**IMPUMELELO CP NOTE PROGRAMME 1 (RF) LTD**
**(Registration number: 2013/211998/06)**
**AUDITED ANNUAL FINANCIAL STATEMENTS**
**31 December 2018**

Preparer: Prepared under the supervision of Jan Luus, CA(SA)
Designation: Head of Asset Classes Product Control, Corporate and Investment Banking, Absa Group Limited

**Contents**

**IMPUMELELO CP NOTE PROGRAMME 1 (RF) LTD**
**(Registration number: 2013/211998/06)**
**DIRECTORS' RESPONSIBILITIES AND APPROVAL**
***As at 31 December 2018***

The directors are responsible for overseeing the preparation, integrity and objectivity of the annual financial statements that fairly present the state of the affairs of iMpumelelo CP Note Programme 1 (RF) Ltd ("the Company") at the end of the financial year and the net income and cash flows for the reporting period, and other information contained in this report.

To enable the directors to meet these responsibilities:

- All directors will endeavour to maintain the highest ethical standards in ensuring the Company's business is conducted in a manner that in all reasonable circumstances is above reproach;
- The board sets standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that both on and off statement of financial position assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;
- The board and management identify all key areas of risk across the Company and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems and discipline are applied and managed within predetermined procedures and constraints;
- The internal audit function outsourced from Absa Group Limited ("the group") Internal Audit, which operates unimpeded and independently from operational management, appraises, evaluates and, when necessary, recommends improvements to the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business; and
- The internal auditors play an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

The Company consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis. The financial statements of the Company have been prepared in accordance with the provisions of the Companies Act of South Africa and comply with International Financial Reporting Standards (IFRS) and all applicable legislation.

The directors have no reason to believe that the Company will not be a going concern in the reporting period ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on this basis.

It is the responsibility of the independent auditors to report on the annual financial statements. Their report to the shareholders of the Company is set out on pages 7 to 9 of this report.

The directors' report on pages 10 to 11 and financial statements of the Company which appears on pages 12 to 48 were approved by the board of directors on 29 April 2019 and are signed on its behalf by

Director

Director

To the shareholders of iMpumelelo CP Note Programme 1 (RF) Limited,

In accordance with the provisions section 88(2)(e) of the Companies Act of South Africa, I, in my capacity as a duly authorised representative of the Company Secretary herby certify that, in respect of the year ended 31 December 2018, the Company has filed with the Commissioner of the Companies and Intellectual Property Commission (CIPC) all returns and notices prescribed by the Act and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.

Absa Secretarial Services Proprietary Limited
29 April 2019

The Company is fully committed to the governance outcomes, principles and practices as set out in the King IV Report Corporate Governance™ in South Africa 2016 ("King IV Report").

King IV was implemented on a proportional basis and practices were scaled considering the extent and complexity of the Company's activities.

For the year under review the Board has satisfied itself that the Company has applied the principles of King IV to the extent deemed necessary, or has put alternative measures in place.

Below is an explanation of the Company's application of paragraph 5.7 (b) of the JSE Debt Listing Requirements as at 31December 2018:

**Board of directors**

The board consists of:
- Independent non-executive directors (three)
- Executive director (one)

*Principle 1: The governing body should lead ethically and effectively.*

The Board is committed to the highest standards of corporate governance and in this regard the directors collectively and individually execute their duties and responsibilities in accordance with standards of behaviour required by relevant regulation and legislation, the Company's Memorandum of Incorporation (MoI).

*Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.*

The Company's Board of Directors (the "Board") is the focal point of the Company's corporate governance. There is no Board Charter as the detailed MOI and provides and include guidance on the governance of the entity and the duties and responsibilities of the Board.

*Principle 7: 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.*

Directors are appointed with due regard to relevant legislation, the constitution of the Company and the skills and expertise and industry knowledge required to enable the board to function effectively.

*Principle 4: 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 Board (i) approves the Company's strategic objectives and business plans, (ii) and monitors management's implementation of the strategy and plans according to the approved risk appetite, the available opportunities, and the macro and regulatory environment.

*Principle 9: 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 effectiveness of the Board and performance of individual directors and the Chairman will be assessed during the 2019 financial year, against set criteria. This will be done once every two years.

**Independent advice**

A director or any member of a board committee may, if necessary, take independent professional advice at the expense of the Company.

**Company secretary**

All directors have access to the advice and services of the company secretary, who provides guidance to the board as a whole and to individual directors with regard to how their responsibilities should be discharged in the best interest of the Company.

**Audit committee**

The board has concluded that the audit committee has satisfied its responsibilities as per the approved terms of reference.

**Remuneration policy**

The Company is a ring-fenced special purpose vehicle. All its services are outsourced to external service providers and the Company has no employees. Therefore it is not necessary for the Board to appoint a CEO and it is not necessary for the Company to have a remuneration committee.

The executive director of the Company is a full time employee of Absa Bank Limited and therefore earns no directors' fees for their services as director.

The Company's directors' fees were paid to TMF Corporate Services (South Africa) Proprietary Limited for director services provided to the company. The company had three directors who are employees of, and remunerated by, TMF Corporate Services (South Africa) Proprietary Limited on a separate basis. Absa Group Limited representative directors are not remunerated for their services by the Company, or any other company in the group.

**Risk management**

*Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.*

The Company aligns with the Absa Group Limited Risk Policy. Absa Corporate Investment Banking ("CIB"), a division of Absa Bank Limited administers the company and develops appropriate risk processes. CIB assists in assessing and reporting risk matters to the board.

**Fundamental and affected transactions**

The Company does not conduct business with entities in which its directors have an interest. Directors are requested to declare their directorships in other companies on a quarterly basis.

**IT governance**

*Principle 12: The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.*

Information Technology governance is performed in alignment with the Absa Group Limited IT Policy. Executive management is responsible for the day-to-day management of IT.

**Compliance**

*Principle 13: The governing body should govern compliance with 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 relies upon Absa Group Compliance to provide the function of a Compliance officer.

The administrator provides the function of a compliance officer. The administrator ensures that the entity complies with rules and regulations.

**Reporting and assurance:**

*Principle 5: 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.*

*Principle 15: 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 Company’s primary report is the annual financial statements in which the Company’s business activities and financial position is recorded.

The Board oversees the preparation of the annual financial statements and ensures that the state of affairs of the Company and its financial wellbeing are fairly presented through application of appropriate assurance processes supported by an effective control environment. The Audit Committee assists the board in overseeing assurance services and the effectiveness of the control environment in order to ensure the objectivity and integrity of the financial statements. The Board is ultimately responsible for the integrity of the report and approves the financial statements.

