organisation is and is seen to be a responsible citizen.	The company is a ring-fenced special purpose vehicle, with no employees and all functions are outsourced to the Servicer. The Servicer is required to strictly perform its function as set out in the PM. The GB has an obligation to ensure that the company is governed as per the objectives of the mandate of the company set out in the PM.
4. Strategy and Performance: The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	The company is a ring-fenced special purpose vehicle with the strategy, direction and functions of the company driven by legal agreements. Any changes to the strategy or functions presented by the Debt Sponsor to the company, would require prior discussion and approval of the directors as well as investors.

King IV compliance

Principle	Application of Principle
5. Reporting: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long term prospects.	The GB has, through the Servicer of the company, regular interaction on the performance of the company. AFS, performance updates and announcements are published in accordance with the JSE Listings Requirements and met the reasonable information needs of material stakeholders. The Board ensures that the Annual Financial Statements (AFS), which include the independent auditors' report, are available to stakeholders to make informed assessments of the company's performance. Investor reports are made available to stakeholders on a quarterly basis through SENS announcements on the JSE website. The Servicer of the company confirmed to the GB via the audit committee meeting where annual financial statements are presented that the company is a going concern.
6. Primary role and responsibilities of the governing body: The governing body should serve as the focal point and custodian of corporate governance in the organisation.	The role, responsibilities and procedural conduct of the Board are documented in the company's MOI and the Companies Act. The GB holds at least two meetings per year. The governing body is satisfied that it has fulfilled its responsibilities in accordance with the MOI and the Companies Act.
7. Composition of the governing body: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	The Board membership and composition is aligned to the King IV principles. All directors are non-executive and three are independent of the Eskom group of companies. The directors have extensive experience and serve on a number of Boards. Strong engagement takes place at Board meetings. Changes in legal risk and compliance matters that could potentially have an impact on the entity are monitored and tabled at each Board meeting. The company does not have any employees and all its functions as contemplated in the PM, are outsourced accordingly.
8. Committees of the governing body: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.	Whilst retaining accountability, certain responsibilities have been delegated by the GB, to the Audit Committee, as set out in its formal approved terms of reference ("the Audit Charter"), and third parties. The Audit Charter is reviewed by the Board annually and approved by the GB. The Servicer and Arranger are invited to attend meetings by standing invitation to provide pertinent information and insights in their areas of responsibility. The Audit Committee comprises of three independent non-executive members of the Board. The Audit Committee holds at least two meetings per year. Due to the nature of the business, the company does not have a Social and Ethics Committee, nor a committee responsible for the nomination of directors or a remuneration committee, as directors are appointed through a formal process in terms of its MOI.
9. Evaluations of the performance of the governing body: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.	There was no formal Board evaluation conducted during the year, a formal evaluation will be conducted in November 2018.
10. Appointment and delegation to management: The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.	The company does not have any employees, and due to the nature of its business, all its functions have been outsourced. Consequently the company is not required to appoint a CEO. The company does pay an administrative fee to Maitland Group South Africa Limited, (Maitland) for the provision of a company secretary and corporate company secretarial services.

King IV compliance

Principle	Application of Principle
11. Risk Governance: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.	Responsibility for governance of risk is assigned to the GB in terms of the MOI of the company, with the Audit Committee assisting the GB with this responsibility. In turn, the responsibility to implement and execute effective risk management has been assigned to the Servicer, with the GB exercising ongoing oversight of risk management as contemplated in the PM. The Servicer of the company reports at GB and committee meetings.
12. Technology and information governance: The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.	The company does not have any employees, and due to the nature of its business, all its functions have been outsourced. Outsourced functions are contractual and performance is monitored strictly. The Servicer of the company reports at GB and committee meetings, and currently no non-performance events have been noted.
13. Compliance Governance: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.	The company's MOI confirms that the GB is responsible for ensuring that the company complies with all relevant laws, regulations and codes of business practise. The GB has delegated the responsibility for ensuring that the relevant compliance processes are in place to the Audit Committee. The GB is regularly informed and updated on the relevant laws, rules, codes and standards through reports presented to the Audit committee. The Company Secretary monitors regulatory compliance with the Companies Act and advises the GB.
14. Remuneration Governance: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	The company has no employees and does not remunerate its directors individually. Maitland has been mandated by the company for the provision of all independent non-executive directors. The fees paid for the provision of directors are agreed in the PM and are market related. These fees are disclosed in the company's AFS. Maitland remunerates the executive director it appointed to the board of the company as its employee and not for the role as director of the company.
15. Assurance: The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.	The GB is responsible for assurance by setting the direction concerning the arrangements for assurance services and functions. The Audit Committee assists the GB with this responsibility.
16. Stakeholders: In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.	The company publishes quarterly investor reports through a SENS announcement on the JSE's website. The GB has the ability to consult with the Debt Sponsor and the Servicer of the company where necessary to fulfil its responsibilities. The Servicer is invited to attend meetings by standing invitation to provide a performance update on each transaction. Through these channels, the GB is informed of material issues and disputes and provides input to enable resolution as effectively, efficiently and expeditiously as possible.
17. Responsibilities of institutional investors: The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests.	The principle is not applicable to the company as the company is not an Institutional Investor.

Nqaba Finance 1 (RF) Ltd
Report of the audit committee

Recommendation of the annual financial statements

The committee has evaluated the annual financial statements of Nqaba for the year ended 31 March 2018 and based on the information provided to it, considers that they comply, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards. The committee concurs with the Board and management that the adoption of the going-concern premise in the preparation of the annual financial statements is appropriate.

The committee has, therefore, at their meeting held on 31 July 2018, recommended the adoption of the annual financial statements to the Board.

D Lorimer
Chairman
31 July 2018

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 are true, correct and up to date.

Maitland Group South Africa Limited
Company secretary
31 July 2018

The directors are pleased to present their report for the year ended 31 March 2018.

