Nqaba Finance 1 (RF) Ltd
(Registration number 2005/040050/07)
Annual financial statements
for the year ended 31 March 2019

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 2019, 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 17 July 2019.

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

Published

17 July 2019

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.

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 3 to 6.

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 2019 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 14 to 46, were approved by the board of directors on 17 July 2019 and are signed on its behalf by:

PBE Coombe	**TL Myburgh**
Director	Director
17 July 2019	17 July 2019

Nqaba Finance 1 (RF) Ltd

Report of the audit committee

Mandate and terms of reference

The audit 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 2019.

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 systems, 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 in the form of an audit 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:
- the robustness of budgets and business results
- the cash flow projections
- the funding plan
- the 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:
- the annual financial statements for fair presentation within the relevant requirements of the Companies Act and IFRS
- the 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:
- the effectiveness of internal control systems and governance processes
- reviewed legal matters that could have a material impact on the company
- the effectiveness of the system and process of risk management including the following specific risks:
  - financial reporting
  - internal financial controls
  - fraud risks relating to financial reporting
  - information technology risks relating to financial reporting
  - the effectiveness of the entity's compliance with legal and regulatory requirements

Internal and external audit
The committee considered the following:
- the charter, annual audit plan, independence, effectiveness, coordination with external auditors and performance of the assurance and forensic department
- the appointment of the external auditors in terms of the Companies Act and other applicable requirements
- the external audit plan, audit budget, actual fee and terms of engagement of the external auditors
- the independence and objectivity of the external auditors
- the accounting, sustainability and auditing concerns identified as a result of the internal and external audits, including reportable irregularities. There were no reportable irregularities.

Opinion
The committee is of the opinion, based on the information and explanations provided by management and feedback from 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 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 its 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.

Report of the audit committee

King IV compliance

The directors 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 an insolvency remote 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 is 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 company's status as described above. The Board meets at least twice a year to consider the company's strategy, financial performance, etc. Directors' interests are disclosed before every board meeting. The GB ensures that it has 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, and have the ability to consult with, and receive full co-operation from the Debt Sponsor 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 its 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 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 driven by legal agreements. Any changes to the strategy or functions presented by the Debt Sponsor, would require prior discussion and approval of the directors as well as investors.
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, regular interaction on the performance of the company. Annual Financial Statements, 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, 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 confirmed to the GB, via the audit committee meeting where annual financial statements are presented, that the company is a going concern.

King IV compliance

Principle	Application of Principle
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 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. 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 assists with the balance of power and the effective discharge of its duties.	Whilst retaining accountability, certain responsibilities have been delegated by the Board, to the Audit Committee, as set out in its formal approved terms of reference ("the Audit Committee Charter"), and third parties. The Audit Committee Charter is reviewed periodically by the Audit Committee and approved by the Board. 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. During the year, the company established the Social and Ethics Committee where its Charter and membership was established. Due to the nature of the business the company does not have 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.	The Board held its annual Board evaluation at its meeting dated 1 March 2019. The Board was satisfied with the results of the evaluation and it considers itself as being effective.
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.
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, 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 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 reports at GB and committee meetings, and currently no non-performance events have been noted.

King IV compliance

Principle	Application of Principle
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 practice. 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 Annual Financial Statements.
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 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 as the company is not an Institutional Investor.

Recommendation of the annual financial statements

The committee has evaluated the annual financial statements of the company for the year ended 31 March 2019 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 17 July 2019, recommended the adoption of the annual financial statements to the Board.

DLorimer

DA Lorimer
Chairman
17 July 2019

Nqaba Finance 1 (RF) Ltd

Statement by the company secretary

Declaration by the company secretary in terms 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
17 July 2019

The directors are pleased to present their report for the year ended 31 March 2019.

1. Principal activities, state of affairs and business review

Nqaba Finance 1 (RF) Ltd (Nqaba or the Issuer), is an entity incorporated and domiciled in South Africa. Nqaba manages a pool of mortgage backed securities listed on the Interest Rate Market of the Johannesburg Stock Exchange (JSE), using a securitisation structure. The mortgage loans are originated by Eskom Finance Company SOC Ltd (EFC).

There have been no material changes to the nature of the company's business from the prior year.

2. Results of operations

The company recorded interest income for the year of R184 million (2018: R189 million). The company recorded a net loss before tax of R10 million (2018: R3 million profit). During the year, the company adopted IFRS 9 and this substantially increased impairment provisions. In addition to the effects of IFRS 9, refinance costs were higher than normal due to the volume of the refinance in May 2018.

The detailed financial results of the company are set out on pages 14 to 46 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	Designation
BW Smith (Chairman)	Independent Non-executive director
TL Myburgh	Non-executive director
DA Lorimer	Independent Non-executive director
PBE Coombe	Independent Non-executive director

Directors' interest in contracts

The directors have no interests in contracts with the company.

Attendance at board meetings:

	Board committee		
Members	27-Jul-18	1-Mar-19	12-Mar-19
BW Smith	√	√	√
DA Lorimer	√	√	√
TL Myburgh	√	√	√
PBE Coombe	√	√	√

Attendance at audit committee meetings:

	Audit committee		
Members	27-Jul-18	1-Mar-19	12-Mar-19
DA Lorimer	√	√	√
BW Smith	√	√	√
PBE Coombe	√	√	√

None of the directors resigned or were removed during the current financial year.

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.

6. Events subsequent to the reporting date

Nqaba refinanced all its maturing notes on 22 May 2019 totalling R234 million via a private placement. Details of this transaction are disclosed in note 25, "Significant subsequent events".

7. Auditors

SizweNtsalubaGobodo Grant Thornton 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 10 based on assessment of voting rights, EFC does not exercise control over Nqaba. However, 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 consolidated into EFC since it is established that there is a link between power and variable returns that evidences EFC having control over Nqaba. Further information on consolidation is disclosed in note 2(b) in the notes to the Financial Statements.

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 provisions of the debt listing requirements.

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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 (the Company) set out on pages 14 to 46, which comprise the statement of financial position as at 31 March 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nqaba Finance 1 (RF) Limited as at 31 March 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

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 our report. We are independent of Nqaba Finance 1 (RF) Limited in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Key audit matter	How our audit addressed the key audit matter

Impairment provision
 	
Credit is one of the primary risks managed by the Company. As such, the quality of the loan book and the resultant credit impairments held, are key considerations by the Directors.
 	
The Company adopted IFRS 9: Financial Instruments effective from 1 April 2018 which requires impairment losses to be evaluated on an expected credit loss (ECL) basis. Significant judgement is required by the Directors in assessing the impairment provision for expected losses amounting to R13 598 000 as disclosed in note 3.1.
 	