**Members of the Audit Committee and independent non-executive directors**

| | Appointment date |
|---|---|
| R Thanthony | 27 February 2015 |
| ML De Nysschen | 01 December 2018 |
| JN Wheeler | 01 December 2018 |

**Meetings held by the Audit Committee**

The audit committee performed the duties laid upon it by Section 94(7) of the Companies Act 71 of 2008 as amended by holding meetings with the key role players and by the unrestricted access granted to the external auditors. The committee held meetings on 20 April 2018, 13 November 2018 and 24 April 2019 during which it fulfilled its responsibilities in terms the audit committee charter, in order to be able to recommend approval of the Company's financial statements to the Board.

**Expertise and experience of finance function**

Absa Secretarial Services Proprietary Limited, as Company Secretary provides ongoing Company Secretarial administration to iMpumelelo CP Note Programme 1 (RF) Limited. Absa Bank Limited, acting through its Corporate and Investment Banking Division ("CIB") is the administrator of the Issuer. The committee satisfied itself that the composition, experience and skills set of the finance function met the Company's requirements.

**Independence of external auditors**

The committee satisfied itself through enquiry that the external auditors are independent as defined by the Companies Act 71 of 2008 as amended and as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided in terms of the Companies Act 71 of 2008 as amended that internal governance processes within the firm support and demonstrate the claim to independence. The audit fee for the external audit has been considered and approved taking into consideration such factors as the timing of the audit, the extent of the work required and the scope.

**Discharge of responsibilities and Audited Annual Financial Statements**

Following the review by the committee of the audited annual financial statements of the Company for the year ended 31 December 2018 and based on the information provided to it, the committee considers that, in all material respects, the Company complies with the provisions of the Companies Act No 71 of 2008, as amended, International Financial Reporting Standards, and that the accounting policies applied are appropriate. Following the review of the audited annual financial statements, the committee recommended the Company's 2018 audited annual financial statements for approval to the Board on 29 April 2019. The committee further concurred with the Board and management that the adoption of the going-concern status in preparation of the annual audited financial statements is appropriate.

On behalf of the audit committee:

**R Thanthony**
**Chairperson: Audit Committee**
**29 April 2019**

EY
Building a better working world

EY
102 Rivonia Road
Sandton
Private Bag X14
Sandton
2146

Ernst & Young Incorporated
Co. Reg. No. 2005/002308/21
Tel +27 (0) 11 772 3000
Fax +27 (0) 11 772 4000
Docex 123 Randburg
ey.com

## Independent Auditor's Report to the Shareholders of Impumelelo CP Note Programme 1 (RF) Limited

### Report on the Audit of Annual Financial Statements

*Opinion*

We have audited the financial statements of Impumelelo CP Note Programme 1 (RF) Limited, set out on pages 12 to 48, which comprise the statement of financial position as at 31 December 2018, and the statement of 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 Impumelelo CP Note Programme 1 (RF) Limited, as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the 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), the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA code) and other independence requirements applicable to performing the audit of Impumelelo CP Note Programme 1 (RF) Limited. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IESBA Code, and in accordance with other ethical requirements applicable to performing the audit Impumelelo CP Note Programme 1 (RF) Limited. 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 judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

*Other Information*

The directors are responsible for the other information. The other information comprises of the Directors' responsibilities and approval, Company secretary's certificate, Corporate Governance statement, Audit committee report and the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, 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.

*Directors' Responsibilities 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 judgment 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

*Report on other Legal and Regulatory Requirements*

In terms of the IRBA Rule published in the Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the auditor of Impumelelo CP Note Programme 1 (RF) Limited for 1 year.

Ernst & Young Inc

Ernst & Young Inc.
Partner – Janneman Labuschagne
Registered Auditor
Chartered Accountant (SA)
30 April 2019

| | | | |
|---|---|---|---|
| **Company registration number** | 2013/211998/06 | | |
| **Country of incorporation and domicile** | South Africa | | |
| **Date of publication** | 29 April 2019 | | |
| **Nature of business and principal activities** | A special purpose company that issues commercial paper to finance the acquisition of assets. The ongoing accounting, risk management and professional administration are performed by Absa Bank Limited. | | |
| **Directors** | **Name** | **Appointment date** | **Resignation date** |
| | ***Independent non-executive directors*** | | |
| | B Korb | 31 January 2017 | 01 December 2018 |
| | R Thanthony | 27 February 2015 | |
| | O Shabangu | 31 January 2017 | 01 December 2018 |
| | O Ferreira (Alternate) | 31 January 2017 | |
| | ML De Nysschen | 01 August 2018 | |
| | JN Wheeler | 01 December 2018 | |
| | ***Executive directors*** | | |
| | JR Burnett | 01 January 2017 | |
| **Registered office** | 3rd Floor<br>200 Main<br>Corner Main and Bowwood Roads<br>Claremont<br>7708 | | |
| **Holding company** | iMpumelelo Owner Trust | | |
| **Ultimate holding company** | iMpumelelo Owner Trust<br>Absa Bank Limited holds 72% (2017: 100%) of the notes issued on behalf of the Company under the Dealer Arrangement Agreement and hence control the Company. The Company is consolidated into Absa Bank Limited. | | |
| **Bankers** | Absa Bank Limited | | |
| **Auditors** | Ernst & Young Inc.<br>102 Rivonia Road<br>Sandton<br>2196<br><br>KPMG Inc. has held office in accordance with Section 85(3) of the Companies Act of South Africa for the financial year ended 31 December 2017. Ernst & Young Inc. has held office in accordance with Section 85(3) of the Companies Act of South Africa for the financial year ended 31 December 2018. Ernst & Young Inc. assumed the role as independent auditor of the Company effective from 1 July 2018, which is the date Absa Group Limited (the ultimate holding company) resigned KPMG as their auditors. | | |
| **Supervised by** | These annual financial statements are prepared under the direction and supervision of the Head of Asset Classes Product Control, Corporate and Investment Banking, Absa Group Limited, Jan Luus, CA(SA). | | |

**Company secretary** — Absa Secretarial Services Proprietary Limited

**Review of financial results** — The financial results of the Company are set out in the attached financial statements. The results do not, in the opinion of the directors, require further explanation.

| Key performance indicators | **2018** **R** | 2017 R |
|---|---|---|
| Profit for the year | **32 981 121** | 24 447 452 |
| Total comprehensive income | **33 171 684** | 24 447 452 |
| Taxation | **(12 825 992)** | (9 507 342) |
| Dividends declared and paid | **-** | - |
| Net assets | **84 778 593** | 52 454 313 |
| Net current liabilities | **(4 187 680 783)** | (2 807 222 202) |

**Authorised and issued share capital** — There were no changes to the authorised or issued share capital for the year under review. The share capital is disclosed in note 16.

**Events after the reporting date** — Events material to the understanding of these annual financial statements that occurred between the financial year end and the date of this report have been disclosed in note 27.