1. Principal activities, state of affairs and business review

Nqaba Finance 1 (RF) Ltd (Nqaba), is a controlled entity by Eskom Finance Company SOC Ltd (EFC), 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 Stock Exchange (JSE), using a securitisation structure.

Nqaba Finance 1 (RF) Limited - The Issuer

The notes issued by the Issuer are solely the obligations of Nqaba and are neither the obligations of, nor the responsibility of EFC and are not guaranteed by EFC.

Nqaba has issued a cession in favour of the Nqaba Finance 1 Security Special Purpose Vehicle (SPV) Owner Trust and Nqaba Finance 1 Security SPV (RF) (Pty) Ltd by way of cession of all company's rights, title and interest in and to the mortgage advances, the mortgage agreements and the related security in respect of portfolio of mortgages owned by the company from time to time, the business proceeds and the bank accounts.

Nqaba has issued an indemnity to the Nqaba Finance 1 Security SPV Owner Trust and Nqaba Finance 1 Security SPV (RF) (Pty) Ltd indemnifying the Nqaba Finance 1 Security SPV Owner Trust and Nqaba Finance 1 Security SPV (RF) (Pty) Ltd against any claims by secured creditors in terms of a guarantee by the Nqaba Finance 1 Security SPV Owner Trust and Nqaba Finance 1 Security SPV (RF) (Pty) Ltd. The obligations of Nqaba in terms of this indemnity are secured by:

- A suretyship granted by the Nqaba Finance 1 Security SPV Owner Trust in favour of Nqaba Finance 1 Security SPV (RF) (Pty) Ltd in respect of obligations of the company, limited to the shares in the company;
- A cession and pledge of all of Nqaba Finance 1 Security SPV Owner Trust's shares in the company as security for the suretyship granted by the Nqaba Finance 1 Security SPV Owner Trust and Nqaba Finance 1 Security SPV (RF) (Pty) Ltd; and
- A security cession in favour of Nqaba Finance 1 Security SPV Owner Trust and Nqaba Finance 1 Security SPV (RF) (Pty) Ltd mentioned in the first paragraph above.

Nqaba Finance 1 Security SPV (RF) (Pty) Ltd

Nqaba Finance 1 Security SPV (RF) (Pty) Ltd ("the Security SPV") has issued a guarantee to secured creditors of Nqaba whereby the Security SPV guarantees their claims on the occurrence of any event of default. The Security SPV shall not be liable to secured creditors for any amount which exceeds the amount which the Security SPV recovers from the Issuer pursuant to the indemnity provided by the Issuer to the Security SPV. The Security SPV holds an indemnity from the Issuer indemnifying the Security SPV against any claims by secured creditors in connection with the above guarantee.

Nqaba Guarantee SPV (RF) (Pty) Ltd ("Guarantee SPV")

Nqaba Guarantee SPV (RF) (Pty) Ltd is established as a special purpose entity, which issues limited recourse guarantees to the Home Loan Lender (EFC and Nqaba), against the security of an Indemnity and an Indemnity Bond.

Guarantee SPV gives a guarantee in respect of guaranteed home loans in favour of EFC, guaranteeing a borrower's obligations to EFC in terms of the home loan agreement concluded in relation to the home loan granted to such borrower and which shall be ceded to the Issuer upon purchase of such home loan in terms of the home loan sale agreement.

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 R189 million (2017: R193 million). Management attributes this movement to the decrease in the prime lending rate in August 2017. Profit before tax amounted to R3 million (2017: R9 million), profit after taxation amounted to R2 million (2017: R5 million). The increase in operating expenditure due to notes issued contributed to the reduction in profits. These operating expenses are linked to the size of the notes in issue.

The detailed financial results of the company are set out on page 16 to 44 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 or prior financial year.

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	31-Jan-09	31-May-17	Non-executive director
BW Smith (Chairman) *	29-Jan-16		Non-executive director
TL Myburgh	09-Feb-06		Non-executive director
D Lorimer	30-Sep-14		Non-executive director
PBE Coombe	31-May-17		Non-executive director

* Mr BW Smith was appointed a Chairman of the Board on 31 May 2017, upon the resignation of EM Southey.

Directors' interest

The directors have no interests in contracts with the company.

Attendance at board and audit committee meetings:

	Board committee		Audit committee
Members	26-May-17	24-Nov-17	26-May-17
EM Southey	√	n/a	√
BW Smith	√	√	√
TL Myburgh	√	√	n/a
D Lorimer	√	√	√
PBE Coombe	n/a	√	n/a

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

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	√
Not applicable, not a committee member.	n/a

6. Events subsequent to the reporting date

Nqaba refinanced all its maturing notes on 22 May 2018 totalling R817 million via a private placement. These comprised of R658 million Class A, R72 million Class B, R57 million Class C notes and R30 million Class D notes.

7. Auditors

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

8. Company secretary

Maitland Group South Africa Limited:

Business address	Postal
18 Fricker Road	PO Box 781396
Illovo, Johannesburg	Sandton
2196	2146

9. Consolidated annual financial statements

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 and consolidated further into Eskom Holdings SOC Ltd.

10. Holding entity

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

11. Debt listing requirements

Nqaba has complied with all the Debt Listing Requirements in accordance with the King IV Code of Corporate Governance and the provisions of paragraph 5.5 (c) of the Debt Listings Requirements.

SNG Grant Thornton

An instinct for growth™

SNG Grant Thornton
20 Morris Street East
Woodmead, 2191
P.O. Box 2939
Saxonwold, 2132
T +27 (0) 11 231 0600

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Nqaba Finance 1 (RF) Limited set out on pages 16 to 44 which comprise the statement of financial position at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nqaba Finance 1 (RF) Limited at 31 March 2018, 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 (PFMA) and the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of this auditor's report. We are independent of Nqaba Finance 1 (RF) Limited in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors* (IRBA code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there are no key audit matters to communicate in our report.