The significant judgements applied in the valuation of the impairment provision, include the following:
 	
• Modelling of the probability of default, loss given default and exposure at default.
• Assessment of whether credit risk has increased significantly from initial recognition.
• The application of the forward looking information to the probability of default and loss given default.
 	
Due to the significance of the balance to the financial statements as a whole, combined with the significant judgements associated with the value of the impairment provision, this is considered to be a key audit matter.
	
	We assessed the significant judgements and assumptions in the credit impairment model used to determine the impairment provision. Our audit procedures included the following:
	
	• We involved our internal actuarial specialists to test the principles and methodology applied in the model in respect of the:
	    ▪ appropriateness of the assumptions and model methodology; and
	    ▪ application of forward looking information.
	• Our internal actuarial specialists re-performed the following:
	    ▪ calculation of the model parameters – the probability of default, loss given default and exposure at default;
	    ▪ assessment of significant increase in credit risk;
	    ▪ calculation of the stage allocation of home loans (i.e. allocation between stage 1, state 2 and stage 3); and
	    ▪ calculation of the ECL.
	• Identified and performed tests over the design and implementation of relevant controls relating to the credit risk processes and impairment provision model.
	• Tested on a sample basis, the accuracy and completeness of the base data used against supporting documentation.
	• Benchmarked the provision against similar entities.
	• Performed back-testing on the loss ratio over time against the current provision; and
	• Assessed the disclosure of the impairment provision in the financial statements in accordance with IFRS 7: Financial Instruments: Disclosures.

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 28 to the financial statements, the corresponding figures for 31 March 2018 as well as 31 March 2017 have been restated.

Other information

The directors are responsible for the other information. The other information comprises the Statement of responsibilities and approval, Report of the audit committee, Statement by the company secretary and the Directors' report as required by the Companies Act of South Africa. The other information does not include the financial statements and our 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.

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are, therefore, the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Grant Thornton Inc. has been the auditor of Nqaba Finance 1 (RF) Limited for 14 years.

Pravesh Hiralall
SizweNtsalubaGobodo Grant Thornton Inc.
Director
Registered Auditor
31 July 2019

20 Morris Street East
Woodmead

Nqaba Finance 1 (RF) Ltd

Statement of financial position at 31 March 2019

	Note	2019 R '000	Restated 2018 R '000	Restated 2017 R '000
Assets				
Non-Current Assets				
Properties in possession	4	-	110	110
Loans receivable	5	1,825,669	1,830,957	1,835,854
Deferred tax	6	3,959	834	1,364
Derivatives held for risk management	7	361	2,216	2,179
		1,829,989	1,834,117	1,839,507
Current Assets				
Loans receivable	5	77,905	76,767	71,934
Derivatives held for risk management	7	1,523	1,831	1,247
Trade and other receivables	8	20,128	16,421	34,590
Taxation	9	39	7,409	10,676
Cash and cash equivalents	10	79,181	86,297	62,774
		178,776	188,725	181,221
Total Assets		**2,008,765**	**2,022,842**	**2,020,728**
Equity and Liabilities				
Equity				
Share capital	11	-	-	-
Retained income		38,094	52,734	51,011
		38,094	**52,734**	**51,011**
Liabilities				
Non-Current Liabilities				
Debt securities issued	12	1,426,000	843,000	1,083,000
First loss credit enhancement loan	13	290,000	290,000	290,000
		1,716,000	1,133,000	1,373,000
Current Liabilities				
Debt securities issued	12	249,297	831,701	591,680
First loss credit enhancement loan	13	3,572	3,564	3,623
Trade and other payables	14	1,802	1,843	1,414
		254,671	837,108	596,717
Total Liabilities		**1,970,671**	**1,970,108**	**1,969,717**
Total Equity and Liabilities		**2,008,765**	**2,022,842**	**2,020,728**

Nqaba Finance 1 (RF) Ltd

Statement of profit or loss for the year ended 31 March 2019

	Note	2019 R '000	2018 R '000
Interest income	15	184,157	189,376
Finance expense	16	(182,964)	(180,768)
Net interest income		1,193	8,608
Other income	17	7,051	6,248
Operating profit		8,244	14,856
Net impairment loss	18	(4,177)	(577)
Net fair value (loss) gain on financial instruments		(2,163)	621
Operating expenses	19	(12,206)	(12,163)
(Loss) / profit before tax		(10,302)	2,737
Taxation	20	(3,582)	(1,014)
(Loss) / profit for the year		**(13,884)**	**1,723**

Nqaba Finance 1 (RF) Ltd

Statement of changes in equity for the year ended 31 March 2019

	Note	Share capital R '000	Retained income R '000	Total equity R '000
Balance at 1 April 2017		-	51,011	51,011
Total profit for the year		-	1,723	1,723
Balance at 31 March 2018		**-**	**52,734**	**52,734**
IFRS 9 transitional adjustment		-	(756)	(756)
Total loss for the year		-	(13,884)	(13,884)
Balance at 31 March 2019		**-**	**38,094**	**38,094**

Nqaba Finance 1 (RF) Ltd

Statement of cash flows for the year ended 31 March 2019

	Note	2019 R '000	2018 R '000
Cash flows from operating activities			
Cash generated from operations	21	168,891	195,773
Other income	17	7,051	6,248
Finance expense	16	(182,964)	(180,768)
Taxation received	9	957	2,783
Net cash from operating activities		(6,065)	24,036
Cash flows from investing activities			
Decrease in properties in possession	4	232	-
New mortgage loans acquired	5	(196,356)	(178,962)
Further loan advances	5	(84,867)	(77,501)
Capital repayments and prepayments	5	279,940	255,950
Net cash applied to investing activities		(1,051)	(513)
Cash flows from financing activities			
Debt securities issued	27	817,000	577,000
Debt securities redeemed	27	(817,000)	(577,000)
Net cash applied to financing activities		-	-
Net (decrease) / increase in cash and cash equivalents		(7,116)	23,523
Cash and cash equivalents at the beginning of the year		86,297	62,774
Cash and cash equivalents at the end of the year	10	**79,181**	**86,297**

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, except for the adoption of the new standards set out below.

1.1 Basis of preparation and measurement

Statement of compliance

The financial statements of Nqaba Finance 1 (RF) Ltd (Nqaba/the Issuer) for the year ended 31 March 2019 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 - IFRS 9

The company adopted IFRS 9, Financial Instruments issued in July 2014 with a date of initial application of 1 April 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the company adopted consequential amendments to IAS 1 Presentation of Financial Statements which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss.