**Going concern** — The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.

**Special resolution** — No special resolutions were passed during the year.

**IMPUMELELO CP NOTE PROGRAMME 1 (RF) LTD**
**(Registration number: 2013/211998/06)**
**STATEMENT OF COMPREHENSIVE INCOME**
***for the year ended 31 December 2018***

| | Notes | 2018<br>R | 2017<br>R |
|---|---|---|---|
| **Profit and loss** | | | |
| Investment income | 5 | **363 439 861** | 274 675 110 |
| Administration expenses | 7 | **(434 102)** | (325 960) |
| Other expenses | 7 | **(2 736 272)** | (3 225 271) |
| Finance costs | 6 | **(313 143 094)** | (237 900 065) |
| Fair value adjustments | | **448 768** | 730 980 |
| Expected credit loss | 7 | **(1 768 048)** | - |
| Profit before tax | | **45 807 113** | 33 954 794 |
| Income tax | 8 | **(12 825 992)** | (9 507 342) |
| **Profit for the year** | | **32 981 121** | 24 447 452 |
| **Other comprehensive income (OCI) for the year items which may be reclassified to profit and loss:** | | | |
| **Movement in Fair Value of Debt Instruments measured at FVOCI** | | | |
| Fair Value gains arising during the reporting period | | **190 563** | **-** |
| **Other comprehensive income for the year, net of tax** | | **190 563** | **-** |
| **Total comprehensive income for the year, net of tax** | | **33 171 684** | 24 447 452 |

**IMPUMELELO CP NOTE PROGRAMME 1 (RF) LTD**
**(Registration number: 2013/211998/06)**
**STATEMENT OF FINANCIAL POSITION**
***As at 31 December 2018***

| | Notes | 2018<br>R | Restated<br>2017<br>R |
|---|---|---|---|
| **Assets** | | | |
| *Non-current assets* | | | |
| Investments securities | 10 | **2 127 373 012** | 1 106 571 458 |
| Loans and advances | 11 | **2 144 261 765** | 1 753 105 057 |
| Deferred tax assets | 13 | **824 599** | - |
| Total non-current assets | | **4 272 459 376** | 2 859 676 515 |
| *Current assets* | | | |
| Other receivables | 12 | **357 437** | 32 111 249 |
| Loans and advances | 11 | **1 131 032 028** | 300 000 000 |
| Other financial assets | 22.1 | **-** | 3 823 484 |
| Cash and cash equivalents | 19 | **97 069 069** | 36 672 724 |
| Total current assets | | **1 228 458 534** | 372 607 457 |
| **Total assets** | | **5 500 917 910** | 3 232 283 972 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| *Capital and reserves* | | | |
| Share capital | 18 | **10** | 10 |
| Preference share capital | 18 | **1** | 1 |
| Fair value reserves | | **190 563** | - |
| Retained income | | **84 588 019** | 52 454 302 |
| **Total equity** | | **84 778 593** | 52 454 313 |
| **Liabilities** | | | |
| *Current liabilities* | | | |
| Trade and other payables | 14 | **1 837 960** | 16 165 614 |
| Other financial liabilities | 22.1 | **586 694** | - |
| Current tax liabilities | | **389 561** | 164 047 |
| Debt securities in issue | 15 | **5 413 325 102** | 3 163 499 998 |
| Total current liabilities | | **5 416 139 317** | 3 179 829 659 |
| **Total liabilities** | | **5 416 139 317** | 3 179 829 659 |
| **Total equity and liabilities** | | **5 500 917 910** | 3 232 283 972 |

*Further information on the restatements can be found in Notes 10, 11 and 25.2.*

**IMPUMELELO CP NOTE PROGRAMME 1 (RF) LTD**
**(Registration number: 2013/211998/06)**
**STATEMENT OF CHANGES IN EQUITY**
***for the year ended 31 December 2018***

| | Share capital R | Preference share capital R | Fair value reserves R | Retained income R | Total equity R |
|---|---|---|---|---|---|
| Balance at 1 January 2017 | 10 | 1 | - | 28 006 850 | 28 006 861 |
| Total comprehensive income for the year | - | - | - | 24 447 452 | 24 447 452 |
| Balance at 31 December 2017 | 10 | 1 | - | 52 454 302 | 52 454 313 |
| Note | 16 | | | | |
| **Balance at 1 January 2018** | **10** | **1** | **-** | **52 454 302** | **52 454 313** |
| Increase/(decrease) resulting from adopting of IFRS9 | - | - | - | **(847 404)** | **(847 404)** |
| Restated balance at 1 January 2019 | **10** | **1** | **-** | **51 606 898** | **51 606 909** |
| Note | 4 | | | | |
| **Balance at 1 January 2019** | **10** | **1** | **-** | **51 606 898** | **51 606 909** |
| Profit for the year | - | - | - | **32 981 121** | **32 981 121** |
| Other comprehensive income for the year | - | - | **190 563** | - | **190 563** |
| **Total comprehensive income for the year** | **-** | **-** | **190 563** | **32 981 121** | **33 171 684** |
| **Balance at 31 December 2018** | **10** | **1** | **190 563** | **84 588 019** | **83 778 593** |
| Note | 16 | | | | |

| | Notes | 2018 R | Restated 2017 R |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated by/(used in) operations | 17 | **1 993 498** | (16 071 461) |
| Finance income received | 21 | **350 735 413** | 275 472 630 |
| Finance costs paid | 20 | **(277 950 573)** | (236 341 745) |
| Income taxes paid | 18 | **(13 095 531)** | (9 569 629) |
| **Net cash generated by operating activities** | | **61 682 807** | 13 489 795 |
| **Cash flows from investing activities** | | | |
| Payments to acquire financial assets | | **(2 200 972 612)** | (1 863 500 000) |
| Proceeds on sale of financial assets | | **-** | 2 121 000 000 |
| **Net cash (used in)/generated by investing activities** | | **(2 200 972 612)** | 257 500 000 |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of debt instruments | | **5 363 500 000** | 3 143 500 000 |
| Debt instruments settled | | **(3 163 500 000)** | (3 401 000 000) |
| **Net cash generated by/(used in) financing activities** | | **2 200 000 000** | (257 500 000) |
| **Net increase in cash and cash equivalents** | | **60 710 195** | 13 489 795 |
| Cash and cash equivalents at the beginning of the year | | **36 672 724** | 23 182 929 |
| **Cash and cash equivalents at the end of the year** | 19 | **97 382 919** | 36 672 724 |

*Cash used in operations and Finance income received has been restated to show the movement in Other financial assets. This resulted in a decrease in Cash used in operations of R3 823 484 and a corresponding increase in Finance income received.*

## 1. STATEMENT OF COMPLIANCE

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRS-IC) and the requirements of the Companies Act of South Africa, as amended.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

During the current year, the Company has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018. For details of the new and revised accounting policies refer to note 29.

### 2.1.1 OPERATING SEGMENTS

Impumelelo CP Note Programme 1 (RF) Limited issues various debt security notes which enables investors to invest in various debt instruments. The information regarding the results of the reportable segment is disclosed in the annual financial statements as currently set out. Management views the entire entity as one segment, thus no further disclosures are required in accordance with IFRS 8 Operating segments.