Emphasis of matter

We draw attention to the matter below. Our opinion is not modified in respect of this matter.

Restatement of corresponding figures

As disclosed in note 29 to the financial statements, the corresponding figures for 31 March 2017 have been restated.

Responsibilities of the board of directors for the financial statements

The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the PFMA and the Companies Act of South Africa, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the accounting authority is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

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

Report on the audit of compliance with legislation

Introduction and scope

In accordance with the Public Audit Act of South Africa (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, we have a responsibility to report material findings on compliance of the company with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express any assurance. We did not raise material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the Directors' report, Report of the audit committee and the Statement by the company secretary as required by the Companies Act of South Africa. The other information does not include the financial statements and the auditor's report thereon.

Our opinion on the financial statements, does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to report that fact. We have nothing to report in this regard.

Internal control deficiencies

We considered internal control relevant to our audit of the financial statements and compliance with applicable legislation, however, our objective was not to express any form of assurance conclusion on it. We did not identify any significant deficiencies in internal control.

Report on other legal and regulatory requirements

In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Grant Thornton Inc. has been the auditor of Nqaba Finance 1 (RF) Limited for 13 years.

Pravesh Hiralall
SizweNtsalubaGobodo Grant Thornton
Director
Registered Auditor
1 August 2018

20 Morris Street East
Woodmead

Annexure - *Auditor’s responsibilities for the audit of the financial statements*

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the financial statements.

Financial statements

In addition to our responsibility for the audit of the financial statements as described in the auditor’s report, we also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority.
- Conclude on the appropriateness of the accounting authority’s use of the going concern basis of accounting in the preparation of the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify our opinion on the financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Nqaba Finance 1 (RF) Ltd

Statement of financial position at 31 March 2018

	Note	2018 R '000	Restated 2017 R '000	Restated 2016 R '000
Assets				
Non-Current Assets				
Properties in possession	4	110	110	488
Loans receivable	5	1,830,957	1,835,854	1,835,238
Deferred tax	6	834	1,364	982
Derivatives held for risk management	7	2,216	2,179	-
		1,834,117	1,839,507	1,836,708
Current Assets				
Loans receivable	5	76,767	71,934	71,159
Derivatives held for risk management	7	1,831	1,247	1,173
Trade and other receivables	8	16,421	34,590	18,477
Taxation	9	7,409	10,676	10,253
Cash and cash equivalents	10	86,297	62,774	78,246
		188,725	181,221	179,308
Total Assets		**2,022,842**	**2,020,728**	**2,016,016**
Equity and Liabilities				
Equity				
Share capital	11	-	-	-
Retained income		52,734	51,011	45,682
		52,734	**51,011**	**45,682**
Liabilities				
Non-Current Liabilities				
Derivatives held for risk management	7	-	-	288
Debt securities issued	12	843,000	1,083,000	1,231,000
		843,000	1,083,000	1,231,288
Current Liabilities				
Debt securities issued	12	831,701	591,680	443,815
First loss credit enhancement loan	13	293,564	293,623	293,720
Trade and other payables	14	1,843	1,414	1,511
		1,127,108	886,717	739,046
Total Liabilities		**1,970,108**	**1,969,717**	**1,970,334**
Total Equity and Liabilities		**2,022,842**	**2,020,728**	**2,016,016**

Nqaba Finance 1 (RF) Ltd

Statement of comprehensive income for the year ended 31 March 2018

	Note	2018 R '000	2017 R '000
Interest income	15	189,376	193,392
Finance expense	16	(180,768)	(179,148)
Net interest income		8,608	14,244
Other income	17	6,248	6,573
Operating profit		14,856	20,817
Net impairment loss	18	(577)	(4,953)
Net fair value gain on financial instruments	19	621	2,541
Operating expenses	20	(12,163)	(9,459)
Profit before tax		2,737	8,946
Taxation	21	(1,014)	(3,617)
Profit for the year		1,723	5,329
Other comprehensive income		-	-
Total comprehensive income for the year		**1,723**	**5,329**

Nqaba Finance 1 (RF) Ltd

Statement of changes in equity for the year ended 31 March 2018

	Note	Share capital R '000	Retained income R '000	Total equity R '000
Balance at 1 April 2016		-	45,682	45,682
Total comprehensive income for the year		-	5,329	5,329
Balance at 31 March 2017		**-**	**51,011**	**51,011**
Total comprehensive income for the year		-	1,723	1,723
Balance at 31 March 2018		**-**	**52,734**	**52,734**

Nqaba Finance 1 (RF) Ltd

Statement of cash flows for the year ended 31 March 2018

	Note	2018 R '000	2017 R '000
Cash flows from operating activities			
Cash generated from operations	22	195,811	167,723
Other income	17	6,248	6,573
Finance costs	16	(180,768)	(179,148)
Taxation paid / (received)	9	2,783	(4,422)
Net cash from operating activities		24,074	(9,274)
Cash flows from investing activities			
Decrease in properties in possession		-	461
(Increase) in loans receivable		(513)	(6,427)
Net cash applied to investing activities		(513)	(5,966)
Cash flows from financing activities			
(Decrease) in borrowings		(38)	(232)
Net cash applied to financing activities		(38)	(232)
Net increase / (decrease) in cash and cash equivalents		23,523	(15,472)
Cash and cash equivalents at the beginning of the year		62,774	78,246
Cash and cash equivalents at the end of the year	10	**86,297**	**62,774**

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 the years presented.

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 2018 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 the going concern basis.

Basis of measurement

The financial statements are prepared on the historical cost basis except for derivatives held for risk management and properties in possession 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.

All non-derivative financial assets are recognised on the date of commitment to purchase (trade date).

Non-derivative financial assets are recognised initially at fair value plus any directly attributable transaction costs. 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.

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.

Loans and receivables

Loans and advances 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.

Loans and advances are assessed for indicators of impairment at the reporting date to determine whether there is any objective evidence of impairment. Those financial assets are assessed collectively in groups that share similar credit risk characteristics.