The company has taken advantage of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of IFRS classification and measurement (including impairment) requirements. Therefore, comparative information has not been restated retrospectively. The IFRS 9 transitional impact has been recognised in the opening balance of retained earnings and consequently IAS 39 accounting policies for comparative periods has been provided in note 1.3, the comparative financial instruments are accounted for in accordance with IAS 39.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value through Other Comprehensive Income "FVOCI" and Fair Value Through Profit or Loss "FVTPL". The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale.

The adoption of IFRS 9 has not had a significant effect on the company's accounting policies for financial liabilities.

IFRS 9 replaces the incurred loss model in IAS 39 with a forward looking expected credit loss model. The new impairment model will apply to financial assets measured at amortized cost or FVOCI.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition (these are ECLs that result from all possible default events over the expected life of a financial instrument) and a 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the company has chosen to apply this policy for trade receivables.

1.2 Financial instruments (continued)

Recognition and initial measurement

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the company becomes a party to the contractual provision of the instrument.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Financial assets
Classification and measurement

Financial assets are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVTOCI).

Financial assets (including advances, cash & cash equivalents and trade and other receivables) that are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal amounts outstanding (SPPI), are measured at amortised cost. These are subsequently measured using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Financial assets that are held within a business model whose objective is both to collect the contractual cash flows and to sell such financial assets, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI. The company does not have any assets within this category.

All other financial assets are measured at FVTPL. Financial assets included in this category are initially recognised and subsequently measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. The company classifies derivative financial instruments in this category.

All income and expenses relating to financial assets at amortised cost are presented within finance expense, interest income or other income except for impairment which is presented within net impairment loss. All income and expenses relating to financial assets at FVTPL are presented within fair value gains or losses.

Renegotiated loans

Where possible, the company seeks to restructure loans rather than to take possession of collateral. This may involve modifying the payment arrangements and the interest with the aim of ensuring that the original loan terms is not extended resulting in new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Loans with renegotiated payments due to a deterioration in the borrower's financial position are a temporary arrangement to alleviate the borrower's immediate cash flow challenges and does not constitute a change in the original terms and conditions of the loan. The company, therefore, does not consider this as a change in contractual cash flows and as such is not a modification of the financial asset.

Financial liabilities

Classification and measurement

The company's financial liabilities include debt securities issued, the first loss credit enhancement loan and trade and other payables.

Financial liabilities are initially measured at fair value and where applicable adjusted for transaction costs unless the company designated a financial liability at FVTPL.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges that are reported in profit or loss are included within finance expense for financial liabilities at amortised cost and within fair value gains or losses for financial liabilities at FVTPL.

1.2 Financial instruments (continued)

Derecognition

A financial instrument or a portion of a financial instrument will be derecognised and a gain or loss recognised when the company's contractual rights expire, financial assets are transferred or financial liabilities are extinguished. On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in finance charges or loan losses.

Financial assets

A financial asset is derecognised when the rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Impairment of financial instruments

Financial assets

At each reporting date, the company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the credit risk of default occurring over the expected life between the reporting date and the date of initial recognition. In determining whether credit risk has increased significantly since initial recognition, the company uses historical information, forward looking scenarios and risk classification of assets to determine the probability weighted estimate of credit losses over the expected life of the financial instrument.

Assets carried at amortised cost

The company's accounting policy for impairment of financial assets changed significantly having adopted IFRS 9 for the financial year ended 31 March 2019. The IFRS 9 impairment requirements are based on an expected credit loss model replacing the incurred loss methodology model under IAS 39.

Key principles of the company's accounting policy for impairment of financial assets are listed below.

The company assesses at initial recognition of financial assets whether to use a 12-month expected loss approach or a lifetime expected loss approach in order to calculate its impairment provision.

A 12-month expected credit losses are recognised for financial assets that have not deteriorated significantly in credit quality since initial recognition or that have a low credit risk. This is recognised for Stage 1 financial assets.

Lifetime expected credit losses are recognised for financial assets that have significantly deteriorated in credit quality since initial recognition. This is recognised for Stage 2 and 3 financial assets.

For subsequent measurement, the company applies a three-stage approach of measuring the expected credit loss (ECL) on debt instruments at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL - not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest income is calculated by applying the effective interest rate to the amortised cost (net of impairment provisions) rather than the gross carrying amount.

The following criteria are used in determining whether the financial asset is impaired:

- Default: A financial asset is considered to be in default when there is objective evidence of impairment. Exposures which are overdue for more than 90 days are also considered to be in default.
- Significant financial difficulty of borrower and/or modification.
- Probability of bankruptcy or financial reorganisation.
- Disappearance of an active market due to financial difficulties.

ECLs are recognised as a deduction from the gross carrying amount of the asset. Therefore assets subject to ECLs are disclosed on a net basis, in the statement of financial position. The gross ECLs are disclosed in the note. Financial assets are written off when there is no reasonable expectation of recovery.

1.2 Financial instruments (continued)

The company assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, and other relevant factors.

The amount of ECL is measured as the unbiased and probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate taking into account the time value of money and forward looking information. The cash shortfall is the difference between all contractual cash flows that are due to the company and all the cash flows that the company expects to receive. The amount of the loss is recognised using an impairment provision account.

The company considers its historical loss experience and adjusts this for current observable data. In addition, the company uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macro-economic factors and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macro-economic factors will affect ECL. The methodology, assumptions and macro-indices, including any forecasts of future economic conditions are reviewed regularly.

If, in a subsequent period, credit quality improves, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

Overall, the impairment under IFRS 9 results in earlier recognition of credit losses compared to under IAS 39.

The application of IFRS 9's impairment requirements at 31 March 2018 resulted in an increase of R1 million for the company over the impairment recognised under IAS 39. The following table provides information about the exposure to credit risk and ECLs for loans and other receivables as at 31 March 2019:

Loans by credit quality	Performing loans R '000	Under performing loans R '000	Non performing loans R '000	Total R '000
2019				
Gross loans and advances	1,818,386	51,536	47,250	**1,917,172**
Expected Credit Loss	(2,634)	(3,080)	(7,884)	**(13,598)**
Net loans and advances	**1,815,752**	**48,456**	**39,366**	**1,903,574**

Loans and advances past due not impaired	2019 R '000	2018 R '000
1 - 30 days past due	3	-
31 - 90 days past due	-	-
More than 90 days past due	145	-
	148	**-**

The company defines "Performing loans" as all new loans and loans that are zero months in arrear.

The company defines "Under-Performing loans" as loans that are in arrears for any number of months but have made some form of capital or interest payment in the past 90 days.

The company defines "Non-Performing loans" as all loans that have not made any form of capital and/or interest payments in the past 90 days.