### 2.2 BASIS OF PREPARATION

Apart from certain items that are carried at fair valued amounts, as explained in the accounting policies below, the financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.

The financial statements are presented South African Rands (R), the presentation currency of the Company.

### 2.3 REVENUE RECOGNITION

***INVESTMENT INCOME***

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to that instrument's net carrying amount on initial recognition.

The Company also presents as part of investment income, albeit separate from effective interest income and effective interest expense, other interest income and other interest charges, which are not calculated on the effective interest method.

### 2.4 TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 TAXATION (continued)

***CURRENT TAXATION***

Income tax payable on taxable profits ("current taxation") is recognised as an expense in the reporting period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior reporting period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the reporting date

***DEFERRED TAXATION***

Deferred tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the reporting date, which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. 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.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

***CURRENT AND DEFERRED TAX***

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### 2.5 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments (IFRS 9) has been adopted by the Company on 1 January 2018, and replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). As permitted under IFRS 9, the Company has elected not to restate comparative periods on the basis that it is not possible to do so without the application of hindsight. The comparative financial information for the 2017 reporting period has therefore been prepared under the framework for financial instrument accounting within IAS 39. The following section sets out the accounting policies that were applied in the 2017 reporting period (2017), together with those that are applied under IFRS 9 (2018). Significant changes have been made to certain accounting policies, owing to the revised classification and measurement framework for financial instruments, as well as changes in the impairment scope and methodology. Where there have been changes in accounting policies, those applied in 2017 have been clearly distinguished from the current reporting period.

***INITIAL RECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES***

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are capitalised to the initial carrying amount of the financial asset/liability, as appropriate on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Company recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 FINANCIAL INSTRUMENTS (continued)

***INITIAL RECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)***

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets then the instrument should be recognised at the fair value derived from such observable market data.

For valuations that have made use of significant unobservable inputs, the difference between the model valuation and the initial transaction price (Day One profit) is recognised in profit or loss either on a straight-line basis over the term of the transaction, or over the reporting period until all model inputs will become observable where appropriate, or released in full when previously unobservable inputs become observable.

***CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (2018)***

On initial recognition, the Company classifies its financial assets into the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income; or
- Fair value through profit or loss;

The classification and subsequent measurement of financial assets depends on:

- The business model within which the financial assets are managed; and
- The contractual cash flow characteristics of the asset (that is, whether the cash flows represent solely payments of principal and interest).

**Business model assessment:**

The business model reflects how the Company manages the financial assets in order to generate cash flows and returns. The Company makes an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The factors considered in determining the business model include (i) how the financial assets' performance is evaluated and reported to management, (ii) how the risks within the portfolio are assessed and managed and (iii) the frequency, volume, timing for past sales,  sales expectations in future periods, and the reasons for such sales. The Company reclassifies debt instruments when, and only when, the business model for managing those assets changes. Such changes are highly unlikely and therefore expected to be very infrequent.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 FINANCIAL INSTRUMENTS (continued)

***CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (2018) (continued)***

***Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI):***

In making the assessment of whether the contractual cash flows have SPPI characteristics, the Company considers whether the cash flows are consistent with a basic lending arrangement. That is, the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, together with a profit margin. Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered to be SPPI and the assets would be mandatorily measured at fair value through profit or loss, as described below. In making the assessment, the Company considers, inter alia, contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements), and features that modify consideration of the time value of money (e.g. tenor mismatch). Contractual cash flows are assessed against the SPPI test in the currency in which the financial asset is denominated.

***Debt Instruments:***

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. The Company classifies its debt instruments as follows:

- Amortised cost - Financial assets are classified within this measurement category if they are held within a portfolio whose primary objective is the collection of contractual cash flows, where the contractual cash flows on the instrument are SPPI, and that are not designated at fair value through profit or loss. These financial assets are subsequently measured at amortised cost where interest is recognised as effective interest within Interest and similar income using the effective interest rate method. The carrying amount is adjusted by the cumulative expected credit losses recognised.

- Fair value through other comprehensive income - This classification applies to financial assets which meet the SPPI test, and are held within a portfolio whose objectives include both the collection of contractual cash flows and the selling of financial assets. These financial assets are subsequently measured at fair value with movements in the fair value recognised in other comprehensive income, with the exception of interest income, expected credit losses and foreign exchange gains and losses that are recognised within profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to Net trading income in profit or loss. Interest income from these financial assets is included as Effective interest within Interest and similar income using the effective interest rate method.

- Fair value through profit or loss - Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are mandatorily measured at fair value through profit or loss. Gains and losses on these instruments are recognised in Gains and losses from banking and trading activities in profit or loss. The company may also irrevocably designate financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income, as at fair value through profit or loss, if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise. These will be subsequently measured at fair value through profit or loss with gains and losses recognised as Gains and losses from banking and trading activities or Gains and losses from investment activities in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 FINANCIAL INSTRUMENTS (continued)

***CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (2018) (continued)***

***Financial Liabilities***

Most financial liabilities are held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the liability. Most financial liabilities are held at amortised cost, in accordance with the effective interest rate method.

Financial liabilities classified as held for trading are subsequently measured at fair value through profit or loss, with changes in fair value being recognised in profit or loss.

A financial liability may be designated at fair value through profit or loss if (i) measuring the instrument at fair value eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) if the instrument belongs to a group of financial assets or financial liabilities that are managed on a fair value basis, in accordance with a documented risk management or investment strategy. Own credit gains or losses arising from the valuation of financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income and are not subsequently recognised in profit or loss.

***EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS (2018)***

The Company uses a mixed approach to impairment where parameters are modelled at an individual financial instrument level or on a portfolio basis when they are only evident at this higher level. A collective approach will only be carried out when financial instruments share similar risk characteristics, which could include factors such as instrument type, collateral type, industry, geography and credit risk ratings.

The Company recognises expected credit losses based on unbiased forward-looking information. Expected credit losses are recognised on:

- financial assets at amortised cost
- debt instruments at fair value through other comprehensive income
- loan commitments not measured at fair value
- financial guarantee contracts not measured at fair value

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 FINANCIAL INSTRUMENTS (continued)

***EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS (2018) (continued)***

Impairment is recognised based on a three-stage approach:

Stage 1: Exposures where there has not been a significant increase in credit risk since origination. For these exposures an expected credit loss is recognised based on the credit losses expected to result from default events that are possible within 12 months of the reporting date. Interest income is calculated based on the gross carrying value of these instruments.

Stage 2: Exposures for which the credit risk has increased significantly since initial recognition. For these exposures lifetime expected credit losses should be recognised (i.e. credit losses from default events that are possible over the life of the instrument). The Company will assess whether a significant increase in credit risk has occurred based on (i) qualitative drivers including being marked as high risk or reflected on management's watch list; and (ii) quantitative drivers such as the change in the asset's cumulative weighted average lifetime probability of default (PD). Any exposure that is more than 30 days past due will also be included in this stage. Interest income is calculated based on the gross carrying value of these instruments.

