Nqaba Finance 1 (RF) Ltd

(Registration number 2005/040050/06)

Annual financial statements

for the reporting period ended 31 March 2021

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

The financial statements, for the reporting period ended 31 March 2021, of Nqaba Finance 1 (RF) Ltd have been prepared under the supervision of the acting Chief Executive Officer, Ettienne Bester and were approved by the board of directors and signed on its behalf on 8 July 2021.

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

Published

8 July 2021

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 reporting period and its financial position at the end of the reporting period in terms of International Financial Reporting Standards (IFRS).

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 Eskom's Assurance and Forensic 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 accordance with IFRS and the Companies Act of South Africa, 71 of 2008, the SAICA reporting guides and the JSE Listing requirements paragraph 3.8. These annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

Based on the information and explanations given by management, Eskom's 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 reviewed the effectiveness of Nqaba's internal controls and considered the systems appropriate for the effective operation of Nqaba. The committee evaluated Nqaba's annual financial statements and recommended its 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 reporting period .

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 2021 and the results of its operations and cash flow information for the reporting period then ended.

The annual financial statements of Nqaba set out on pages 14 to 45, were approved by the board of directors on 8 July 2021 and are signed on its behalf by:

BW Smith	**TL Myburgh**
Director	Director
8 July 2021	8 July 2021

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 of South Africa (Companies Act) (section 94(7)(f)) and in accordance with the King Code of Governance Principles for South Africa for the reporting period ended 31 March 2021.

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 and 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, IFRS and the SAICA Financial Reporting Guides
- 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
- 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 Nqaba'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 Eskom Assurance and Forensic department that provides the internal audit function
- 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.

Report of the audit committee

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 Eskom Assurance and Forensic department are adequate
- the Eskom Assurance and Forensic department operated effectively
- Nqaba 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.

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 Listings 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 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 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 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 board 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 board, 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 board 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.

King IV compliance

Principle	Application of Principle
5. Reporting: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long term prospects.	The board has, through the Manager, ABSA CIB, regular interaction on the performance of the company. Annual Financial Statements, performance updates and announcements are published in accordance with the JSE Debt Listings Requirements and meet 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 board, via the audit committee meeting where annual financial statements are presented, that the company is a going concern.
6. Primary role and responsibilities of the governing body: The governing body should serve as the focal point and custodian of corporate governance in the organisation.	The role, responsibilities and procedural conduct of the board are documented in the MOI and the Companies Act. The board holds at least two meetings per year. The board 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 (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.The Social and Ethics committee comprises of three independent non-executive members of the board. The committee meets at least twice a year as per its charter however no meeting was held during the year, the Social and Ethics committee held its only meeing in Jul 2021. 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 evaluated its performance at its meeting held on the 1st of March 2019 and resolved to conduct a performance assessment every two years. Subsequently, the board evaluated its performance at its meeting held on 8 July 2021 and found to be 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 board in terms of the MOI, with the Audit Committee assisting the board with this responsibility. In turn, the responsibility to implement and execute effective risk management has been assigned to the Servicer, with the board exercising ongoing oversight of risk management as contemplated in the PM. The Servicer reports at board and committee meetings.

King IV compliance

Principle	Application of Principle
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 board and committee meetings, and currently no non-performance events have been noted.
13. Compliance Governance: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.	The company's MOI confirms that the board is responsible for ensuring that the company complies with all relevant laws, regulations and codes of business practice. The board has delegated the responsibility for ensuring that the relevant compliance processes are in place to the Audit Committee. The board 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 board.
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 for the provision of directors are market-related and revised annually. These fees are disclosed in the company's Financial Statements, note 27.
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 board is responsible for assurance by setting the direction concerning the arrangements for assurance services and functions. The Audit Committee assists the board 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 board 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 board 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 reporting period ended 31 March 2021 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, therefore, at its meeting held on 8 July 2021, recommended the adoption of the annual financial statements to the board.

DA Lorimer

DA Lorimer
Chairman
8 July 2021

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 Corporate Services Proprietary Limited
Company secretary
8 July 2021

The directors are pleased to present their report for the reporting period ended 31 March 2021.

1. Principal activities, state of affairs and business review

Nqaba Finance 1 (RF) Ltd, Nqaba or the Issuer, is an insolvency remote, ring-fenced special purpose vehicle 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 except for the amortisation status that was declared in July 2020. The company continues to amortise in line with the provisions of the Programme Memorandum following an unsuccessful refinance in May 2020 followed by a trigger breach in July 2020.

The company generates its revenue from interest earned on loans and advances.

2. Results of operations

The company recorded interest income for the reporting period of R124 million (2020: R183 million). The company recorded a net profit for the reporting period of R4.0 million (2020: loss of R2.7 million).

The detailed financial results of the company are set out on pages 14 to 44 of the accompanying annual financial statements.

3. Share capital and dividends

No shares were issued during the reporting period . 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 reporting period .

4. Going concern

The financial statements are prepared on a going concern basis. The company is an insolvency remote Special Purpose Vehicle (SPV) structured to mitigate against any potential event that could cause doubt regarding the company's ability to continue as a going concern. As at 31 March 2021 nothing has come to the attention of the directors to indicate that the company will not remain a going concern for the foreseeable future. Having taken note of events after the reporting date , the directors are of the opinion that the company will have adequate financial resources to continue in operational existence for the foreseeable future. Full details of their assessment are disclosed in note 24 of the 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	23-Jul-20	29-Sep-20	1-Dec-20	20-Jan-21	29-Mar-21
BW Smith	√	√	√	√	√
DA Lorimer	√	√	√	√	√
TL Myburgh	√	√	√	a	√
PBE Coombe	√	√	√	√	√

Legend

√	Present
a	Apology

5. Directors (continued)

Attendance at audit committee meetings:

	Audit committee			
Members	29-Jul-20	11-Aug-20	20-Jan-21	29-Mar-21
DA Lorimer	√	√	√	√
BW Smith	√	√	√	√
PBE Coombe	√	√	√	√

Legend

√	Present
a	Apology

None of the directors resigned or were removed during the current reporting period .

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

The Residential Mortgaged-Backed Securities of R181 million set out in note 12 of these financial statements, scheduled for maturity on 22 May 2021 were not re-financed on that day and consequently reached matured status as per the Programme Memorandum. Details of this transaction are disclosed in note 26, "Events after reporting period".

7. Auditors

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

8. Company secretary

Maitland Group South Africa

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 an 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) of 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 JSE Debt Listing Requirements.