Suspended interest

IFRS 9 accounting treatment requires that interest for exposures classified as stage 3 (i.e. non performing loans) only be calculated on the gross carrying value less impairments. The company has applied this requirement by suspending all contractual interest on such exposures and recognising interest on the amortised cost balance utilising the exposure's effective interest rate. IFRS 9 requires that the suspended contractual interest be recognised as part of the exposures' gross carrying value and be deducted as part of the reconciliation to the net carrying value which is reported in the balance sheet.

Given the IFRS 9 requirement that the gross exposure should include suspended interest on exposures classified as stage 3, the company reported its loans and advances' net of the suspended interest exposure.

1.2 Financial instruments (continued)

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table reconciles the carrying amounts of financial assets and financial liabilities from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 April 2018.

	IAS 39 Carrying amount 31 March 2018	Re-classifications	Re-measurements	IFRS 9 Carrying amount 1 April 2018
	R '000	R '000	R '000	R '000
Financial assets at amortised cost				
Cash and cash equivalents				
Balance (IAS 39)	86,297			
Balance (IFRS 9)				86,297
Loans and advances				
Balance (IAS 39)	1,907,724			
Remeasurement (ECL allowance)			(1,050)	
Balance (IFRS 9)				1,906,674
Trade and other receivable				
Balance (IAS 39)	16,421			
Balance (IFRS 9)				16,421
Total financial assets at amortised cost	**2,010,442**	**-**	**(1,050)**	**2,009,392**
Financial liabilities at amortised cost				
Debt securities issued				
Balance (IAS 39)	1,674,701			
Balance (IFRS 9)				1,674,701
First loss credit enhancement loan				
Balance (IAS 39)	293,564			
Balance (IFRS 9)				293,564
Trade and other payables				
Balance (IAS 39)	1,843			
Balance (IFRS 9)				1,843
Total financial liabilities at amortised cost	**1,970,108**	**-**	**-**	**1,970,108**

The financial assets now at amortised cost were previously classified as loans and receivables under IAS 39. The FVTPL category was not impacted by the adoption of IFRS 9.

Derivative financial instruments

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 FVTPL, 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.

1.3 Financial instruments - IAS 39

(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.

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.

1.3 Financial instruments - IAS 39

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

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

Non-derivative financial liabilities comprise debt securities issued, first loss credit enhancement loans and trade and other payables. Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs except for financial liabilities at fair value through profit or loss.

Directly attributable transaction costs related to liabilities recognised at fair value through profit or loss are recognised in profit or loss on initial recognition when incurred. Subsequent to initial recognition, non-derivative financial liabilities are measured at amortised cost (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.

(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 are recognised in profit or loss.

1.4 First loss credit enhancement loan

The first loss credit enhancement loan is measured at amortised cost using the effective interest method under IFRS 9.

1.5 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.

1.6 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 and/or equity, in which case it is recognised in other comprehensive income and/ or equity.

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 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.

1.7 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.

1.7 Deferred tax (continued)

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

Deferred tax 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.

1.8 Interest income and interest expense

The company recognises income when the amount of income 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 differential is recognised as it accrues in profit or loss using the effective interest method.

1.9 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.

1.10 Loans receivable

EFC primarily extends home loans to employees of Eskom Holdings SOC Ltd group and Eskom Pension and Provident Fund. EFC's loan book comprises both fixed and variable rate loans. The home loan 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.

1.11 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.

1.12 Disposal of properties in possession

It is the company’s policy to dispose of 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 below.

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.

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

(a) Components of the statement of cash flows

The company regards its cash flows from loans receivable to be part of investing activities and as a result, they are disclosed as such in the statement of cash flows.

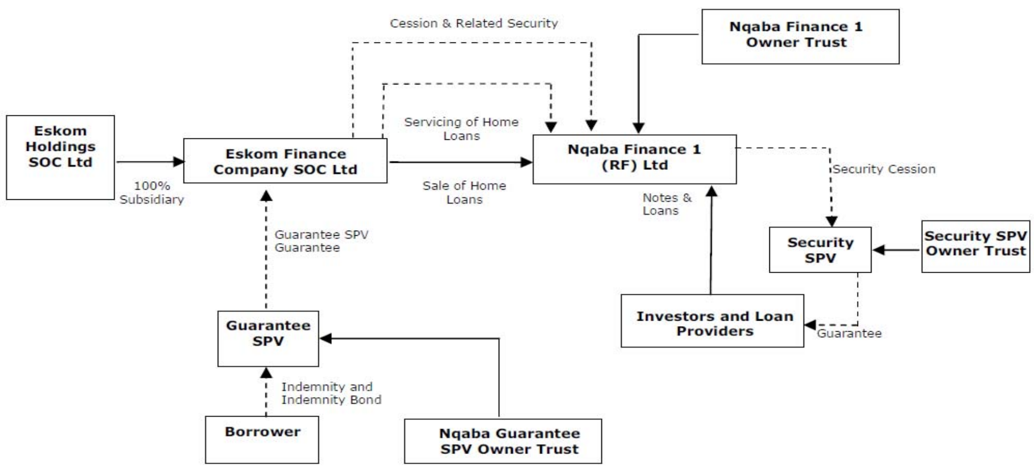
(b) IFRS 12 considerations of interests in other SPVs

The Security SPV and Guarantee SPV do not have any assets that will expose Nqaba to variability of returns from its performance. Neither the Security SPV nor the Guarantee SPV trades and only has share capital on their statements of financial position.

If the Security SPV were to take control of Nqaba's assets in order to pay the secured creditors directly, Nqaba would neither gain nor lose from such an action as its liability is still limited to what it would be able to pay – the Security SPV provides comfort to the creditors that their interests are being managed independently of the Issuer.

Nqaba's cession in favour of the Security SPV, by way of a cession-in-securitatem debiti, includes all of Nqaba's rights, title and interest in and to each home loan, home loan agreement, Guarantee SPV guarantee, insurance contract, insurance proceeds and other related security in respect of the portfolio of home loans owned by Nqaba from time to time, the business proceeds, the bank accounts, the account monies, the permitted investments and the transaction documents.

The Security SPV has furnished a limited recourse Security SPV Guarantee to the Noteholders and other Secured Creditors. Nqaba has indemnified the Security SPV in respect of claims made under the Security SPV Guarantee. As security for such Issuer Indemnity, Nqaba has ceded and pledged the assets of Nqaba to the Security SPV. The relationship between the entities is displayed in the structure below.



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 in securitatem debiti 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 (Security SPV) has issued a performance 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.

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

Nqaba Guarantee SPV (RF) (Pty) Ltd

Nqaba Guarantee SPV (RF) (Pty) Ltd (Guarantee SPV) 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 Eskom Finance Company, guaranteeing a borrower's obligations 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.

(c) Impairment provisions

The company assesses the impact on impairment of the loan book based on loan loss history taking into account forward looking information and underlying current economic conditions. This is done periodically to assess the ECL.