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.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the company has transferred substantially all the risks and rewards of ownership.

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.

- 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.

(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 (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.

Financial liabilities at amortised cost

Financial liabilities comprise debt securities issued, first loss credit-loss enhancement loan and trade and other payables. 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.

1.2 Financial instruments (continued)

(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 adjusted market prices, discounted cash flow 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.

All financial liabilities are derecognised when the obligation expires, is discharged or cancelled, or there is a substantial modification to the terms of the liability. Fair value gains or losses continue to be recognised in profit or loss.

1.3 Share capital

Ordinary Shares

Share Capital consists of ordinary shares that are classified as equity net of incremental direct costs of issue.

Preference Shares

The company's redeemable preference shares are classified as equity, as they bear dividends of a discretionary nature, and do not contain any obligations to deliver cash or other financial assets.

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.

The tax currently payable is based on taxable profit for the year. Taxable profits may differ from profit as reported in the profit or loss because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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. 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 assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

1.6 Interest income and interest expense

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.

Interest income

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

Interest expense comprises of interest payable on both debt securities issued and the first loss credit enhancement loan.

Other income

Other income comprises income from financial market investments. Nqaba entered into a swap agreement to economically hedge against interest rate variations on the fixed rate notes. Interest income earned on swap diferrential is recognised as it accrues in profit or loss using the effective interest method.

1.7 Related-party transactions

A related party is recognised as any entity or a person related to Nqaba or is a member of the key management personnel of Nqaba or its parent.

1.8 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 meet the eligibility criteria set out in the Programme Memorandum. 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.

1.9 Properties in possession

Unsold properties in possession are recognised once ownership has been legally transferred to the company and the underlying debtor is then derecognised. These properties are disclosed separately under non-current assets at the outstanding loan balance, which are then valued at the lower of the carrying amount and the fair value less costs to sell. The fair value is determined using a market-based valuation performed by sworn assessors annually.

1.10 Disposal of properties in possession

It is the company’s policy to dispose off repossessed properties in an orderly fashion on a willing buyer and willing seller basis. The property to be sold is auctioned. Upon receipt of offers to purchase, offers are evaluated and an offer that makes the most economic sense is accepted.

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 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 economically 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.

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

(c) Properties in possession

The fair value is determined using a market-based valuation performed by sworn assessors annually.

(d) Deferred tax

Judgements are required in determining the provision for income taxes due to the complexity of legislation. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Nqaba recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Further, assessing the recoverability of deferred income tax assets requires the entity to make significant estimates related to expectations of future taxable income.

Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws.

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 committee. 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 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.

Counterparty 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.

3. Financial risk management (continued)

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 R78 million (2017: R83 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 2018 was:

	2018	2017
Weighted average current loan to value ratio (%)	66.61%	66.81%
The average loan amount in relation to the total home loan book value at 31 March was:		
Average outstanding amount - Home loans	268,027	262,530
Loan amount as a percentage of the loan book (%)	0.014%	0.013%

(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
2018				
AA	86,297	4,047	-	-
Unrated	-	-	1,907,724	16,421
	86,297	**4,047**	**1,907,724**	**16,421**
2017				
AA	62,774	3,426	-	-
Unrated	-	-	1,907,788	34,590
	62,774	**3,426**	**1,907,788**	**34,590**

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

	2018 R '000	2017 R '000
Loans and advances		
Home loans	1,907,724	1,907,788
	1,907,724	**1,907,788**
Trade and other receivables	16,421	34,590
	16,421	**34,590**

3. Financial risk 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
2018					
Collectively assessed for impairment					
Home loans	1,916,769	1,843,547	21,711	5,670	45,841
Impairment					
Home loans	(9,045)	(2,260)	(286)	(207)	(6,292)
	1,907,724	**1,841,287**	**21,425**	**5,463**	**39,549**

	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
2017					
Collectively assessed for impairment					
Home loans	1,917,351	1,832,399	14,744	13,966	56,242
Impairment					
Home loans	(9,563)	(2,987)	(402)	(506)	(5,668)
	1,907,788	**1,829,412**	**14,342**	**13,460**	**50,574**

Mortgage advances include an amount of R23 million (2017: R21 million) relating to receivables that were renegotiated. These mortgage advances would have been past due had their terms not been renegotiated.

No financial assets have been held as collateral. No financial or non-financial assets have been received wherein the company is permitted to sell or repledge even in absence of default.

Allowance for impairment

The movement in the allowance for impairment in respect of properties in possession and home loans during the year is as follows:

	2018 R '000	2017 R '000
Balance at the beginning of the year	9,885	5,857
Impairment loss recognised	(518)	4,028
Balance at the end of the year	**9,367**	**9,885**
Comprising:		
Home loans	9,045	9,563
Properties in possession	322	322
	9,367	**9,885**

Nqaba establishes an allowance for impairment that represents its estimate of incurred losses in respect of properties in possession and home loans. This allowance consists 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.

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.

3. Financial risk management (continued)

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.

The company's interest rate risk arises from debt securities issued, loans and receivables, cash and cash equivalents, credit enhancement loan and 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.

Derivatives

Nqaba has entered into interest rate swap transactions to hedge against interest rate variability on the issued 10 year fixed rate notes. The swaps are linked to the main debt from the secured note holders. The net impact on profit or loss because of changes in the fair value of the derivatives for the company is a fair value gain of R0.6 million (2017: R2.5 million).

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.

	2018 +100 basis point R' 000	2018 -100 basis point R' 000	2017 +100 basis point R' 000	2017 -100 basis point R' 000
Effect on profit or loss				
Rand interest rate	3,431	(3,431)	3,201	(3,201)

The entity has not applied hedge accounting.

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.

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.