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Independent Auditor's Report

To the Shareholder of Nqaba Finance 1 (RF) Limited

Opinion

We have audited the financial statements of Nqaba Finance 1 (RF) Limited (the company) set out on pages 14 to 45, which comprise the statement of financial position as at 31 March 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 2021, 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 the company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). 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 impairment allowances held, are key considerations by the Directors. The company adopted IFRS 9: Financial Instruments effective from 1 January 2018 which requires impairment losses to be evaluated on an expected credit loss basis. Significant judgement is required by the Directors in assessing the impairment provision for expected credit losses amounting to R 10 667 000 as disclosed in note 3.1 of the financial statements. The significant judgements applied in the impairment allowance, include the following: • Modelling of the probability of default, loss given default and exposure at default. • Assessing whether credit risk has increased significantly since initial recognition. • The application of 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 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 allowance. 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: o Appropriateness of the assumptions and model methodology; and o Application of forward looking information. • We in conjunction with our internal actuarial specialists considered the following: i. The model parameters – the probability of default, loss given default and exposure at default; ii. The assessment of significant increase in credit risk; iii. The stage allocation of the loans (i.e. allocation between stage 1, stage 2 and stage 3); and iv. Calculation of the ECL. v. Results of the tests over the design and implementation of relevant controls relating to the credit risk process and the impairment model. • Tested on a sample basis, the accuracy and completeness of the data used against supporting documentation. • Benchmarked the provision against similar entities. • Performed back-testing on the loss ratio over time against the current impairment allowance; and • Assessed the disclosure of the impairment allowance in the financial statements in accordance with IFRS 7: Financial Instruments: Disclosures.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled “Nqaba Finance 1 (RF) Limited Financial Statements for the year ended 31 March 2021”, which includes the Directors’ Report, the Audit Committee’s Report and the Company Secretary’s statement as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor’s reports 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 of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the 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, actions taken to eliminate threats or safeguards applied.

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 15 years.

Kelello Hlajoane
SizweNtsalubaGobodo Grant Thornton Inc.
Director
Registered Auditor

30 July 2021

20 Morris Street East
Woodmead

Nqaba Finance 1 (RF) Ltd

Statement of financial position as at 31 March 2021

	Note	2021 R '000	2020 R '000
Assets			
Non-Current Assets			
Properties in possession	4	1,334	1,327
Loans receivable	5	1,630,084	1,827,207
Deferred tax asset	6	3,451	4,994
		1,634,869	1,833,528
Current Assets			
Loans receivable	5	89,860	78,515
Derivatives held for risk management	7	-	562
Trade and other receivables	8	12,900	22,988
Current tax	9	-	40
Cash and cash equivalents	10	50,983	68,860
		153,743	170,965
Total Assets		**1,788,612**	**2,004,493**
Equity and Liabilities			
Equity			
Share capital	11	-	-
Retained earnings		39,397	35,431
		39,397	**35,431**
Liabilities			
Non-Current Liabilities			
Debt securities issued	12	1,217,638	1,201,000
First loss credit enhancement loan	13	290,000	290,000
		1,507,638	1,491,000
Current Liabilities			
Debt securities issued	12	216,477	472,932
First loss credit enhancement loan	13	23,163	2,730
Trade and other payables	14	1,937	2,400
		241,577	478,062
Total Liabilities		**1,749,215**	**1,969,062**
Total Equity and Liabilities		**1,788,612**	**2,004,493**

Nqaba Finance 1 (RF) Ltd

Statement of profit or loss for the reporting period ended 31 March 2021

	Note	2021 R '000	2020 R '000
Interest income	15	124,674	183,214
Finance expense	16	(113,609)	(181,595)
Net interest income		11,065	1,619
Other income	17	2,290	6,309
Operating profit		13,355	7,928
Net impairment gain	18	292	3
Net fair value loss on financial instruments		(562)	(1,322)
Operating expenses	19	(7,576)	(10,307)
Profit / (Loss) before tax		5,509	(3,698)
Income tax (expense) benefit	20	(1,543)	1,035
Profit / (Loss) profit for the year		**3,966**	**(2,663)**

Nqaba Finance 1 (RF) Ltd

Statement of changes in equity for the reporting period ended 31 March 2021

	Note	Share capital R '000	Retained income R '000	Total equity R '000
Balance at 1 April 2019		**-**	**38,094**	38,094
Total loss for the year		-	(2,663)	(2,663)
Balance at 31 March 2020		**-**	**35,431**	**35,431**
Total profit for the year		-	3,966	3,966
Balance at 31 March 2021		**-**	**39,397**	**39,397**

Nqaba Finance 1 (RF) Ltd

Statement of cash flows for the reporting period ended 31 March 2021

	Note	2021 R '000	2020 R '000
Cash flows from operating activities			
Cash generated from operations	21	140,868	167,762
Swaps interest		566	1,784
Interest on Call account		1,681	4,515
Interest earned on SARS account		-	1
Loan loss recovered		43	9
Finance expense	16	(113,609)	(181,595)
Income taxes received / (paid)	9	40	(1)
Net cash from / (used in) operating activities		29,589	(7,525)
Cash flows from investing activities			
New mortgage loans acquired	5	(30,510)	(212,847)
Further loan advances	5	(64,264)	(77,833)
Capital repayments and prepayments	5	281,255	287,884
Net cash from (used in) investing activities		186,482	(2,796)
Cash flows from financing activities			
Debt securities issued	28	-	234,000
Debt securities redeemed	28	(233,948)	(234,000)
Net cash from financing activities		(233,948)	-
Net decrease in cash and cash equivalents		(17,877)	(10,321)
Cash and cash equivalents at the beginning of the year		68,860	79,181
Cash and cash equivalents at the reporting date	10	**50,983**	**68,860**

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these statements are set out below. These policies have been consistently applied to all the years presented.

1.1 Basis of preparation and measurement

Statement of compliance

The company's financial statements for the year ended 31 March 2021 have been prepared in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Debt Listings Requirements, and the Companies Act of South Africa, 71 of 2008.

The financial statements have been prepared on the going concern basis. The company is an insolvency remote Special Purpose Vehicle (SPV) structured to mitigate against any potential event that could cause doubt regarding the company's ability to continue as a going concern.

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 amortised costs. 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 in note 2 below.

Functional and presentation 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

Loans receivable

EFC primarily extends home loans to employees of Eskom Holdings SOC Ltd group and Eskom Pension and the 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. Variable interest rates are determined and adjusted from time to time taking into account current market conditions.

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.

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

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).

1.2 Financial instruments (continued)

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 gain. All income and expenses relating to financial assets at FVTPL are presented within net fair value gains or losses on financial instruments.