Valuation

The impairment is determined in terms of IFRS 9 by assessing risk categories per loan class and applying forward looking scenarios to the loan balance. The assumptions used are:

Forward looking scenarios

- An event that will result in the client wilfully neglecting to make regular repayments e.g. termination of service
- The probability of having to institute legal collection procedures to recover the debt
- The maximum expected credit loss rate
- The future strategic direction of Eskom regarding manpower numbers
- Any economic indicators that may have an effect on the collectability of loans and advances

Risk categories

Low risk loans

- Current mortgage loans

Medium risk loans

- Current ex-employees loans

High risk loans

- Loans under debt review in terms of the National Credit Act [No. 34 of 2005]
- Loans where legal proceedings have been initiated
- Insolvent estates
- Loans under legal debt administration
- Clients that terminated employment due to ill-health retirement, death or pension
- Third party attachments orders
- Loans that are more than 3 months in arrears.

(d) 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 the reporting date.

(e) Properties in possession

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

(f) Deferred tax

Liability determination: There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The company recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from amounts that were initially recorded, such temporary differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(f) Deferred tax

Asset measurement: Deferred taxation assets are assessed for the probability of recovery based on the applicable estimated future business performance and related projected taxable income.

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 into the organisation's strategy and business model which could have an impact on the company's performance. Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of Nqaba. The financial risks, as defined by IFRS 7 Financial instruments: disclosures, and the management thereof, form part of this key risk area.

The Board of Directors (the board) has delegated the management of enterprise wide risk to the audit 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 counterparty (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 counterparty 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 counterparty does not deliver on its contractual commitment on maturity date (including the settlement of money and delivery of securities).

Loan 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 Eskom Holdings SOC Ltd group and Eskom Pension and Provident Fund. 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 counterparty, may not result in a cash receipt (or equivalent) in accordance with the terms of the contract. Credit risk in the company arises from various forms of lending. Financial assets, which potentially subject the company to concentrations of high credit risk, consist primarily of mortgage advances. Loans and advances are presented net of impairment provisions. The company registers mortgage bonds as security against advances.

Advances exceeding 80% of the property market value are guaranteed by Eskom Holdings SOC Ltd and its subsidiaries. The fair value of this guarantee approximates R78 million (2018: R78 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 2019 was:

	2019 R '000	2018 R '000
Weighted average current loan to value ratio (%)	67.25%	66.61%
The average loan amount in relation to the total home loan book value at 31 March was:		
Average outstanding amount - Home loans	279	268
Loan amount as a percentage of the loan book (%)	0.015%	0.014%

3. Financial risk management (continued)

3.1 Credit risk (continued)

(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
2019				
AA	79,181	1,884	-	-
Unrated	-	-	1,903,574	20,128
	79,181	**1,884**	**1,903,574**	**20,128**
2018				
AA	86,297	4,047	-	-
Unrated	-	-	1,907,724	16,421
	86,297	**4,047**	**1,907,724**	**16,421**

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

	2019 R '000	2018 R '000
Loans receivable		
Home loans	1,903,574	1,907,724
	1,903,574	**1,907,724**
Trade and other receivables	20,128	16,421
	20,128	**16,421**

	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
2019					
Collectively assessed for impairment					
Home loans	1,917,172	1,818,386	9,495	5,737	83,554
Impairment					
Home loans	(13,598)	(4,108)	(357)	(209)	(8,924)
	1,903,574	**1,814,278**	**9,138**	**5,528**	**74,630**
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**

Mortgage advances include an amount of R10 million (2018: R23 million) relating to receivables that were renegotiated. These mortgage advances would have been past due had their terms not been renegotiated.

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 in securitatem debiti of all company's rights, title and interest in and to the home loans, the home loan agreements and the related security in respect of the portfolio of home loans owned by the company from time to time.

3. Financial risk management (continued)

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:

	2019 R '000	2018 R '000
Balance at the beginning of the year	9,367	9,885
Impairment loss recognised / (reversed)	3,010	(518)
Suspended interest	371	-
IFRS 9 transition adjustment	1,050	-
Balance at the end of the year	**13,798**	**9,367**
Comprising:		
Home loans	13,598	9,045
Properties in possession	200	322
	13,798	**9,367**

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 and market volatilities. 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.

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 which expose the company to cash flow interest rate risk. The reference rate for both debt securities and loans and advances are the same, 3 month Jibar. During increasing and decreasing interest rate market conditions the interest rate risk management strategy followed was to re-price assets in conjunction with the reference rate movements when such movement is considered significant. Debt securities issued at fixed rates expose the company to fair value interest rate risk.

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 loss of R2.2 million (2018: gain of R0.6 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.

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.

3. Financial risk management (continued)

	2019 +100 basis point R' 000	2019 -100 basis point R' 000	2018 +100 basis point R' 000	2018 -100 basis point R' 000
Effect on profit or loss				
Interest rate	3,364	(3,364)	3,431	(3,431)

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 interest income 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 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.

The Issuer/Nqaba has entered into a revolving loan facility with the Redraw Facility Provider. Such facility is used for the sole purpose of funding Redraws, Re-advances and Further Advances on borrowers' mortgage loans in the event that Nqaba is temporarily unable to do so.

The Liquidity Facility shall be used by the Issuer for the sole purpose of funding Liquidity Shortfalls that include specified expenses of the Issuer up to and including paying interest on the Notes in terms of the sequence specified in the Priority of Payments.

The Issuer shall accordingly not be entitled to, nor shall it, use the Liquidity Facility, or any portion thereof, for any other purpose whatsoever.

The Liquidity Facility may not be used:

- to fund Liquidity Shortfalls to the extent that the Asset Quality Test is not satisfied;
- as a permanent revolving facility in order to provide credit enhancement or cover losses sustained by the Issuer; or
- by any Noteholders directly and may only be used by the Issuer.

The Liquidity Facility 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 commitments and credit facilities.

Nqaba is an evergreen residential mortgage backed securitisation structure that aims to refinance all maturing notes on their respective scheduled maturity dates. On 22 May 2019 Nqaba refinanced all its notes that matured on that date. 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 the Security SPV.

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.

3. Financial risk management (continued)

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 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.

The Nqaba Structure is an evergreen structure that aims to refinance all scheduled maturing notes. Nqaba refinanced all its matured notes on 22 May 2019.