The Programme Memorandum defines and makes provision for a redraw facility during the Revolving Period to fund the advance of Redraws, Re-advances and Further Advances. It further also provides for a Liquidity Facility to fund Liquidity shortfalls. These liquidity shortfalls include specified expenses of the Issuer up to and including interest on the Notes, provided that immediately following a drawdown under such facilities, the Asset Quality Test as defined in the Programme Memorandum is satisfied.

3. Financial risk management (continued)

The Liquidity Facility Limit is an amount equal to the greater of the Principal Amount of the Initial Notes issued on the Initial Issue Date and 2% of the Outstanding Principal Amount of the Notes in issue from time to time.
These facilities are provided by ABSA Capital, or such entity with the Required Credit Rating, which will be appointed in terms of the Redraw and Liquidity Facility Agreements.

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.

In the event that notes are not refinanced on the scheduled maturity date, the 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 commitments 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.

Contractual cash flows

The management of liquidity and funding risk is centralised in the EFC 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 through notes issued, credit enhancement loans, redraw and liquidity facilities 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 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. Nqaba refinanced all its matured notes on 22 May 2018, details of that transaction are discussed in the Directors' report.

3. Financial risk management (continued)

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 R' 000	Current R' 000	Total R' 000	Nominal inflow or (outflow) R' 000	0 - 3 months R' 000	4 - 12 months R' 000	1 - 5 years R' 000	More than 5 years R' 000
2018								
Financial assets								
Loans receivable	1,830,957	76,767	1,907,724	1,907,724	65,536	195,714	997,878	2,824,324
Derivatives held for risk management	2,216	1,831	4,047	4,047	383	1,448	2,216	-
Trade and other receivables	-	16,421	16,421	16,421	16,421	-	-	-
Cash and cash equivalents	-	86,297	86,297	86,297	86,297	-	-	-
	1,833,173	**181,316**	**2,014,489**	**2,014,489**	**168,637**	**197,162**	**1,000,094**	**2,824,324**
Financial liabilities								
Debt securities issued	843,000	831,701	1,674,701	1,674,701	831,701	-	843,000	-
First loss credit enhancement loan	-	293,564	293,564	293,564	293,564	-	-	-
Trade and other payables	-	1,843	1,843	1,843	1,843	-	-	-
	843,000	**1,127,108**	**1,970,108**	**1,970,108**	**1,127,108**	**-**	**843,000**	**-**
Liquidity gap	**990,173**	**(945,792)**	**44,381**	**44,381**	**(958,471)**	**197,162**	**157,094**	**2,824,324**

	Carrying amount				Cash flows			
	Non-current R' 000	Current R' 000	Total R' 000	Nominal inflow or outflow R' 000	0 - 3 months R' 000	4 - 12 months R' 000	1 - 5 years R' 000	More than 5 years R' 000
2017								
Financial assets								
Loans receivable	1,835,854	71,934	1,907,788	1,907,788	66,017	197,273	1,014,193	2,963,865
Derivatives held for risk management	2,179	1,247	3,426	3,426	319	928	2,179	-
Trade and other receivables	-	34,590	34,590	34,590	34,590	-	-	-
Cash and cash equivalents	-	62,774	62,774	62,774	62,774	-	-	-
	1,838,033	**170,545**	**2,008,578**	**2,008,578**	**163,700**	**198,201**	**1,016,372**	**2,963,865**
Financial liabilities								
Debt securities issued	1,083,000	591,680	1,674,680	1,674,680	591,680	-	1,083,000	-
First loss credit enhancement loan	-	293,623	293,623	293,623	293,623	-	-	-
payables	-	1,414	1,414	1,414	1,414	-	-	-
	1,083,000	**886,717**	**1,969,717**	**1,969,717**	**886,717**	**-**	**1,083,000**	**-**
Liquidity gap	**755,033**	**(716,172)**	**38,861**	**38,861**	**(723,017)**	**198,201**	**(66,628)**	**2,963,865**

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
2018					
Financial assets					
Non-current					
Loans receivable	-	1,830,957	-	1,830,957	1,714,407
Derivatives held for risk management	2,216	-	-	2,216	2,216
	2,216	**1,830,957**	**-**	**1,833,173**	**1,716,623**
Current					
Loans receivable	-	76,767	-	76,767	71,880
Derivatives held for risk management	1,831	-	-	1,831	1,831
Trade and other receivables	-	16,421	-	16,421	16,421
Cash and cash equivalents	-	86,297	-	86,297	86,297
	1,831	**179,485**	**-**	**181,316**	**176,429**
Total financial assets	**4,047**	**2,010,442**	**-**	**2,014,489**	**1,893,052**
Financial liabilities					
Non-current					
Debt securities issued	-	-	843,000	843,000	843,000
	-	**-**	**843,000**	**843,000**	**843,000**
Current					
Debt securities issued	-	-	831,701	831,701	831,701
First loss credit enhancement loan	-	-	293,564	293,564	293,564
Trade and other payables	-	-	1,843	1,843	1,843
	-	**-**	**1,127,108**	**1,127,108**	**1,127,108**
Total financial liabilities	**-**	**-**	**1,970,108**	**1,970,108**	**1,970,108**

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
2017					
Financial assets					
Non-current					
Loans receivable	-	1,835,854	-	1,835,854	1,696,946
Derivatives held for risk management	2,179	-	-	2,179	2,179
	2,179	**1,835,854**	**-**	**1,838,033**	**1,699,125**
Current					
Loans receivable	-	71,934	-	71,934	66,491
Derivatives held for risk management	1,247	-	-	1,247	1,247
Trade and other receivables	-	34,590	-	34,590	34,590
Cash and cash equivalents	-	62,774	-	62,774	62,774
	1,247	**169,298**	**-**	**170,545**	**165,102**
Total financial assets	**3,426**	**2,005,152**	**-**	**2,008,578**	**1,864,227**
Financial liabilities					
Non-current					
Debt securities issued	-	-	1,083,000	1,083,000	1,260,068
	-	**-**	**1,083,000**	**1,083,000**	**1,260,068**
Current					
Debt securities issued	-	-	591,680	591,680	586,320
First loss credit enhancement loan	-	-	293,623	293,623	293,623
Trade and other payables	-	-	1,414	1,414	1,414
	-	**-**	**886,717**	**886,717**	**881,357**
Total financial liabilities	**-**	**-**	**1,969,717**	**1,969,717**	**2,141,425**

Collateral obtained

There were no debtors that defaulted on their accounts and as a result, no mortgage bonds were called upon (2017: nil).