Renegotiated loans

Where possible, the company seeks to restructure loans rather than to take possession of the collateral. This may involve modifying the payment arrangements and the interest with the aim of ensuring that the original loan terms are 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.

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.

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.

The company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

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.

1.2 **Financial instruments (continued)**

Lifetime Expected Credit Loss (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.

Assets measured at amortised cost

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 credit loss approach or a lifetime expected credit loss approach in order to calculate its loss allowance .

12-month ECLs 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 ECLs 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 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 loss allowance) 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 no payment has been received within 31 days of due date. 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. Financial assets are written off when there is no reasonable expectation of recovery on all accounts over 3 months in arrears. These are subsequently handed over to the Credit Bureau and handed over to the appointed 3rd party for collection.

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 impairment loss is recognised using a loss allowance account.

1.2 Financial instruments (continued)

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 introduced 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 ECL reverts from lifetime ECL to 12-months ECL.

The following table provides information about the exposure to credit risk and ECLs for loans receivables as at 31 March 2021:

Loans by credit quality	Performing loans R '000	Under performing loans R '000	Non performing loans R '000	Total R '000
2021				
Gross loans and advances	1,611,948	62,802	55,861	**1,730,611**
Expected Credit Loss	(687)	(933)	(9,047)	**(10,667)**
Net loans and advances	**1,611,261**	**61,869**	**46,814**	**1,719,944**
2020				
Gross loans and advances	1,800,793	65,961	50,165	**1,916,919**
Expected Credit Loss	(1,369)	(1,062)	(8,767)	**(11,198)**
Net loans and advances	**1,799,424**	**64,899**	**41,399**	**1,905,722**

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

Suspended interest

IFRS 9 requires that interest for exposures classified as stage 3 (i.e. non performing loans) be calculated on the gross carrying amount 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 amount and be deducted as part of the reconciliation to the net carrying amount which is reported in the statement of financial position.

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.

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.

1.2 Financial instruments (continued)

Covid-19 impact on impairments

Loan advances

EFC advances loans to employees within the Eskom group of companies with instalments received through payroll deduction. These loan agreements may be entered into by joint owners where the joint partner of the employee is not employed by Eskom, but joint household income may be impacted by the current economic conditions. The total loan granted in such instances are subject to the deductibility of the instalment from the Eskom employees salary and upon leaving Eskom's service, a debit order process is implemented.

Eskom employees are potentially exposed in two ways due to Covid-19:

- Eskom’s inability to pay salaries which directly affects payroll deduction;
- Joint ownership whose spouses/partners are employed elsewhere and their combined household income is directly affected by Covid-19. This scenario does not directly affect Nqaba as the instalment is still deductible from the Eskom employee, however, a response to social calls by some financial service providers to consider deferring instalments in such cases has been considered. Nqaba has taken a decision to look into such instances on a case-by-case basis.

The negative economic outlook and cash flow difficulties that could be experienced by customers as a result of Covid-19 increase credit risk. These have been factored into the ECL for ex-employees’ forecasts of future conditions due to increased probability of default across this category including those that currently do not exhibit significant increases in credit risk but may in the future at a 12 month ECL loss rate of 0.12%.

In determining the probability of default ratio, the potential decline in the value of collateral together with the history of third party attachments were factored into the calculations. Since Nqaba finances mostly primary residences, which are owner occupied, there is accordingly no material impact. The exposure on second properties is also minimal and remote.

1.3 Share capital

Ordinary shares

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

Preference shares

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

1.4 Income tax

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

Current 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.

1.5 Deferred tax

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

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

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

Following the changes in tax rate announcement by the Finance Minister, the company adopted Eskom's group policy in this regard that the recovery/settlement of the deferred tax will be at the rate of 28% as this is representative of the rate expected to apply when the underlying asset/liability is recovered/settled.

1.6 Interest income and interest expense

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. Interest expense is recognised as it accrues in profit or loss, using the effective interest method.

Other income comprises income from financial market investments and loan losses recovered. 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.

1.7 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 at initial recognition, and are subsequently valued at the lower of the carrying amountless costs to sell.

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.

1.8 First Loss Credit Enhancement Loan

EFC has advanced a R290 million subordinated First Loss Credit Enhancement Loan. The First Loss Credit Enhancement Loan or such balance as shall remain outstanding from time to time, bears interest at 3 month JIBAR plus 3.0%.

Interest accrues on a daily basis and it only becomes owing in respect of each interest period to the extent that the notional amount of net income accrues to Nqaba.

1.9 Revenue (Interest income)

Interest income comprises interest receivable on loans receivable and trade and other receivables. It is the company’s policy to account for interest income as it accrues, in profit or loss, using the effective interest method. The nature of the business allows for this model to continue even during the Covid-19 pandemic. No changes are expected.

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 reporting period are recognised in the period in which they are revised and future periods they affect.

(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.

The proceeds from note issuances are invested in mortgage loans, purchased from EFC, which are used as collateral. Revenue is derived from these loans in order to pay the finance costs and operating expenses. The company was set up to provide capital financing for home loans to Eskom group staff. The home loan pool is essential collateral to the note financing and the incoming cash flows from borrowers are separated into revenue (operating) and capital (investing) components including cash flows from matured notes.

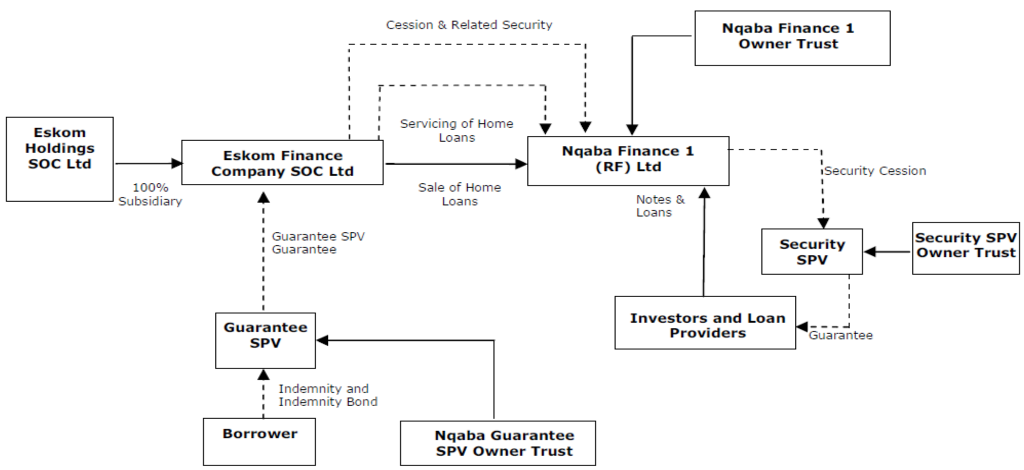
(b) IFRS 12 considerations of interests in other SPVs

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 have 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.