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 inclusive of interest				
	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
2019								
Financial assets								
Loans receivable	1,825,669	77,905	1,903,574	4,021,872	65,858	196,389	997,418	2,762,207
Derivatives held for risk management	361	1,523	1,884	1,884	374	1,149	361	-
Trade and other receivables	-	20,128	20,128	20,128	20,128	-	-	-
Cash and cash equivalents	-	79,181	79,181	79,181	79,181	-	-	-
	1,826,030	**178,737**	**2,004,767**	**4,123,065**	**165,541**	**197,538**	**997,779**	**2,762,207**
Financial liabilities								
Debt securities issued	1,426,000	249,297	1,675,297	2,076,817	270,797	98,449	1,707,571	-
First loss credit enhancement loan	290,000	3,572	293,572	439,628	8,592	26,643	404,393	-
Trade and other payables	-	1,802	1,802	1,802	1,802	-	-	-
	1,716,000	**254,671**	**1,970,671**	**2,518,247**	**281,191**	**125,092**	**2,111,964**	**-**
Liquidity gap	**110,030**	**(75,934)**	**34,096**	**1,604,818**	**(115,650)**	**72,446**	**(1,114,185)**	**2,762,207**
2018								
Financial assets								
Loans receivable	1,830,957	76,767	1,907,724	4,083,452	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**	**4,190,217**	**168,637**	**197,162**	**1,000,094**	**2,824,324**
Financial liabilities								
Debt securities issued	843,000	831,701	1,674,701	1,858,610	853,106	58,971	946,533	-
First loss credit enhancement loan	290,000	3,564	293,564	441,783	8,715	27,027	406,041	-
Trade and other payables	-	1,843	1,843	1,843	1,843	-	-	-
	1,133,000	**837,108**	**1,970,108**	**2,302,236**	**863,664**	**85,998**	**1,352,574**	**-**
Liquidity gap	**700,173**	**(655,792)**	**44,381**	**1,887,981**	**(695,027)**	**111,164**	**(352,480)**	**2,824,324**

The liquidity gap arises from the debt securities that are stated above at their respective scheduled maturity date rather than their final legal maturity date of 32 years after their scheduled maturity date. Refer to the liquidity risk management statement above.

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:

	Fair value through profit or loss	Loans & receivables at amortised cost	Liabilities at amortised cost	Total carrying amount	Fair value
	R '000	R '000	R '000	R '000	R '000
2019					
Financial assets					
Non-current					
Loans receivable	-	1,825,669	-	1,825,669	1,807,153
Derivatives held for risk management	361	-	-	361	361
	361	**1,825,669**	**-**	**1,826,030**	**1,807,514**
Current					
Loans receivable	-	77,905	-	77,905	78,122
Derivatives held for risk management	1,523	-	-	1,523	1,523
Trade and other receivables	-	20,128	-	20,128	20,128
Cash and cash equivalents	-	79,181	-	79,181	79,181
	1,523	**177,214**	**-**	**178,737**	**178,954**
Total financial assets	**1,884**	**2,002,883**	**-**	**2,004,767**	**1,986,468**
Financial liabilities					
Non-current					
First loss credit enhancement loan	-	-	290,000	290,000	290,000
Debt securities issued	-	-	1,426,000	1,426,000	1,426,000
	-	**-**	**1,716,000**	**1,716,000**	**1,716,000**
Current					
Debt securities issued	-	-	249,297	249,297	249,297
First loss credit enhancement loan	-	-	3,572	3,572	3,572
Trade and other payables	-	-	1,802	1,802	1,802
	-	**-**	**254,671**	**254,671**	**254,671**
Total financial liabilities	**-**	**-**	**1,970,671**	**1,970,671**	**1,970,671**

3. Financial risk management (continued)

	Fair value through profit or loss R '000	Loans & receivables R '000	Liabilities at amortised cost R '000	Total carrying amount R '000	Fair value R '000
2018					
Financial assets					
Non-current					
Loans receivable	-	1,830,957	-	1,830,957	1,812,461
Derivatives held for risk management	2,216	-	-	2,216	2,216
	2,216	**1,830,957**	**-**	**1,833,173**	**1,814,677**
Current					
Loans receivable	-	76,767	-	76,767	77,172
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**	**181,721**
Total financial assets	**4,047**	**2,010,442**	**-**	**2,014,489**	**1,996,398**
Financial liabilities					
Non-current					
First loss credit enhancement loan	-	-	290,000	290,000	290,000
Debt securities issued	-	-	843,000	843,000	843,000
	-	**-**	**1,133,000**	**1,133,000**	**1,133,000**
Current					
Debt securities issued	-	-	831,701	831,701	831,701
First loss credit enhancement loan	-	-	3,564	3,564	3,564
Trade and other payables	-	-	1,843	1,843	1,843
	-	**-**	**837,108**	**837,108**	**837,108**
Total financial liabilities	**-**	**-**	**1,970,108**	**1,970,108**	**1,970,108**

Collateral obtained

There were no debtors that defaulted on their accounts and as a result, no mortgage bonds were called upon (2018: 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 company 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 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 had no items in the current year fair valued using inputs not based on observable market data.

	Fair value		
	Level 1	**Level 2**	**Level 3**
2019	**R '000**	**R '000**	**R '000**
Assets measured at fair value			
Derivatives held for risk management			
Interest rate swaps	-	1,884	-
	-	**1,884**	**-**
Assets not measured at fair value			
Loans receivables			
Residential mortgage backed securities	-	1,885,275	-
Properties in possession [1]	-	-	-
	-	**1,885,275**	**-**
Liabilities measured at fair value			
Derivatives held for risk management			
Interest rate swaps	-	-	-
	-	**-**	**-**
Liabilities not measured at fair value			
Debt securities issued			
Commercial paper	-	1,675,297	-
First loss credit enhancement loan			
Subordinated loan	-	293,572	-
	-	**1,968,869**	**-**

[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.

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

Management considers carrying amounts on PIPs to approximate their fair value.

3. Financial risk management (continued)

	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	-	1,889,633	-
Properties in possession [1]	-	-	110
	-	**1,889,633**	**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**	**-**

Valuation techniques

Interest rate swaps

The fair value of swaps is determined 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
- 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.

	2019	2018
	R '000	**R '000**
4. Properties in possession		
Opening balance	432	432
Additions	-	-
Disposals	(232)	-
Repayments	-	-
Closing balance	**200**	**432**
Impairments	(200)	(322)
	-	**110**

	2019 R '000	2018 R '000
5. Loans receivable		
Secured by mortgage	1,903,574	1,907,724
	1,903,574	**1,907,724**
Non-current	1,825,669	1,830,957
Current	77,905	76,767
	1,903,574	**1,907,724**

The loans receivable are split into non-current and current based on the repayment terms of the loans.