Stage 3: Exposures which are credit impaired. For these exposures, expected credit losses are based on lifetime losses. Assets are considered to be credit impaired when they meet the regulatory definition of default which includes unlikeliness to pay indicators as well as any assets that are more than 90 days past due. Interest income is calculated based on the carrying value net of the loss allowance.

Lifetime expected credit losses will no longer be recognised when there is evidence that the criteria are no longer met. This could include a history of timely payment performance. The low credit risk exemption in IFRS 9 has not been adopted by the Company.

The measurement of expected credit losses must reflect:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money (represented by the effective interest rate); and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 FINANCIAL INSTRUMENTS (continued)

***EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS (2018) (continued)***

Expected credit losses comprise the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. Expected credit losses are calculated (for both 12 months and lifetime losses) as a function of the exposure at default (EAD); PD and loss given default (LGD). These terms are interpreted as follows per the requirements of IFRS 9:

- EAD is the estimated amount at risk in the event of a default (before any recoveries) including behavioural expectation of limit usage by customers in the various stages of credit risk.
- PD is the probability of default at a particular point in time, which may be calculated, based on the defaults that are possible to occur within the next 12 months; or over the remaining life; depending on the stage allocation of the exposure.
- LGD is the difference between the contractual cash flows due and the cash flows expected to be received, discounted to the reporting date at the effective interest rate. The expectation of cash flows take into account cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The estimate reflects the amount and timing of cash flows expected from the enforcement of collateral less the costs of obtaining and selling the collateral. The collection of any cash flows expected beyond the contractual maturity of the contract is also included.

**Lifetime of financial instruments**

For exposures in stage 2 and stage 3, the maximum lifetime over which expected credit losses should be measured, is the maximum contractual period over which the Company is exposed to credit risk. The Company estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. In rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the Company use the remaining contractual term of the financial instrument.

Certain credit exposures include both a drawn and an undrawn component and the Company's contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to the contractual notice period. In this case, expected credit losses are measured over the period that the Company is exposed to credit risk, even if that period extends beyond the maximum contractual period. Within the Company, this applies to overdrafts, credit cards and other revolving products. These contracts are cancellable at very short notice and they have no fixed term but credit may continue to be extended for a longer period and may only be withdrawn after the credit risk of the borrower increases, which could be too late to prevent losses. For these types of products the expected life is based on the behavioural life, i.e. the period over which there is exposure to credit risk which is not expected to be mitigated by credit actions (e.g. limit decreases) even though the contract permits immediate limit decrease.

**Forward looking information**

Forward-looking information is factored into the measurement of expected losses through the use of multiple expected macro-economic scenarios that are either reflected in estimates of PD and LGD for material portfolios; or adjusted through expert credit judgement where the effects could not be statistically modelled.

**Write -off**

Loans and debt securities are written off when there is no realistic prospect of recovery.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 FINANCIAL INSTRUMENTS (continued)

***CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (2017)***

**FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade or settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial liabilities are either measured at amortised cost or classified as at fair value through profit or loss, which may occur when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

***AVAILABLE-FOR-SALE (AFS) FINANCIAL ASSETS***

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables or financial assets at fair value through profit or loss.

AFS financial assets include both debt and equity instruments and are stated at fair value at the end of each reporting period.

Subsequent changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

***LOANS AND RECEIVABLES***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 FINANCIAL INSTRUMENTS (continued)

***CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (2017) (continued)***

**FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

***FINANCIAL LIABILITIES***

Most financial liabilities are held at amortised cost. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the liability.

***IMPAIRMENT OF FINANCIAL ASSETS (2017)***

*Amortised cost instruments*

Impairment on financial assets measured at amortised cost is recognised in accordance with IAS 39, the Company assesses at each reporting date whether there is objective evidence that financial assets at amortised cost will not be recovered in full and, wherever necessary, recognises an impairment loss in profit or loss. An impairment loss is recognised if there is objective evidence of impairment as a result of events that have occurred and these have adversely impacted the estimated future cash flows from the assets.

Objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset, at the date the impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

Following impairment, interest income continues to be recognised at the original effective interest rate on the restated carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans.

Uncollectable loans are written off against the related allowance for loan impairment on completion of the Company's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 FINANCIAL INSTRUMENTS (continued)

***CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (2017) (continued)***

**FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

***IMPAIRMENT OF FINANCIAL ASSETS (2017) (continued)***

*Available-for-sale debt instruments*

Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument that has previously been recognised in other comprehensive income is removed from other comprehensive income and recognised in profit or loss. This may be reversed through the profit or loss, if there is evidence that the circumstances of the issuer have improved.

*Available-for-sale equity instruments*

Where there has been a prolonged or significant decline in the fair value of an equity instrument below its acquisition cost, it is deemed to be impaired. The cumulative net loss that has been previously recognised directly in other comprehensive income is removed from other comprehensive income and recognised in profit or loss. Further declines in the fair value of equity instruments after impairment are recognised in profit or loss. Reversals of impairment of equity instruments are not recognised in profit or loss. Increases in the fair value of equity instruments after impairment are recognised directly in other comprehensive income.

***DERECOGNITION OF FINANCIAL INSTRUMENTS***

*Derecognition of financial assets*

Full derecognition only occurs when the rights to receive cash flows from the asset have been discharged, cancelled or have expired, or the Company transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Company may retain an interest in it (continuing involvement) requiring the Company to repurchase it in certain circumstances for other than its fair value on that date.

*Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

On derecognition of a financial instrument, any difference between the carrying amount thereof and the consideration received is recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 FINANCIAL INSTRUMENTS (continued)

### 2.5.1 EQUITY INSTRUMENTS

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

***ORDINARY SHARE CAPITAL***

Proceeds are included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when declared by the board.

***PREFERENCE SHARE CAPITAL***

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity. Preference share capital is classified as a liability if it is redeemable on a specific future date or at the option of the shareholders. Dividends thereon are recognised as an interest expense in profit or loss.

### 2.5.2 OFFSETTING

In accordance with IAS 32 Financial Instruments: Presentation, the Company reports financial assets and financial liabilities on a net basis on the statement of financial position only if there is a current legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 2.6 CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less.

## 3. JUDGEMENTS AND ESTIMATES

In the preparation of the annual financial statements, management is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates, which may be material to the financial statements within the next financial period.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The main assumptions and estimates which management considers when applying a model with valuation techniques are:

• The likelihood and expected timing of future cash flows on the instruments. These cash flows are usually governed by terms of the instrument, although management judgement may be required when the ability of the counterparty to services the instrument in accordance with the contractual terms in doubt. Future cash flows may be sensitive to change in market rates.

• Selecting an appropriate discount rate for the instrument. Management bases the determination of this rate on its assessment of what a market participant would regard as the appropriate spread of the rates for the instrument over the appropriate risk-free rate.