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

Nqaba has issued a cession in favour of the Nqaba Finance 1 Security SPV Owner Trust (SPV) 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.

Nqaba Guarantee SPV (RF) (Pty) Ltd

Nqaba Guarantee SPV (RF) (Pty) Ltd (Guarantee SPV) is a special purpose entity, which issues limited-recourse guarantees to the home loan lender (EFC or Nqaba) against the security of an Indemnity and an Indemnity Bond. The individual guarantee given by the Guarantee SPV in favour of the Seller (EFC), guarantees a borrower's obligations to the seller in terms of the home loan agreement concluded in relation to the home loan granted to such borrower. When the Seller, EFC, sells a mortgage loan to the Issuer, the guarantee is ceded to the Issuer upon purchase of such home loan. Whilst the Guarantee SPV Guarantee, Indemnity and Indemnity Bond structure retain the security of a real right in the properties, the Issuer does not have the real right directly: the real right is registered in the name of the Guarantee SPV and the Issuer’s claim against the Guarantee SPV is thus contractual.

(c) Measurement of ECL allowance

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 possibility of having to institute legal collection procedures to recover the debt
- The maximum ECL 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

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

(c) Measurement of ECL allowance (continued)

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 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.

Asset measurement: Deferred tax 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. Financial risk management

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 loss allowances. 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 R68 million (2020: R81 million).

The amounts advanced are secured by first mortgages on the property purchased and are repayable over an average period of 27 years. The risk of default by the employee is reduced as the monthly instalments are deducted from the employee's salary. Credit risk of Eskom 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 2021 was:

	2021 R '000	2020 R '000
Weighted average loan to value ratio (%)	67.61%	68.24%
The average loan amount in relation to the total home loan book value at 31 March was:		
Average outstanding amount - Home loans	290	295
Loan amount as a percentage of the loan book (%)	0.017%	0.015%

(a) Credit exposure

The company’s maximum exposure to credit risk in respect of mortgage loans is the balance of the outstanding advances, before taking into account the value of collateral held as security against such exposures. The collateral held as security for the mortgage assets exposures is in the form of first indemnity bonds over the fixed residential property (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
2021				
BBB	50,983	-	-	-
Unrated	-	-	1,719,944	12,900
	50,983	**-**	**1,719,944**	**12,900**
2020				
AA	68,860	562	-	-
Unrated	-	-	1,905,722	22,988
	68,860	**562**	**1,905,722**	**22,988**

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

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

	2021 R '000	2020 R '000
Loans receivable		
Home loans	1,719,944	1,905,722
	1,719,944	**1,905,722**
Trade and other receivables	12,900	22,988
	12,900	**22,988**

	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
2021					
Collectively assessed for impairment					
Home loans	1,730,613	1,612,215	9,917	3,373	105,108
Impairment					
Home loans	(10,667)	(730)	(180)	(70)	(9,687)
	1,719,946	**1,611,485**	**9,737**	**3,303**	**95,421**
2020					
Collectively assessed for impairment					
Home loans	1,916,919	1,801,616	17,660	7,918	89,725
Impairment					
Home loans	(11,198)	(1,360)	(291)	(140)	(8,851)
	1,905,722	**1,800,256**	**17,369**	**7,778**	**80,874**

Mortgage advances include an amount of R5 million (2020: R6 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 these 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.

Allowance for impairment loss

The movement in the loss allowance during the year is as follows:

	2021 R '000	2020 R '000
Balance at the beginning of the year	11,198	13,798
Impairment loss reversed	(709)	(2,858)
Suspended interest	178	258
Balance at the reporting date	**10,667**	**11,198**

The company closely monitors collateral held for mortgage advances considered to be credit-impaired, as soon as it becomes likely that the company will foreclose non-performing mortgage advances to mitigate potential credit losses. Mortgage advances that are credit impaired and their fair value of the related collateral (in the form of residential properties) held to mitigate potential losses are shown below:

To enhance the quality of reporting, impairment loss on properties in possession was removed from the reconciliation above to be disclosed within the PIP note 4. The effect is immaterial to warrant a restatement.

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

2021 Credit-impaired assets	Gross carrying amount R '000	Impairment R '000	Carrying amount R '000	Fair value of collateral held R '000
Mortgage advances	55,861	9,047	46,814	38,317
2020				
Credit-impaired assets				
Mortgage advances	50,165	8,767	41,398	31,058

Due to the nature of the assets that are credit impaired, the fair values are substantially lower than the carrying amount.

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 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. Rates charged on outstanding loan receivables are based on movements in the South African Reserve Bank repurchase rate. The board implemented a funding strategy that aims to protect the company from major interest rate changes.

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.

Derivatives

Nqaba entered into interest rate swap transactions to hedge against interest rate variability on the issued 10 year fixed rate notes. These expired in May 2021. The swaps were 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 R0.6 million (2020: R1.3 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.

	2021 +50 basis point R' 000	2021 -50 basis point R' 000	2020 +200 basis point R' 000	2020 -200 basis point R' 000
Effect on profit or loss				
Interest rate	2,685	(2,685)	6,516	(6,516)

Taking into account the current economic environment the sensitivity analysis is based on a 2% movement in interest rates. The effect on profit or loss has been calculated over a 12 month period. The entity has not applied hedge accounting.

3. Financial risk management (continued)

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 4 years. Since the structure is in early amortisation, the legal maturiy period is now 2052.

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 2% 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. The Residential Mortgaged Backed Securities set out in note 12 of these financial statements, scheduled for maturity on 22 May 2021 were not re-financed on that day. Since the structure is already in early amortisation status, all the notes continue to amortise from principal collections on the pool of assets plus the excess margin in the 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)**

3.3 **Liquidity risk**

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;
- 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 outflows even though physically they are settled simultaneously. Contractual cash flows are a function of forward interest rates and are calculated at a point in time based on market conditions at that time.

3. Financial risk management (continued)

The table contains only cash flows relating to financial instruments.