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. 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 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 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**
2018	**R '000**	**R '000**	**R '000**
Assets measured at fair value			
Derivatives held for risk management			
Interest rate swaps	-	4,047	-
	-	**4,047**	**-**
Assets not measured at fair value			
Loans receivables			
Residential mortgage backed securities	-	1,786,287	-
Properties in possession [1]	-	-	110
	-	**1,786,287**	**110**
Liabilities measured at fair value			
Derivatives held for risk management			
Interest rate swaps	-	-	-
	-	**-**	**-**
Liabilities not measured at fair value			
Debt securities issued			
Commercial paper	-	1,674,701	-
First loss credit enhancement loan			
Subordinated loan	-	293,564	-
	-	**1,968,265**	**-**

[1] Properties in possession are valued at the lower of the carrying amount and the fair value less costs to sell. The fair value is determined using a market-based valuation performed by sworn assessors semi-annually taking into account factors such as market comparatives, condition of the repossessed property and recent sales of similar properties in the area.

Gains or losses arising from fair value adjustments are recognised in profit or loss within net fair value gain/(loss) on financial instruments within other income or operating expenses. The fair value gain or loss on PIP's for the period is nil (2017: nil).

Sensitivity analysis on PIP's would have yielded immaterial results as the PIP portfolio is immaterial in relation to the total loan book.

Management considers carrying amounts on PIP's as their fair value.

3. Financial risk management (continued)

	Fair value		
	Level 1	**Level 2**	**Level 3**
2017	**R '000**	**R '000**	**R '000**
Assets measured at fair value			
Derivatives held for risk management			
Interest rate swaps	-	3,426	-
	-	**3,426**	**-**
Assets not measured at fair value			
Loans receivables			
Residential mortgage backed securities	-	1,763,437	-
Properties in possession	-	-	110
	-	**1,763,437**	**110**
Liabilities measured at fair value			
Derivatives held for risk management			
Interest rate swaps	-	-	-
	-	**-**	**-**
Liabilities not measured at fair value			
Debt securities issued			
Commercial paper	-	1,846,388	-
First loss credit enhancement loan			
Subordinated loan	-	293,623	-
	-	**2,140,011**	**-**

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

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.

4. Properties in possession

	2018 R '000	2017 R '000
Opening balance	432	892
Additions	-	-
Disposals	-	(460)
Repayments	-	-
Closing balance	**432**	**432**
Impairments	(322)	(322)
	110	**110**

5. Loans receivable

Secured by mortgage	1,907,724	1,907,788
	1,907,724	**1,907,788**
Maturity analysis		
Non-current	1,830,957	1,835,854
Current	76,767	71,934
	1,907,724	**1,907,788**

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

6. Deferred tax

	2018 R '000	2017 R '000
Deferred tax assets		
Balance at the beginning of the year	1,364	982
Recognised in profit or loss	(530)	382
	834	**1,364**
Reconciliation of deferred tax asset		
Balance at beginning of year	1,364	982
Prior year under or over adjustment	(248)	248
Doubtful debts allowances S11(j)	37	(282)
Originating differences on provisions	(145)	1,128
Reversing differences on fair value swaps	(174)	(712)
	834	**1,364**

Recognition of deferred tax asset/(liability)

The deferred tax asset arises from:

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

7. Derivatives held for risk management

	2018 Assets R '000	2018 Liabilities R '000	2018 Carrying value R '000	2017 Assets R '000	2017 Liabilities R '000	2017 Carrying value R '000
Interest rate derivatives						
Interest rate swaps	4,047	-	4,047	3,426	-	3,426
	4,047	**-**	**4,047**	**3,426**	**-**	**3,426**
Reconciliation						
Derivatives held for risk management						
Balance at the beginning of the year	3,426	-	3,426	1,173	(288)	885
Charged to profit or loss	621	-	621	2,253	288	2,541
	4,047	**-**	**4,047**	**3,426**	**-**	**3,426**
Maturity analysis						
Non-current	2,216	-	2,216	2,179	-	2,179
Current	1,831	-	1,831	1,247	-	1,247
	4,047	**-**	**4,047**	**3,426**	**-**	**3,426**

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 R1.42 million (2017: R1.48 million).

	2018 R '000	2017 R '000
8. Trade and other receivables		
Gross	16,421	34,590
Impairment	-	-
	16,421	**34,590**
Maturity analysis		
Current	16,421	34,590
9. Taxation		
Balance at the beginning of the year	10,676	10,253
Current tax for the year recognised in profit or loss	(484)	(3,999)
Balance at the end of the year	(7,409)	(10,676)
	2,783	**(4,422)**
10. Cash and cash equivalents		
Bank balances	86,297	62,774
11. Share capital		
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.

* Due to roundings to the nearest R'000, the amounts reflect a nil balance.