• Judgement to determine what model to use to calculate fair value in areas where the choice of valuation model particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair value resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm’s length transaction would occur under normal business condition. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the unobservable inputs are significant.

Expected credits losses must be recognised at each reporting date to reflect changes in the credit risk of financial assets. The approach applied is forward-looking and requires the company to base its measurement of expected credit losses on reasonable and supportable information that includes historical, current and forecast information.

Management’s judgement is applied in model assumptions estimating future probability of default, exposure at default and loss given default at various stages of impairment.

## 4 IFRS 9 TRANSITION NOTE

### 4.1 CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

The following table shows the original classification in accordance with IAS39 and the new measurement categories under IFRS9 together with the impact of changes in measurement, for Company's financial assets as at 1 January 2018.

| | IAS 39 carrying amount as at 31 December 2017 | Re-measurement - due to adoption of IFRS 9 impairment model | IFRS 9 carrying amount as at 1 January 2018 | IFRS 9 measurement categories |
|---|---|---|---|---|
| | R | R | R | R |
| **Financial Assets - IAS 39 classification** | | | | |
| | | | | **Amortised cost** |
| Loans and receivables | 2 085 216 306 | (1 176 949) | 2 084 039 357 | 2 084 039 357 |
| | | | | **FVPL** |
| Fair value through profit and loss | 3 823 484 | - | 3 823 484 | 3 823 484 |
| | | | | **FVOCI** |
| Available for sale | 1 106 571 458 | - | 1 106 571 458 | 1 106 571 458 |
| | **3 195 611 248** | **(1 176 949)** | **3 194 434 299** | **3 194 434 299** |

In 2017 accrued interest on bonds and loans and debt securities in issue was disaggregated and presented separately under other receivables. On the adoption of IFRS 9 this has been included with the instruments to which they relate.

### 4.2 RECONCILIATION OF LOSS ALLOWANCES

The following table reconciles the impairment allowance as at 31 December 2017 to the opening expected credit loss allowance, as at 1 January 2018 determined in accordance with IFRS 9.

| | Re-measurement of loss allowance | Expected credit losses as at 1 January 2018 |
|---|---|---|
| | R | R |
| **IAS 39 measurement categories** | | |
| Loans and receivables | 1 176 949 | 1 176 949 |
| **Total On statement of financial position** | **1 176 949** | **1 176 949** |

| | 2018 | 2017 |
|---|---|---|
| | R | R |

## 5. INVESTMENT INCOME

| | 2018 | 2017 |
|---|---|---|
| **Interest income** | | |
| Cash and cash equivalents | **3 070 700** | 1 300 552 |
| Bonds and loans | **360 369 161** | 273 374 558 |
| | **363 439 861** | 274 675 110 |

| | | 2018 R | 2017 R |
|---|---|---|---|
| **6.** | **FINANCE COSTS** | | |
| | **Interest expense** | | |
| | Interest on notes issued | **313 143 094** | 237 900 065 |
| | | **313 143 094** | 237 900 065 |
| **7.** | **PROFIT FOR THE YEAR** | | |
| | Profit for the year is stated after taking account of the following items: | | |
| **7.1** | **Expected credit losses** | | |
| | **Financial assets** | | |
| | Impairment loss recognised on cash and cash equivalents | | |
| | Stage 1 | **313 850** | - |
| | | **313 850** | - |
| | Impairment loss recognised on FVOCI | | |
| | Stage1 | **1 163 175** | - |
| | | **1 163 175** | - |
| | Impairment loss on loans and advances | | |
| | Stage1 | **291 023** | - |
| | | **291 023** | - |
| | Total expected credit loss on financial assets | **1 768 048** | - |
| **7.2** | **Auditors remuneration** | | |
| | Audit fees | **225 972** | 132 160 |
| | | **225 972** | 132 160 |
| **7.3** | **Directors remuneration** | | |
| | Directors fees | **208 130** | 193 800 |
| | | **208 130** | 193 800 |
| **7.4** | **Other** | | |
| | Management fees | **2 617 108** | 2 107 633 |
| | Other professional services | **154 132** | 245 100 |
| | Bank charges | **(34 968)** | 872 538 |
| | | **2 736 272** | 3 225 271 |
| **8** | **INCOME TAXES** | | |
| **8.1** | **INCOME TAX RECOGNISED IN PROFIT OR LOSS** | | |
| | **Current tax** | | |
| | Normal tax - current year | **(13 321 045)** | (9 507 342) |
| | | **(13 321 045)** | (9 507 342) |

| | 2018 R | 2017 R |
|---|---|---|

## 8 INCOME TAXES (continued)

### 8.1 INCOME TAX RECOGNISED IN PROFIT OR LOSS (continued)

| | 2018 R | 2017 R |
|---|---|---|
| **Deferred tax** | | |
| Deferred tax recognised in the current year | **495 053** | - |
| | **495 053** | - |
| | | |
| Total income tax recognised in the current year | **(12 825 992)** | (9 507 342) |
| | | |
| **Tax rate reconciliation** | | |
| Statutory tax rate | 28.00% | 28.00% |
| Effective income tax rate | 28.00% | 28.00% |
| | | |
| **Reconciliation between operating profit and tax expense** | | |
| (Profit)/Loss before tax for the year | **(45 807 113)** | (33 954 794) |
| Income tax expense calculated at 28% (2017: 28%) | **(12 825 992)** | (9 507 342) |
| Income tax expense recognised in profit or loss | **(12 825 992)** | (9 507 342) |

## 9. CREDIT RISK RECONCILIATION - EXPECTED CREDIT LOSS ALLOWANCE

| | Balances at the beginning of the reporting period R | Expected credit losses allocation R | Total R |
|---|---|---|---|
| **2018** | | | |
| **Cash and cash equivalent** | | | |
| Stage 1 | - | **313 850** | **313 850** |
| Total expected credit losses | - | **313 850** | **313 850** |
| **Loans and Advances** | | | |
| Stage 1 | **1 176 949** | **291 023** | **1 467 972** |
| Total expected credit losses | **1 176 949** | **291 023** | **1 467 972** |
| **FVOCI** | | | |
| Stage 1 | - | **1 163 175** | **1 163 175** |
| Total expected credit losses | - | **1 163 175** | **1 163 175** |

## 10. INVESTMENT SECURITIES

| | 2018 R | 2017 R |
|---|---|---|
| Balance at the beginning of the period | **1 106 571 458** | - |
| Accrued interest and fair value adjustment | **27 373 012** | 6 571 458 |
| Additions | **993 428 542** | 1 100 000 000 |
| Balance at the end of the period | **2 127 373 012** | 1 106 571 458 |

During 2017, investment securities of R 1 106 571 458 were classified as loans and advances. These amounts have been restated to give a true and fair reflection.

| | 2018<br>R | 2017<br>R |
|---|---|---|

## 11. LOANS AND ADVANCES

| | | |
|---|---|---|
| Investments in loans | **3 263 500 000** | 2 053 105 057 |
| Accrued interest on loans | **13 261 765** | - |
| Expected credit losses | **(1 467 972)** | - |
| Total carrying amount of loans and advances | **3 275 293 793** | 2 053 105 057 |

| | | |
|---|---|---|
| **Maturity of loans and advances** | | |
| Current | **1 131 032 028** | 300 000 000 |
| Non-current | **2 144 261 765** | 1 753 105 057 |
| | **3 275 293 793** | 2 053 105 057 |

Loans and advances consist of loans with the face values and related interest at floating rates referencing either Prime or Jibar. The average interest rate for the unlisted bonds and loans during the current reporting period was 8.85% (2017: 8.57%).