	Carrying amount				Cash flows inclusive of interest			
	Non-current	Current	Total	Nominal inflow or (outflow)	0 - 3 months	4 - 12 months	1 - 5 years	More than 5 years
	R' 000	R' 000	R' 000	R' 000	R' 000	R' 000	R' 000	R' 000
2021								
Financial assets								
Loans receivable	1,630,084	89,860	1,719,944	2,863,451	50,320	149,969	753,838	1,909,324
Trade and other receivables	-	12,900	12,900	12,900	12,900	-	-	-
Cash and cash equivalents	-	50,983	50,983	50,983	50,983	-	-	-
	1,630,084	**153,743**	**1,783,827**	**2,927,334**	**114,203**	**149,969**	**753,838**	**1,909,324**
Financial liabilities								
Debt securities issued	1,217,638	216,477	1,434,115	1,926,310	69,772	150,438	924,188	781,912
First loss credit enhancement loan	290,000	23,163	313,163	474,359	-	-	-	474,359
Trade and other payables	-	1,937	1,937	1,937	1,937	-	-	-
	1,507,638	**241,577**	**1,749,215**	**2,402,606**	**71,709**	**150,438**	**924,188**	**1,256,271**
Liquidity gap	**122,446**	**(87,834)**	**34,612**	**524,728**	**42,494**	**(469)**	**(170,350)**	**653,053**
2020								
Financial assets								
Loans receivable	1,827,207	78,515	1,905,722	3,855,952	63,545	189,350	960,332	2,642,725
Derivatives held for risk management	-	562	562	562	562	-	-	-
Trade and other receivables	-	22,988	22,988	22,988	22,988	-	-	-
Cash and cash equivalents	-	68,860	68,860	68,860	68,860	-	-	-
	1,827,207	**170,925**	**1,998,132**	**3,948,362**	**155,955**	**189,350**	**960,332**	**2,642,725**
Financial liabilities								
Debt securities issued	1,201,000	472,932	1,673,932	1,933,855	489,886	75,601	1,368,368	-
First loss credit enhancement loan	290,000	2,730	292,730	376,958	6,899	20,773	349,286	-
Trade and other payables	-	2,400	2,400	2,400	2,400	-	-	-
	1,491,000	**478,062**	**1,969,062**	**2,313,213**	**499,185**	**96,374**	**1,717,654**	**-**
Liquidity gap	**336,207**	**(307,137)**	**29,070**	**1,635,149**	**(343,230)**	**92,976**	**(757,322)**	**2,642,725**

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.

Valuation techniques

Residential mortgage backed securities

A discounted cash flow approach for non-credit impaired assets was applied and the calculation of the current market value, is based on the following guidelines:

Observable input

- The entity determined the fair value of a non-credit impaired loan as the present value of the future level instalments to be received. Management's discount rates were determined as the prime lending rate (7% as at 31 March 2021) plus an additional allowance for risk;
- Credit impaired loans were valued at the value placed on underlying security on a forced sale basis only;
- The entity determined the current market value (CMV) of the collateral by applying a property inflation index per province (as published by Lightstone in February 2021) to the latest known property value.

After computing fair values, the following adjustments were further made:

- For accounts that are in arrears for longer than 3 months, a fair value equal to the minimum of 60% of the calculated current market value or the outstanding balance was used;
- For accounts that are in arrears for 1 to 3 months, a fair value equal to the minimum of 80% of the calculated current market value or the outstanding balance was used; and
- For accounts that are not in arrears, a fair value equal to the minimum of 90% of the calculated current market value or the outstanding balance was used.

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.

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.

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

	Fair value through profit or loss	Financial assets at amortised costs	Liabilities at amortised cost	Total carrying amount	Fair value
	R '000	R '000	R '000	R '000	R '000
2021					
Financial assets					
Non-current					
Loans receivable	-	1,630,084	-	1,630,084	1,603,997
	-	**1,630,084**	**-**	**1,630,084**	**1,603,997**
Current					
Loans receivable	-	89,860	-	89,860	88,422
Trade and other receivables	-	12,900	-	12,900	12,900
Cash and cash equivalents	-	50,983	-	50,983	50,983
	-	**153,743**	**-**	**153,743**	**152,304**
Total financial assets	**-**	**1,783,827**	**-**	**1,783,827**	**1,756,302**

3. Financial risk management (continued)

2021	Fair value through profit or loss R '000	Financial assets at amortised costs R '000	Liabilities at amortised cost R '000	Total carrying amount R '000	Fair value R '000
Financial liabilities					
Non-current					
First loss credit enhancement loan	-	-	290,000	290,000	290,000
Debt securities issued	-	-	1,217,638	1,217,638	1,217,638
	-	**-**	**1,507,638**	**1,507,638**	**1,507,638**
Current					
Debt securities issued	-	-	216,477	216,477	216,477
First loss credit enhancement loan	-	-	23,163	23,163	23,163
Trade and other payables	-	-	1,937	1,937	1,937
	-	**-**	**241,577**	**241,577**	**241,577**
Total financial liabilities	**-**	**-**	**1,749,215**	**1,749,215**	**1,749,215**
2020					
Financial assets					
Non-current					
Loans receivable	-	1,827,207	-	1,827,207	1,807,577
Derivatives held for risk management	-	-	-	-	-
	-	**1,827,207**	**-**	**1,827,207**	**1,807,577**
Current					
Loans receivable	-	78,515	-	78,515	77,671
Derivatives held for risk management	562	-	-	562	562
Trade and other receivables	-	22,988	-	22,988	22,988
Cash and cash equivalents	-	68,860	-	68,860	68,860
	562	**170,363**	**-**	**170,925**	**170,081**
Total financial assets	**562**	**1,997,570**	**-**	**1,998,132**	**1,977,658**
Financial liabilities					
Non-current					
First loss credit enhancement loan	-	-	290,000	290,000	290,000
Debt securities issued	-	-	1,201,000	1,201,000	1,201,000
	-	**-**	**1,491,000**	**1,491,000**	**1,491,000**
Current					
Debt securities issued	-	-	472,932	472,932	472,932
First loss credit enhancement loan	-	-	2,730	2,730	2,730
Trade and other payables	-	-	2,400	2,400	2,400
	-	**-**	**478,062**	**478,062**	**478,062**
Total financial liabilities	**-**	**-**	**1,969,062**	**1,969,062**	**1,969,062**

Collateral obtained

There were no mortgage bonds called upon from debtors who defaulted on their payments during the year (2020: R1.4 million).

3. Financial risk management (continued)

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).

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 that are fair valued using inputs that are not observable.

	Fair value		
	Level 1	**Level 2**	**Level 3**
2021	**R '000**	**R '000**	**R '000**
Assets not measured at fair value			
Loans receivables			
Residential mortgage backed securities	-	1,687,353	-
Properties in possession [1]	-	-	1,334
	-	**1,687,353**	**1,334**
Liabilities not measured at fair value			
Debt securities issued			
Commercial paper	-	1,434,115	-
First loss credit enhancement loan			
Subordinated loan	-	313,163	-
	-	**1,747,278**	**-**

[1] Properties in possession are valued at the lower of the carrying amount less costs to sell. Sensitivity analysis on PIPs would have yielded immaterial results as the PIP portfolio is immaterial in relation to the total loan book.