12. Debt securities issued	2018 R '000	2017 R '000
Commercial paper	1,674,701	1,674,680
Maturity analysis		
Non-current	843,000	1,083,000
Current	831,701	591,680
	1,674,701	**1,674,680**

Notes	Currency	Interest rate 2018 %	Interest rate 2017 %	Maturity date	Nominal 2018 R' 000	Nominal 2017 R' 000	Carrying value 2018 R' 000	Carrying value 2017 R' 000
Floating rate notes								
Class A18	ZAR	-	8.28	May-17	-	318,000	-	320,667
Class A20	ZAR	-	8.37	May-17	-	195,000	-	196,654
Class B16	ZAR	-	8.48	May-17	-	32,000	-	32,275
Class C16	ZAR	-	8.73	May-17	-	32,000	-	32,283
Class A17	ZAR	8.23	8.43	May-18	302,000	302,000	304,518	304,579
Class A19	ZAR	8.52	8.72	May-18	303,000	303,000	305,615	305,677
Class A23	ZAR	8.18	-	May-18	5,000	-	5,041	-
Class A26	ZAR	8.18	-	May-18	48,000	-	48,398	-
Class B15	ZAR	8.38	8.58	May-18	40,000	40,000	40,340	40,347
Class B19	ZAR	8.38	-	May-18	32,000	-	32,272	-
Class C15	ZAR	8.48	8.68	May-18	25,000	25,000	25,215	25,220
Class C19	ZAR	8.53	-	May-18	32,000	-	32,276	-
Class D7	ZAR	8.68	8.88	May-18	30,000	30,000	30,264	30,270
Class A21	ZAR	8.70	8.90	May-19	210,000	210,000	211,851	211,894
Class D8	ZAR	9.98	10.18	May-19	24,000	24,000	24,243	24,248
Class A24	ZAR	8.73	-	May-20	310,000	-	312,741	-
Class A25	ZAR	8.97	-	May-20	150,000	-	151,363	-
Class B17	ZAR	8.95	9.15	May-20	8,000	8,000	8,073	8,074
Class C17	ZAR	9.38	9.58	May-20	5,000	5,000	5,048	5,049
Class D5	ZAR	10.38	10.58	May-20	5,000	5,000	5,053	5,054
Fixed rate notes								
Class A10	ZAR	10.44	10.44	May-20	115,000	115,000	116,216	116,216
Class B10	ZAR	10.64	10.64	May-20	11,000	11,000	11,119	11,119
Class C10	ZAR	10.84	10.84	May-20	5,000	5,000	5,055	5,055
					1,660,000	**1,660,000**	**1,674,701**	**1,674,680**

Class A17, A18, A19, A20, A21, A23, A24, A25, A26, B15, B16, B17, B19, C15, C16, C17, C19, D5, D7 and D8 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:

- 1.10% per annum in relation to Class A17 Notes;
- 1.39% per annum in relation to Class A19 Notes;
- 1.57% per annum in relation to Class A21 Notes;
- 1.05% per annum in relation to Class A23 Notes;
- 1.60% per annum in relation to Class A24 Notes;
- 1.84% per annum in relation to Class A25 Notes;
- 1.05% per annum in relation to Class A26 Notes;
- 1.25% per annum in relation to Class B15 Notes;
- 1.82% per annum in relation to Class B17 Notes;
- 1.25% per annum in relation to Class B19 Notes;
- 1.35% per annum in relation to Class C15 Notes;
- 2.25% per annum in relation to Class C17 Notes;
- 1.40% per annum in relation to Class C19 Notes;
- 3.25% per annum in relation to Class D5 Notes;

12. Debt securities issued (continued)

- 1.55% per annum in relation to Class D7 Notes;
- 2.85% per annum in relation to Class D8 Notes;

Class A10, B10 and C10 are secured fixed rate notes.

The fixed interest rate of these notes were:

- 10.44% per annum in relation to Class A10 Notes;
- 10.64% per annum in relation to Class B10 Notes; and
- 10.84% 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 company continues to comply with all borrowing obligations and financial covenants. All financial covenants have been tested and complied with as at 31 March 2018.

13. First loss credit enhancement loan	**2018 R '000**	**2017 R '000**
Subordinated loan - Eskom Finance Company SOC Limited	290,000	290,000
Accrued interest	3,564	3,623
	293,564	**293,623**

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.

14. Trade and other payables		
Accruals	1,843	1,414
Maturity analysis		
Current	1,843	1,414

15. Interest income		
Interest revenue	189,376	193,392
	189,376	**193,392**

16. Finance expense		
Interest paid on debt securities issued	145,437	143,626
Interest paid on subordinated loan	35,331	35,522
	180,768	**179,148**

Nqaba Finance 1 (RF) Ltd

Notes to the financial statements for the year ended 31 March 2018

	2018 R '000	2017 R '000
17. Other income		
Swaps interest	1,482	1,427
Interest on Call account	4,766	5,146
	6,248	**6,573**
18. Net impairment loss		
Impairment (reversal) charge	(518)	4,028
Loan losses	1,095	925
	577	**4,953**
19. Net fair value gain on financial instruments		
Net fair value gain on financial instruments	**621**	**2,541**
20. Operating expenses		
Auditors fees	546	490
Management fees	637	505
Bank charges	4	-
Servicer fees	3,284	3,280
Liquidity facility fee	170	205
Redraw facility fees	2,414	3,148
Back up servicer fees	192	192
JSE fixed fee	223	457
JSE variable fee	-	-
Owner trustee fee	246	212
Rating fee	443	835
Rating fee expense	844	-
National Credit Regulator fee	114	69
Credit ombudsman	71	-
Strate fixed fee	111	66
Bond issue fees	2,430	-
Legal fees	434	-
	12,163	**9,459**
21. Taxation		
Major components of tax expense		
Income tax	484	3,999
Deferred tax	530	(382)
Total income tax in profit or loss	**1,014**	**3,617**
Reconciliation of tax expense		
Taxation as a percentage of profit before tax	37.06%	40.44%
Taxation effect of:		
Expenses not deductible for tax purposes	0.00%	2.76%
Prior year adjustments	(9.06%)	(15.20%)
Standard tax rate	**28.00%**	**28.00%**
22. Cash generated from operations		
Profit before taxation	2,737	8,946
Adjustments for:		
Loan losses	1,095	925
Other income	(6,248)	(6,573)
Finance costs	180,768	179,148
Net impairment loss	(518)	4,028
Net fair value gain on financial instruments	(621)	(2,541)
Changes in working capital:		
Trade and other receivables	18,169	(16,112)
Trade and other payables	429	(97)
	195,811	**167,723**

23. Commitments

	2018 R '000	2017 R '000
Nqaba further loans approved but not yet disbursed		
Loans and advances	8,372	2,201

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 (2017: 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 first loss 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 R35 million (2017: R36 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 a 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	2018 R '000	2017 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	3,564	3,623
	293,564	**293,623**
Servicing fees	334	334
Transactions		
Purchases of goods and services		
Servicing fees	3,284	3,280
Finance cost		
Eskom Finance Company SOC Limited	35,331	35,522

25. Related parties (continued)

Other related party transactions

These transactions comprise those entered into with Maitland Group SA 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.