	2019 R '000	2018 R '000
Reconciliation of movement in balance		
Balance at beginning of year	1,907,724	1,907,788
New loans acquired	196,356	178,962
Further advances	84,867	77,501
Prepayments	(279,940)	(255,950)
Losses written off	(1,251)	(1,095)
Movement in impairment provision (including IFRS 9 transition)	(4,182)	518
Closing balance	**1,903,574**	**1,907,724**
Reconciliation of impairment provision		
Balance at beginning of year	9,045	9,563
IFRS 9 transitional adjustment	1,050	-
Statement of profit or loss charge	3,132	(518)
Suspended interest	371	-
Closing balance	**13,598**	**9,045**

	2019 R '000	2018 R '000
6. Deferred tax		
Deferred tax assets		
Balance at the beginning of the year	834	1,364
Charged to equity	294	-
Charged to profit or loss	2,831	(530)
	3,959	**834**
Reconciliation of deferred tax asset		
Balance at beginning of year	834	1,364
Prior year error adjustment	-	(248)
IFRS 9 transitional adjustment	294	-
Tax loss	1,515	-
Doubtful debts allowances S11(j)	(237)	37
Originating differences on provisions	947	(145)
Reversing differences on fair value swaps	606	(174)
	3,959	**834**

Recognition of deferred tax asset

The deferred tax asset arises from:

- Doubtful debts allowances
- Originating differences on loan losses provisions
- Differences on fair value swaps
- Tax losses

The directors have recognised a deferred tax asset of R1,5m relating to unused tax losses that are considered to be able to be offset against the company's taxable profits expected to arise in future accounting periods. Management have based their assessment on the next 3 years' budgets, which reflects improved trading performance due to expected reduction in the interest rate on the first loss credit enhancement loan and reduced operating costs.

7. Derivatives held for risk management

	2019 Assets R '000	2019 Liabilities R '000	2019 Carrying value R '000	2018 Assets R '000	2018 Liabilities R '000	2018 Carrying value R '000
Interest rate derivatives						
Interest rate swaps	1,884	-	1,884	4,047	-	4,047
	1,884	**-**	**1,884**	**4,047**	**-**	**4,047**

	2019 Assets R '000	2019 Liabilities R '000	2019 Carrying value R '000	2018 Assets R '000	2018 Liabilities R '000	2018 Carrying value R '000
Reconciliation						
Derivatives held for risk management						
Balance at the beginning of the year	4,047	-	4,047	3,426	-	3,426
Charged to profit or loss	(2,163)	-	(2,163)	621	-	621
	1,884	**-**	**1,884**	**4,047**	**-**	**4,047**
Non-current	361	-	361	2,216	-	2,216
Current	1,523	-	1,523	1,831	-	1,831
	1,884	**-**	**1,884**	**4,047**	**-**	**4,047**

Interest rate swaps are used to economically hedge the interest expense variability of the fixed rate notes issued on 22 May 2010 that mature on 22 May 2020. 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 cash flows (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 (paid)/earned during the year on this swap agreement was R(2 million) (2018: R1 million).

8. Trade and other receivables

	2019 R '000	2018 R '000
Gross	20,128	16,421
Impairment*	-	-
	20,128	**16,421**

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

9. Taxation

	2019 R '000	2018 R '000
Balance at the beginning of the year	7,409	10,676
Current tax for the year recognised in profit or loss	(6,413)	(484)
Balance at the end of the year	(39)	(7,409)
	957	**2,783**

10. Cash and cash equivalents*

	2019 R '000	2018 R '000
Bank balances	79,181	86,297

* Due to roundings to the nearest R'000, the impairment amount reflects a nil balance.
These balances are held with counterparties that have investment grade credit ratings.

11. Share capital

	2019 R '000	2018 R '000
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

	2019 R '000	2018 R '000
Commercial paper	1,675,297	1,674,701
Maturity analysis		
Non-current	1,426,000	843,000
Current	249,297	831,701
	1,675,297	**1,674,701**

Notes	Currency	Interest rate		Maturity date	Nominal		Carrying value	
		2019	2018		2019	2018	2019	2018
		%	%		R' 000	R' 000	R' 000	R' 000
Floating rate notes								
Class A17	ZAR	-	8.23	May-18	-	302,000	-	304,518
Class A19	ZAR	-	8.52	May-18	-	303,000	-	305,615
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	May-18	-	40,000	-	40,340
Class B19	ZAR	-	8.38	May-18	-	32,000	-	32,272
Class C15	ZAR	-	8.48	May-18	-	25,000	-	25,215
Class C19	ZAR	-	8.53	May-18	-	32,000	-	32,276
Class D7	ZAR	-	8.68	May-18	-	30,000	-	30,264
Class A21	ZAR	8.72	8.70	May-19	210,000	210,000	211,856	211,851
Class D8	ZAR	10.00	9.98	May-19	24,000	24,000	24,243	24,243
Class A24	ZAR	8.75	8.73	May-20	310,000	310,000	312,750	312,741
Class A25	ZAR	8.99	8.97	May-20	150,000	150,000	151,367	151,363
Class B17	ZAR	8.97	8.95	May-20	8,000	8,000	8,073	8,073
Class C17	ZAR	9.40	9.38	May-20	5,000	5,000	5,047	5,048
Class D5	ZAR	10.40	10.38	May-20	5,000	5,000	5,053	5,053
Class A27	ZAR	9.00	-	May-23	658,000	-	664,003	-
Class B20	ZAR	9.40	-	May-23	159,000	-	160,515	-
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**	**1,675,297**	**1,674,701**

Class A17, A19, A21, A23, A24, A25, A26, A27, B15, B17, B19, B20, C15, 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;
- 1.85% per annum in relation to Class A27 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;
- 2.25% per annum in relation to Class B20 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. The arrears reserve trigger remains in breach since it has not recovered to a level below 1.5%, and the arrears reserve fund is fully funded. All other covenants and triggers are within their limits.

	2019	2018
13. First loss credit enhancement loan	**R '000**	**R '000**
Subordinated loan - Eskom Finance Company SOC Limited	290,000	290,000
Accrued interest	3,572	3,564
	293,572	**293,564**
Maturity analysis		
Non-current	290,000	290,000
Current	3,572	3,564
	293,572	**293,564**

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.

The first loss credit enhancement loan is disclosed as a non-current liability since, during the revolving period, this loan shall not be repaid unless the rating agency confirms that the repayment of this loan will not adversely affect the respective current ratings of the notes in issue.