3. Financial risk management (continued)

2020	Fair value Level 1 R '000	Level 2 R '000	Level 3 R '000
Assets measured at fair value			
Derivatives held for risk management			
Interest rate swaps	-	562	-
	-	**562**	**-**
Assets not measured at fair value			
Loans receivables			
Residential mortgage backed securities	-	1,885,248	-
Properties in possession [1]	-	-	1,327
	-	**1,885,248**	**1,327**
Liabilities not measured at fair value			
Debt securities issued			
Commercial paper	-	1,673,932	-
First loss credit enhancement loan			
Subordinated loan	-	292,730	-
	-	**1,966,662**	**-**

	2021 R '000	2020 R '000
4. Properties in possession		
Opening balance	1,592	200
Additions	-	1,392
Closing balance	**1,592**	**1,592**
Loss allowance	(258)	(265)
	1,334	**1,327**

PIPs are disclosed as non current assets due to the uncertain timing of collectibility of this asset class.

5. Loans receivable

	2021 R '000	2020 R '000
Secured by mortgage	1,730,611	1,916,920
Loss allowance	(10,667)	(11,198)
	1,719,944	**1,905,722**
Non-current	1,630,084	1,827,207
Current	89,860	78,515
	1,719,944	**1,905,722**

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

Reconciliation of movement in balance	2021 R '000	2020 R '000
Balance at beginning of year	1,916,920	1,917,172
New loans acquired	30,510	212,847
Further advances	64,264	77,833
Capital repayments and prepayments	(281,255)	(287,884)
Suspended interest - cured	759	-
Losses written off	(586)	(3,048)
Closing balance	**1,730,611**	**1,916,920**
Loss allowance	(10,667)	(11,198)
Net carrying amount	**1,719,944**	**1,905,722**

	2021 R '000	2020 R '000
5. Loans receivable (continued)		
Reconciliation of loss allowance		
Balance at beginning of year	11,198	13,598
Recognised in profit or loss	(709)	(2,658)
Suspended interest	178	258
Closing balance	**10,667**	**11,198**

2021	Stage 1 R '000	Stage 2 R '000	Stage 3 R '000	Total R '000
Reconciliation of loss allowance				
Balance at beginning of year	(1,369)	(1,062)	(8,767)	(11,198)
Recognised in profit or loss	682	129	(102)	709
Suspended interest	-	-	(178)	(178)
Closing balance	**(687)**	**(933)**	**(9,047)**	**(10,667)**
2020				
Reconciliation of loss allowance				
Balance at beginning of year	(2,634)	(3,080)	(7,884)	(13,598)
Recognised in profit or loss	1,264	2,018	(624)	2,658
Suspended interest	-	-	(258)	(258)
Closing balance	**(1,369)**	**(1,062)**	**(8,767)**	**(11,198)**

	2021 R '000	2020 R '000
6. Deferred tax		
Deferred tax assets		
Balance at the beginning of the year	4,994	3,959
Recognised in profit or loss	(1,543)	1,035
	3,451	**4,994**
Reconciliation of deferred tax asset		
Balance at beginning of year	4,994	3,959
Tax loss	(1,609)	1,636
Originating differences on provisions	(91)	(972)
Reversing differences on fair value swaps	157	370
	3,451	**4,994**

Recognition of deferred tax asset

The deferred tax asset arises from:

- Loss allowances
- Differences on fair value swaps
- Tax losses

The approved budget for the 2022 reporting period already indicates a net profit after tax of R4.9 million as a result of significantly reduced finance costs from continuing partial redemption of the matured notes that were not refinanced. The entity is therefore confident on its ability to generate future taxable profits in support of the recognition of deferred tax assets.

7. Derivatives held for risk management

	2021 Assets	2021 Liabilities	2021 carrying amount	2020 Assets	2020 Liabilities	2020 carrying amount
	R '000	R '000	R '000	R '000	R '000	R '000
Interest rate derivatives						
Interest rate swaps	-	-	-	562	-	562
	-	**-**	**-**	**562**	**-**	**562**

	2021 Assets	2021 Liabilities	2021 carrying amount	2020 Assets	2020 Liabilities	2020 carrying amount
Reconciliation						
Derivatives held for risk management						
Balance at the beginning of the year	562	-	562	1,884	-	1,884
Recognised in profit or loss	(562)	-	(562)	(1,322)	-	(1,322)
	-	**-**	**-**	**562**	**-**	**562**
Current	-	-	-	562	-	562
	-	**-**	**-**	**562**	**-**	**562**

Interest rate swaps were used to economically hedge the interest expense variability of the fixed rate notes issued on 22 May 2010 that matured on 22 May 2020. The interest rate swaps were linked to the main debt to the secured note holders. Quarterly payments or receipts were based on the difference between the JIBAR plus an agreed 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 earned during the year on this swap agreement was R0.6 million (2020: R2 million).

	2021 R '000	2020 R '000
8. Trade and other receivables		
Gross	12,900	22,988
Loss allowance*	-	-
	12,900	**22,988**

* The loss allowance of R0.06 (2020: R0.10) falls below the rounding of R’000.

	2021 R '000	2020 R '000
9. Current tax		
Balance at the beginning of the year	(40)	(39)
Current tax for the reporting period recognised in profit or loss	-	-
Income taxes paid (received)	40	(1)
Balance at the reporting date	**-**	**(40)**
10. Cash and cash equivalents*		
Bank balances	50,983	68,860
Loss allowance*	-	-
	50,983	**68,860**

* The loss allowance of R0.23 (2020: R0.31) falls below the rounding of R’000.

These balances are held with counterparties that have local investment grade credit ratings.

	2021 R '000	2020 R '000
11. Share capital		
Authorised		
1000 Ordinary shares of R1 each	1	1
100 Cumulative redeemable preference shares of R0.01 each *	-	-
Issued		
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 rounding to the nearest R'000, the amounts reflect a nil balance.

12. Debt securities issued	2021 R '000	2020 R '000
Commercial paper	1,434,115	1,673,932
Non-current	1,217,638	1,201,000
Current	216,477	472,932
	1,434,115	**1,673,932**

During the early amortisation period, all notes became due and payable as per the Programme Memorandum. The entity has used cash flows payable within the next 12 months to determine the current portion of debt securities issued.