	2018 R '000	2017 R '000
Transactions		
Owner trustee and Directors' fees	246	212
Outstanding balances (due to related parties)		
Owner trustee and Directors' fees	38	18
	38	**18**

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 2018 were re-financed on that day. None of these 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. The going concern assumption has been tested against this fact and it will have no bearing on Nqaba as the structure is ring fenced.

27. Directors' emoluments

The directors do not receive individual remuneration from the company. Due to the nature of the securitisation structure, Maitland Group SA Limited (Maitland) acts as Trustees of the Nqaba Finance 1 Owner Trust and of Nqaba Finance 1 Security SPV Owner Trust and provides three independent non-executive directors to the Issuer. These directors are contracted to Maitland and are remunerated by Maitland for services rendered as Directors of the company. The fourth non-executive director is an employee of Eskom Holdings SOC Ltd and is also not remunerated by this company. The fee paid to Maitland for their services to the securitisation structure is disclosed in note 25.

28. Net debt reconciliation

	Debt securities issued	First loss credit enhancement loan	Total
	R'000	R'000	R'000
Balance 1 April 2016	**1,674,815**	**293,720**	**1,968,535**
Net cash increase / (decrease)	(135)	(97)	(232)
Non-cash movements	-	-	-
Balance 31 March 2017	**1,674,680**	**293,623**	**1,968,303**
Net cash increase / (decrease)	21	(59)	(38)
Non-cash movements	-	-	-
Balance 31 March 2018	**1,674,701**	**293,564**	**1,968,265**

29. Restatement of comparatives

Nqaba did not correctly disclose the split between the current and non-current portions of its loans and advances, due to an incorrect interpretation of what constitutes the current portion of its loans and advances. The current portion was incorrectly interpreted as being only those loans that matured within twelve months from balance sheet date instead of all loans and advances capital repayments to be received within twelve months from the balance sheet date. This interpretation was consistent with the treatment of the loans and advances followed by EFC (refer to par 9 in the director's report), which is governed by the PFMA.

Accordingly the disclosure of the current and non-current portion of Nqaba's loans and advances was corrected in the 2018 annual financial statements in terms of IAS 8 as a prior period error by disclosing the split between the current and non-current portion of its loans and advances, based on capital repayments to be received within twelve months from the balance sheet date.

The restatement had no impact on the claims of the senior secured creditors as defined in the Programme Memorandum.

The impact of the restatement is as follows:

	2017			2016		
	Previously reported	Adjustment	Restated	Previously reported	Adjustment	Restated
	R'000	R'000	R'000	R'000	R'000	R'000
Statement of financial position						
Non-Current Assets						
Loans receivable	1,906,108	(70,254)	1,835,854	1,904,978	(69,740)	1,835,238
Current Assets						
Loans receivable	1,680	70,254	71,934	1,419	69,740	71,159

30. New standards and interpretations

30.1 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:

Topic	Summary of requirements	Effective date	Impact
IFRS 9 Financial instruments	IFRS 9 Financial instruments sets out the requirements for recognising and measuring financials assets, financial liabilities and some contracts to buy and sell non-financial items. This standard replaces IAS 39 Financial instruments: Recognition and Measurement.	1 January 2018	The company is well positioned to implement IFRS 9 for the financial year ending 31 March 2019. The preparation for implementation is allocated to an established committee which is supported by a number of working groups. The working groups have made sound progress in setting, inter alia, the accounting policies, determining the classification of instruments under IFRS 9, developing pilot models for credit modelling, and designing reporting templates. While the company has developed a working credit model suitable for the IFRS9 implementation, it is still subject to independent internal and external validation, and it is therefore not possible to provide an accurate indication of what the impact on the financial results will be.
Annual improvements 2017 (1 January 2019)	The annual improvements deals with additional guidance for applying the acquisition method to particular types of business combinations (IFRS 3 Business Combinations), accounting for acquisitions of interests in joint operations (IFRS 11 Joint Arrangements), income tax consequences of payments on financial instruments classified as equity (IAS 12 Income Taxes), and borrowing costs eligible for capitalisation (IAS 23 Borrowing Costs)	1 January 2019	The company is currently in the process of evaluating the detailed requirements of the improvements to assess the impact on the financial statements.
IFRS 15 Revenue from contracts with customers (1 January 2018)	IFRS 15 establishes a comprehensive framework for determining whether, when and how much of revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue and IAS 11 Construction contracts and their related interpretations.	1 January 2019	The company is evaluating the impact of the requirements of IFRS 15.

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

The company has adopted the following new standards, interpretations and amendments to existing standards for the first time for the financial year ended 31 March 2018. The nature and effect of the changes are as follows:

Topic	Summary of requirements	Effective date	Impact
Amendments to IAS 7 Disclosure initiative	The amendments introduce new disclosure for changes in liabilities arising from financing activities, by providing a reconciliation between the opening and closing balances.	1 January 2017	Impact immaterial.
Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses	The amendments clarify the requirements for recognition of deferred tax assets arising from unrealised losses on debt instruments measured at fair value.	1 January 2017	Impact immaterial. Deferred tax assets have already been accounted for in line with the amendment.