All the company's rights and interests to these balances are pledged to iMpumelelo Security SPV 1 (RF) Proprietary Limited. Refer to note 15.

During 2017, investment securities of R 1 106 571 458 were classified as loans and advances. These amounts have been restated to give a true and fair reflection.

## 12. OTHER RECEIVABLES

| | | |
|---|---|---|
| **Other receivables** | | |
| Accrued interest on bonds and loans | **-** | 31 841 017 |
| Amounts due from related parties | **357 437** | 270 232 |
| | **357 437** | 32 111 249 |

| | | |
|---|---|---|
| Current | **357 437** | 32 111 249 |
| | **357 437** | 32 111 249 |

Accrued interest is presented with Debt securities in issue balance as discussed in note 4.1.

## 13. DEFERRED TAX

### Deferred tax balances

The net deferred tax asset at the end of the year is as follows:

| | | |
|---|---|---|
| Deferred tax assets | **824 599** | - |

Deferred tax assets and liabilities are attributable to the following:

| | Balance at 1 January<br>R | Recognised in profit or loss | Balance at 31 December<br>R |
|---|---|---|---|
| **2018** | | | |
| Expected credit losses | **329 546** | **495 053** | **824 599** |
| | **329 546** | **495 053** | **824 599** |

| | 2018 R | 2017 R |
|---|---|---|

## 14. TRADE AND OTHER PAYABLES

| | 2018 R | 2017 R |
|---|---|---|
| Trade payables | **1 263 439** | 332 401 |
| Accrued interest on debt securities in issue | **-** | 14 632 580 |
| Amounts due to related parties (note 26) | **574 521** | 1 200 633 |
| | **1 837 960** | 16 165 614 |

Accrued interest is presented with Debt securities in issue balance as discussed in note 4.1.

## 15. DEBT SECURITIES IN ISSUE

Notes issued consist of unlisted notes bearing floating interest rates referencing to either Prime or JIBAR.

The average interest rate for the unlisted notes for the current year under review was 8.02% (2017: 7.58%).

| | 2018 R | 2017 R |
|---|---|---|
| Debt securities in issue | **5 413 325 102** | 3 163 499 998 |
| Accrued interest on debt securities in issue | **49 825 102** | - |
| | **5 413 325 102** | 3 163 499 998 |

In terms of the Security SPV guarantee, iMpumelelo Security SPV 1 (RF) Ltd holds and can realise security for the benefits of the noteholders in the event of a default. In brief, the security consists of the Company's rights, title and interests in and to the bank accounts and permitted investments, the collateral and all other benefits and rights flowing from the aforementioned rights and interests.

## 16. SHARE CAPITAL

**Authorised share capital**

| | 2018 R | 2017 R |
|---|---|---|
| 100 (2017: 100) ordinary shares of no par value per share. | **100** | 100 |

**Preference share capital**

| | 2018 R | 2017 R |
|---|---|---|
| 50 (2017: 50) cumulative redeemable preference shares of no par value | **50** | 50 |

**Issued share capital**

| | 2018 R | 2017 R |
|---|---|---|
| 10 (2017: 10) ordinary shares of no par value per share. | **10** | 10 |
| | **10** | 10 |

**Issued preference share capital**

| | 2018 R | 2017 R |
|---|---|---|
| 1 (2017: 1) cumulative redeemable preference shares of no par value | **1** | 1 |
| | **1** | 1 |

## 16. SHARE CAPITAL (continued)

**Unissued shares**

The unissued shares are under the control of the directors as at the reporting date, in terms of a general authority to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming annual general meeting of the Company.

**Shares issued during the current reporting period**

There were no shares issued during the current reporting period.

**Shares issued during the prior reporting period**

All shares issued by the Company were paid in full.

## 17. CASH GENERATED BY/(USED IN) OPERATIONS

| | 2018<br>R | 2017<br>R |
|---|---|---|
| Profit before tax for the year | **45 807 113** | 33 954 794 |
| **Adjustments for:** | | |
| Finance costs | **313 143 094** | 237 900 066 |
| Finance income | **(363 439 861)** | (274 675 110) |
| Expected credit losses/Impairments (see note 7) | **1 768 048** | - |
| Cash used in operations before working capital changes | **(2 721 606)** | (2 820 250) |
| **Changes in working capital** | | |
| Increase in trade and other payables | **304 926** | (1 212 533) |
| Increase/(decrease) in derivative liabilities | **4 410 178** | (12 038 678) |
| Total changes in working capital | **4 715 104** | (13 251 211) |
| Cash generated by/(used in) operations | **1 993 498** | (16 071 461) |

## 18. TAXATION PAID

| | 2018<br>R | 2017<br>R |
|---|---|---|
| Tax payable at the beginning of the year | **(164 047)** | (226 334) |
| Current tax expense | **(13 321 045)** | (9 507 342) |
| Tax payable at the end of the year | **389 561** | 164 047 |
| | **(13 095 531)** | (9 569 629) |

## 19. CASH AND CASH EQUIVALENTS

| | 2018<br>R | 2017<br>R |
|---|---|---|
| Call account | **95 699 688** | 36 672 924 |
| Transaction account | **1 683 231** | (200) |
| Gross Cash and cash equivalents | **97 382 919** | 36 672 724 |
| Expected credit losses | **(313 850)** | - |
| Total carrying amount of cash and cash equivalents | **97 069 069** | 36 672 724 |

| | | 2018 R | 2017 R |
|---|---|---|---|
| **20.** | **FINANCE COSTS PAID** | | |
| | Finance costs | **(313 143 094)** | (237 900 065) |
| | Accrued interest not paid at the beginning of the year | **(14 632 580)** | (13 074 260) |
| | Accrued interest not paid at the end of the year | **49 825 101** | 14 632 580 |
| | | **(277 950 573)** | (236 341 745) |
| **21.** | **FINANCE INCOME RECEIVED** | | |
| | Interest received | **363 439 861** | 274 675 110 |
| | Accrued interest not received at the beginning of the year | **28 287 764** | 29 085 284 |
| | Accrued interest not received at the end of the year | **(40 992 212)** | (28 287 764) |
| | | **350 735 413** | 275 472 630 |