14. Trade and other payables		
Accruals	1,802	1,843
15. Interest income		
Interest income	184,612	189,376
Suspended interest	(455)	-
	184,157	**189,376**
16. Finance expense		
Finance expense on debt securities issued	148,111	145,437
Finance expense on subordinated loan	34,853	35,331
	182,964	**180,768**

		2019 R '000	2018 R '000
17.	**Other income**		
	Swaps interest	1,728	1,482
	Interest on Call account	5,021	4,766
	Interest earned on SARS	300	-
	Loan loss recovered	2	-
		7,051	**6,248**
18.	**Net impairment charge/(reversal)**		
	Impairment (reversal) charge	3,010	(518)
	Loans receivable	3,132	(518)
	Properties in possession	(122)	-
	Loan losses	1,251	1,095
	Suspended interest (cured)	(84)	-
		4,177	**577**
19.	**Operating expenses**		
	Auditors fees	413	546
	Back up servicer fees	192	192
	Bank charges	10	4
	Bond issue fees	4,228	2,430
	Credit ombudsman	155	71
	Interest paid SARS	191	-
	JSE fixed fee	159	223
	JSE variable fee	58	-
	Legal fees	426	434
	Liquidity facility fee	172	170
	Management fees	574	637
	National Credit Regulator fee	98	114
	Owner trustee fee	302	246
	Rating fee	361	443
	Rating fee expense	692	844
	Redraw facility fees	792	2,414
	Servicer fees	3,305	3,284
	Strate fixed fee	78	111
		12,206	**12,163**
20.	**Taxation**		
	Major components of tax expense		
	Income tax		
	Current year tax	-	484
	Impairment of SARS receivable	6,413	-
	Deferred tax	(2,831)	530
	Total income tax in profit or loss	**3,582**	**1,014**
	Reconciliation of tax expense		
	Taxation as a percentage of profit before tax	-34.77%	37.06%
	Taxation effect of:		
	Expenses not deductible for tax purposes	0.52%	0.00%
	Prior year adjustment*	0.00%	(9.06%)
	Impairment of tax receivable**	62.25%	0.00%
	Standard tax rate	**28.00%**	**28.00%**

* The company's taxable income was overstated due to a fair value loss on interest rate SWAP in the 2018 annual financial statements. This resulted in an overstatement of tax payable which has now been corrected.

** In the prior year, the company expected the SARS receivable amount to be recoverable but has since decided to impair the full amount

		Note	2019 R '000	2018 R '000
21.	**Cash generated from operations**			
	(Loss)/profit before taxation		(10,302)	2,737
	Adjustments for:			
	Loan losses		1,251	1,095
	Other income		(7,051)	(6,248)
	Finance costs		182,964	180,768
	Net impairment loss		3,010	(518)
	Net fair value loss / (gain) on financial instruments		2,163	(621)
	Movement in debt securities	27	596	21
	Movement in first loss credit enhancement loan	27	8	(59)
	Changes in working capital:			
	Trade and other receivables		(3,707)	18,169
	Trade and other payables		(41)	429
			168,891	**195,773**

22. Commitments

	2019 R '000	2018 R '000
Nqaba further loans approved but not yet disbursed		
Loans and advances	591	8,372

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

23. Guarantees and contingent liabilities

Legal claims

There were no legal claims nor guarantees against the company for the period under review (2018: nil).

24. 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 (2018: R35 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.

24. Related parties (continued)

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	**2019** **R '000**	**2018** **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	3,572	3,564
	293,572	**293,564**
Servicing fees	**335**	**334**
Transactions		
Purchases of goods and services		
Servicing fees	3,305	3,284
Finance cost		
Eskom Finance Company SOC Limited	34,853	35,331

Other related party transactions

These transactions comprise those entered into with Maitland Group SA Limited, the trustee of the Issuer parent owner trust 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.

	2019	2018
Transactions		
Owner trustee and Directors' fees	302	246
Outstanding balances (due to related parties)		
Owner trustee and Directors' fees	47	38

25. Significant subsequent events

Matured notes re-financing

The Residential Mortgaged Backed Securities set out in note 12 of these financial statements, scheduled for maturity on 22 May 2019 were re-financed on that day. None of these notes became a "matured note" as defined in note 2 of these financial statements.

Nqaba refinanced the R210m A-Class Notes and R24m B-Class notes that matured on 22 May 2019 although Moody’s had not affirmed the ratings of the existing notes in issue.

On 27 May 2019, Moody’s placed on review for downgrade all Notes issued by Nqaba which it has rated. The rating action reflects Moody's increased uncertainty regarding the data quality in the transaction and effectiveness of transaction governance. If sufficient information is not received within the 60 day period from the rating action date, Moody’s will consider taking appropriate rating action which could include the withdrawal of the ratings. This is not an event of default or an early amortisation event.

Eskom Finance Company SOC Ltd, in consultation with and under direction from the Nqaba board of directors, has devised an action plan to address the above concerns within the 60 day period.

EFC disposal

Eskom continues with its efforts of disposing EFC. An estimation of the financial effect of such a disposal cannot be determined at the date of these annual financial statements.

26. 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 24 above.

27. Net debt reconciliation

	Debt securities issued	First loss credit enhancement loan	Total
	R'000	R'000	R'000
Balance 1 April 2017	**1,674,680**	**293,623**	**1,968,303**
Debt securities issued	577,000	-	577,000
Debt securities redeemed	(577,000)	-	(577,000)
Non-cash movements	21	(59)	(38)
Balance 31 March 2018	**1,674,701**	**293,564**	**1,968,265**
Debt securities issued	817,000	-	817,000
Debt securities redeemed	(817,000)	-	(817,000)
Non-cash movements	596	8	604
Balance 31 March 2019	**1,675,297**	**293,572**	**1,968,869**

28. Restatement of comparatives

Nqaba did not correctly disclose the split between the current and non-current portions of its first loss credit enhancement loan, due to an incorrect interpretation of what constitutes the current portion of this loan. The current portion was incorrectly interpreted as being a callable instrument at any given time by a noteholder. This interpretation has been corrected to only reflect the interest element as the current portion.

Accordingly, the disclosure of the current and non-current portion of Nqaba's first loss credit enhancement loan was corrected in the 2019 annual financial statements in terms of IAS 8 as a prior period error by disclosing the split between the current and non-current portion based on the amount payable within twelve months from the balance sheet date, i.e. interest accrued.

The impact of the restatement is as follows:

	2018			2017		
	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 liabilities						
First loss credit enhancement loan	-	290,000	290,000	-	290,000	290,000
Current liabilities						
First loss credit enhancement loan	293,564	(290,000)	3,564	293,623	(290,000)	3,623

29. New standards and interpretations

29.1 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 2019. The impact of these standards are disclosed as referred below:

- IFRS 9 Financial instruments. Full details of this are disclosed in note 1.2 to these financial statements.
- Amendments to IAS 7 Disclosure Initiative, which resulted in additional disclosure set out in Note 27.

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

The following new standards, interpretations and amendments to existing standards that have been published and are applicable for future accounting periods. The company has not evaluated the impact as these standards are not applicable.

- Prepayment features with negative compensation - amendments to IFRS 9
- Definition of a business - Amendments to IFRS 3
- IFRS 16 Leases