Notes	Currency	Interest rate 2021 %	Interest rate 2020 %	Maturity date	Nominal 2021 R' 000	Nominal 2020 R' 000	carrying amou 2021 R' 000	carrying amou 2020 R' 000
Floating rate notes								
Class A24	ZAR	8.14	8.14	May-52	240,040	310,000	241,471	312,489
Class B17	ZAR	8.36	8.36	May-52	8,000	8,000	8,050	8,066
Class C17	ZAR	8.79	8.79	May-52	5,000	5,000	5,034	5,043
Class D5	ZAR	9.79	9.79	May-52	5,000	5,000	5,024	5,048
Class A25	ZAR	8.38	8.38	May-22	129,661	150,000	130,381	151,240
Class A28	ZAR	5.14	8.04	May-21	181,525	210,000	182,471	211,666
Class B21	ZAR	8.54	8.54	May-22	24,000	24,000	24,137	24,203
Class A27	ZAR	8.39	8.39	May-23	568,779	658,000	571,945	663,446
Class B20	ZAR	8.79	8.79	May-23	159,000	159,000	159,950	160,379
Class A10	ZAR	5.84		May-52	89,047		89,556	
Class B10	ZAR	5.84		May-52	11,000		11,065	
Class C10	ZAR	6.04		May-52	5,000		5,031	
Fixed rate notes								
Class A10	ZAR		10.44	May-52		115,000		116,184
Class B10	ZAR		10.64	May-52		11,000		11,115
Class C10	ZAR		10.84	May-52		5,000		5,053
					1,426,052	**1,660,000**	**1,434,115**	**1,673,932**

Class A24, A25, A27, A28, B17, B20, B21, C17 and D5 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:

- 2.24% per annum in relation to Class A24 Notes;
- 1.84% per annum in relation to Class A25 Notes;
- 1.85% per annum in relation to Class A27 Notes;
- 1.50% per annum in relation to Class A28 Notes;
- 2.55% per annum in relation to Class B17 Notes;
- 2.25% per annum in relation to Class B20 Notes;
- 2.00% per annum in relation to Class B21 Notes;
- 2.25% per annum in relation to Class C17 Notes;
- 1.15% per annum in relation to Class D5 Notes;
- 2.00% per annum in relation to Class A10 Notes;
- 2.20% per annum in relation to Class B10 Notes; and
- 2.40% per annum in relation to Class C10 Notes;

The fixed rate notes reported in the 2020 financial statements changed to variable rates as per the pricing supplement in line with the amortisation event provisions in the Programme Memorandum. Nominal amounts discosed above exclude interest paid.

12. Debt securities issued (continued)

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.

During the year, the company breached its arrears reserve trigger level of 2.5% and as result, it entered into early amortisation in line with the provisions of the Programme Memorandum.

	2021 R '000	2020 R '000
13. First loss credit enhancement loan		
Subordinated loan - Eskom Finance Company SOC Limited	290,000	290,000
Accrued interest	23,163	2,730
	313,163	**292,730**
Maturity analysis		
Non-current	290,000	290,000
Current	23,163	2,730
	313,163	**292,730**

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 3.0% effective from 24 February 2020 (previously 5%). 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. No interest will be paid on the subordinated debt until such time these notes are fully repaid, but interest continues to be accrued and will be paid once cash becomes available in the priority of payments.

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.

	2021	2020
14. Trade and other payables		
Accruals	1,937	2,400
15. Interest income		
Interest income	125,012	183,930
Suspended interest	(338)	(716)
	124,674	**183,214**

	2021	2020
16. Finance expense	**R '000**	**R '000**
Finance expense on debt securities issued	93,175	147,502
Finance expense on subordinated loan	20,433	34,093
	113,609	**181,595**
17. Other income		
Swaps interest	566	1,784
Interest on Call account	1,681	4,515
Interest earned on SARS account	-	1
Loan loss recovered	43	9
	2,290	**6,309**
18. Net impairment gain		
Impairment reversal - Loans receivable	(717)	(2,593)
Loan losses written off	586	3,048
Suspended interest (cured)	(161)	(458)
	(292)	**(3)**
19. Operating expenses		
Auditors fees for audit services	624	642
Auditors fees for other services	-	1,476
Back up servicer fees	196	191
Bank charges	14	11
Credit ombudsman	87	87
JSE fixed fee	179	-
JSE variable fee	-	188
Legal fees	298	582
Liquidity facility fee	165	175
Management fees	608	573
National Credit Regulator fee	98	98
Owner trustee fee	493	760
Rating fee	428	425
Rating fee expense	43	783
Redraw facility fees	877	944
Strate variable fee	85	70
Servicer fees	3,381	3,302
	7,576	**10,307**
20. Income tax expense		
Major components of tax expense		
Income tax		
Current year tax	-	-
Deferred tax		
Tax loss	1,609	(1,636)
Loss allowances	(66)	601
Total income tax in profit or loss	**1,543**	**(1,035)**
Reconciliation of tax expense		
tax as a percentage of profit before tax	28.01%	(27.99%)
tax effect of:		
Expenses not deductible for tax purposes	-0.01%	0.01%
Standard tax rate	**28.00%**	**28.00%**

		2021 R '000	2020 R '000
21. Cash generated from operations			
Profit / (loss) before tax		5,509	(3,698)
Adjustments for:			
Loan losses		586	3,048
Other income		(2,290)	(6,309)
Finance costs		113,609	181,595
Net impairment (loss) / gain		(717)	(2,593)
Suspended interest on advances		(580)	258
Increase in properties in possession	4	-	(1,392)
Net fair value loss on financial instruments		562	1,322
Movement in debt securities	28	(5,869)	(1,365)
Movement in first loss credit enhancement loan	28	20,433	(842)
Changes in working capital:			
Trade and other receivables		10,089	(2,860)
Trade and other payables		(464)	598
		140,868	**167,762**

22. Commitments

	2021 R '000	2020 R '000
Nqaba further loans approved but not yet disbursed		
Loans and advances	-	121

Although borrowers have a right to a further advance or redraw of prepayments, the loan agreement provides a right to the lender to refuse such further advance or redraw of prepayments under various scenarios, including in respect of clients in arrears or with revised adverse credit profiles. The impairment also reflects a nil balance (2020: nil).

23. Guarantees and contingent liabilities

Legal claims

There were no legal claims nor guarantees against the company for the reporting period under review (2020: nil).

24. Going concern

The board made an assessment of the company's ability to continue as a going concern in the foreseeable future. The board has paid special attention to the company's going concern status amid the pending EFC disposal and recently, the Covid-19 pandemic outbreak.

EFC disposal

The board noted that Nqaba is a ring-fenced entity protecting secured creditors, including noteholders and the disposal contemplated herein will not have any impact on the entity.

Eskom followed a process to dispose of EFC during the financial year under review. While the process resulted in a preferred bidder being selected, approval was not provided by the Eskom Holdings SOC Limited shareholder and therefore the transaction will not be finalised with the bidder. The disposal of EFC remains a priority however will only be revisited once market conditions for a successful disposal improve.

Operating results

During the year, in response to Covid-19 pandemic, the South African Reserve bank reduced interest rates by a combined 275 basis points in its efforts to stimulate the economy.

The impact of these interest rate reductions since April 2020 has significantly reduced year end projected profits due to the asset/liability repricing mismatch. As a result of the early amortisation event in July 2020, finance costs have also reduced due to the capital redemption on the Class A Notes with Jibar rates having also reduced from 4.08% to 3.67% in February, further reducing the finance costs. This, together with the changes in the price supplement, has improved the financing margin, improving the projected net profits after tax of R1.5m to R4.9m for the 2022 reporting period .

24. Going concern (continued)

Since no assets are being sold into the structure during the amortisation period, finance income has also reduced. However the changes in the price supplement, has improved the financing margin, contributing to the improved projected net profit for the 2022 reporting period reporting period

Having considered the risks relating to the company's going concern status, the board is satisfied that the risks will be satisfactorily addressed with the mitigation strategies in place. The board therefore concluded that it is satisfied that the company has access to adequate resources and facilities to be able to continue its operations for the foreseeable future as a going concern.

25. Related parties

Related party transactions with Eskom Finance Company SOC Limited

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

Financing
A first loss credit enhancement loan has been provided by EFC, details of which are set out in note 13 above. Total interest on this loan during the period amounted to R20 million (2020: R34 million).

Servicing fees
EFC is the appointed servicing agent to Nqaba.

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

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

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

Related party balances	**2021**	**2020**
	R '000	**R '000**
Payables and amounts owed to related parties		
First loss credit enhancement loan	290,000	290,000
Debt Securites Issued (unrated)	181,525	210,000
Interest payable on first loss credit enhancement loan	23,263	2,729
Interest payable on Debt Securities Issued	946	1,666
	495,734	**504,395**
Servicing fees	**-**	**326**
Transactions		
Purchases of goods and services		
Servicing fees	3,381	3,302
Finance cost		
Eskom Finance Company SOC Ltd - Interest on debt securities	11,141	14,147
Eskom Finance Company SOC Ltd - Interest first loss credit enhancement loan	20,433	34,093
	31,574	48,240

25. Related parties (continued)

Other related party transactions

These transactions comprise those entered into with Maitland Group SA Limited (Maitland), 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.

Transactions		
Owner trustee and Directors' fees	493	760
Outstanding balances (due to related parties)		
Owner trustee and Directors' fees	-	81
Trade receivables	11,815	22,745
	11,815	**22,826**

26. Events after reporting period

a) Matured notes re-financing

The Residential Mortgaged Backed Securities set out in note 12 of these financial statements, scheduled for maturity on 22 May 2021 were not re-financed on that day. The structure will continue to amortise as per the Programme Memorandum following the similar failed refinance in the 2020 reporting period .

No interest will be paid on the subordinated debt until such time these notes are fully repaid, but interest continues to be accrued and will be paid once cash becomes available in the priority of payments. Nqaba has accumulated profits of R39 million and a cash surplus at the end of the most recent priority of payments of R63 million and will be able to honour its financial obligations to secured creditors including noteholders.

b) EFC disposal

Eskom followed a process to dispose of EFC during the financial year under review. While the process resulted in a preferred bidder being selected, approval was not provided by the Eskom Holdings SOC Limited shareholder and therefore the transaction will not be finalised with the bidder. The disposal of EFC remains a priority however will only be revisited once market conditions for a successful disposal improve.

27. Directors' emoluments

The directors do not receive individual remuneration from the company. Due to the nature of the securitisation structure, 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 not remunerated by Nqaba. The fee paid to Maitland for their services to the securitisation structure is disclosed in note 25 above.

28. Net debt reconciliation

	Debt securities issued	First loss credit enhancement loan	Total
	R'000	**R'000**	**R'000**
Balance 1 April 2019	**1,675,297**	**293,572**	**1,968,869**
Debt securities issued	234,000	-	234,000
Debt securities redeemed	(234,000)	-	(234,000)
Accrued interest	(1,365)	(842)	(2,207)
Balance 31 March 2020	**1,673,932**	**292,730**	**1,966,662**
Debt securities issued	-	-	-
Debt securities redeemed	(233,948)	-	(233,948)
Accrued interest	(5,869)	20,433	14,564
Balance 31 March 2021	**1,434,115**	**313,163**	**1,747,278**

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 reporting period ended 31 March 2021. The nature and effect of the changes are as follows:

Topic	Summary of	Effective date	Impact
Amendments to references to Conceptual Framework in IFRS standards effective	The main changes to the principles in the framework have implications for how and when assets and liabilities are recognised and derecognised in the financial statements. It is expected that inconsistencies between accounting policies and the new guidance will be rare.	1 January 2020	The adoption of the amendments to the conceptual framework did not result in any significant changes.
Definition of a business - amendments to IFRS 3	The amendments provide more guidance on the definition of a business. The effect of these changes is that the new definition of a business is narrower. This could result in fewer business combinations being recognised.	1 January 2020	Impact not material. There are currently no business combinations.
Definition of material - amendments to IAS 1 and IAS 8	The definition of 'material' has been refined and practical guidance on applying the concept of materiality has been issued. The revised definition of material is: 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.	1 January 2020	The adoption of the updated definition and practical guidance did not result in any significant changes based on how materiality has been applied in the current annual financial statements.

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

Topic	Summary of	Effective date	Impact
Classification of liabilities as current or non-current - amendments to IAS 1	IAS 1 has been amended to clarify the requirements of determining if a liability is current or non-current. The amendments clarify: • What is meant by a right to defer settlement • That a right to defer must exist at the end of the reporting period • That classification is unaffected by the likelihood that an entity will exercise its deferral right • That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification These amendments have to be applied retrospectively.	1 January 2023	The entity is currently in the process of evaluating the detailed requirements of the standard to assess the impact on the financial statements.
Amendments to IFRS 3 – reference to the Conceptual Framework	Amendments were made to replace older references that referred to the Framework for the Preparation and Presentation of Financial Statements with Conceptual Framework for Financial Reporting. The Conceptual Framework for Financial Reporting is applicable from 1 January 2020 and the references and related details were aligned accordingly.	1 January 2022	The amendments are not expected to have a material impact.