## 22. FINANCIAL INSTRUMENTS

### 22.1. CATEGORIES OF FINANCIAL INSTRUMENTS

| | Fair Value through OCI - Debt instruments R | Amortised Cost - Debt instruments R | Amortised cost financial liabilities R | Total Assets and Liabilities R |
|---|---|---|---|---|
| **Assets as per Statement of Financial Position - 2018** | | | | |
| Loans and advances | - | **3 275 293 793** | - | **3 275 293 793** |
| Cash and cash equivalents | - | **97 069 069** | - | **97 069 069** |
| Investment securities | **2 127 373 012** | - | - | **2 127 373 012** |
| Trade and other receivables | - | **357 437** | - | **357 437** |
| Total | **2 127 373 012** | **3 372 720 299** | - | **5 500 093 311** |
| **Liabilities as per Statement of Financial Position - 2018** | | | | |
| Other financial liabilities | - | - | **586 694** | **586 694** |
| Debt securities in issue | - | - | **5 413 325 102** | **5 413 325 102** |
| Trade and other payables | - | - | **1 837 960** | **1 837 960** |
| Total | - | - | **5 415 749 756** | **5 415 749 756** |

| | Loans and receivables R | Available-for-sale financial assets R | Financial liabilities carried at amortised cost R | Total R |
|---|---|---|---|---|

## 22. FINANCIAL INSTRUMENTS (continued)

**Assets as per Statement of Financial Position - 2017**

| | Loans and receivables R | Available-for-sale financial assets R | Financial liabilities carried at amortised cost R | Total R |
|---|---|---|---|---|
| Loans and advances | 2 053 105 057 | - | - | 2 053 105 057 |
| Cash and cash equivalents | 36 672 724 | - | - | 36 672 724 |
| Other financial assets | 3 823 484 | - | - | 3 823 484 |
| Investment securities | - | 1 106 571 458 | - | 1 106 571 458 |
| Trade and other receivables | 32 111 249 | - | - | 32 111 249 |
| Total | 2 125 712 514 | 1 106 571 458 | - | 3 232 283 972 |

**Liabilities as per Statement of Financial Position - 2017**

| | Loans and receivables R | Available-for-sale financial assets R | Financial liabilities carried at amortised cost R | Total R |
|---|---|---|---|---|
| Trade and other payables | - | - | 16 165 614 | 16 165 614 |
| Debt securities in issue | - | - | 3 163 499 998 | 3 163 499 998 |
| Total | - | - | 3 179 665 612 | 3 179 665 612 |

## 23. RISK MANAGEMENT

### 23.1 CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. There are no externally imposed capital requirements on the Company.

### 23.2 FINANCIAL RISK MANAGEMENT OBJECTIVES

The Company’s business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Company’s risk management are to identify all key risks for the Company, measure these risks, manage the risk positions and determine capital allocations. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Company’s aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company’s financial performance. The Company defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The risks arising from financial instruments to which the Company is exposed are credit risk, market risk and liquidity risk.

### 23.3 MARKET RISK

Market risk is the risk of reduction in the Company's earnings or capital due to:

• Traded market risk: the risk of the Company being impacted by changes in the level or volatility of market rates or prices. This includes changes in interest rates, inflation rates, credit spreads, property prices, equity and bond prices and foreign exchange levels.

## 23. RISK MANAGEMENT (continued)

### 23.3 MARKET RISK (continued)

• Non-traded market risk: the risk of the Company being exposed to interest rate risk arising from loans, deposits and similar instruments held for longer term strategic purposes rather than for the purpose of profiting from changes in interest rates.

The Company's market risk management objectives include the protection and enhancement of the statement of financial position and statement of comprehensive income and facilitating business growth within a controlled and transparent risk management framework .

Given that the assets are match funded, the company has limited exposure to market risk.

### 23.4 INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The notes and bonds expose the company to interest rate risk. This exposure and the effective interest rates on financial instruments on financial position date are linked to the general market interest rates and fluctuate accordingly.

The sensitivity analyses below have been determined based on the exposure to interest rates for the non-derivative instruments at the end of the reporting period. For both floating rate assets and liabilities, the analysis is prepared assuming the amount of the asset and liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

**Interest rate sensitivity analysis**

| | **Increase in interest rate 2018 R** | **Decrease in interest rates 2018 R** | Increase in interest rate 2017 R | Decrease in interest rates 2017 R |
|---|---|---|---|---|
| **Changes in interest** | | | | |
| Increase/(decrease) in interest received | **36 343 986** | **(36 343 986)** | 32 001 727 | (32 001 727) |
| Increase/(decrease) in interest paid | **(31 314 309)** | **31 314 309** | (31 635 000) | 31 635 000 |
| Increase/(decrease) in profit before taxation | **5 029 677** | **5 029 677** | 366 727 | (366 727) |

## 23. RISK MANAGEMENT (continued)

### 23.5 CREDIT RISK - 2018

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

#### 23.5.1. MAXIMUM CREDIT RISK EXPOSURE

| | **Gross Maximum Exposure** | **12 months expected credit losses - stage 1** |
|---|---|---|
| | **R** | **R** |
| **2018** | | |
| Cash and cash equivalents | **97 382 919** | **97 382 919** |
| Loans and advances | **3 276 761 765** | **3 276 761 765** |
| Other receivables | **357 437** | **357 437** |
| FVOCI | **2 127 373 012** | **2 127 373 012** |
| **Total gross maximum exposure to credit risk** | **5 501 875 133** | **5 501 875 133** |
| Expected credit losses | **(1 781 822)** | **(1 781 822)** |
| **Total financial assets per the statement of financial position** | **5 500 093 311** | **5 500 093 311** |

## 23. RISK MANAGEMENT (continued)

## 23.5 CREDIT RISK (continued)

### 23.5.2. CREDIT RISK - 2017

Credit risk is the risk of suffering financial loss, should any of the Company's customers, clients or market counterparties fail to fulfil their contractual obligations to the Company. Credit risk arises mainly from investment securities and cash and cash equivalents.

The exposure is neither past due nor impaired. The credit quality of the financial assets that are neither past due nor impaired can be assessed by reference to external credit rating (if available) or past information about counterparty default rates.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company manages limits and controls concentration of credit risk wherever they are identified. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one client. Such risks are monitored on a revolving basis and when considered necessary.

The carrying amount of the financial assets represents that maximum credit exposure. The maximum exposure to credit risk at the reporting period represented below is the worst case scenario of credit risk exposure.

| | **2017**<br>**R** |
|---|---|
| **Maximum credit risk** | |
| Bonds and loans | 3 163 499 998 |
| Accrued interest on bonds and loans | 31 841 017 |
| Cash and cash equivalents | 36 672 724 |
| | 3 232 013 739 |

| | | **Nominal amounts** | |
|---|---|---|---|
| | **Rating** | **2018**<br>**R** | **2017**<br>**R** |
| Commercial property | n/a | **2 263 500 000** | 2 063 500 000 |
| Health | Aa3.za | **-** | 300 000 000 |
| Manufacturing | Aaa.za | **400 000 000** | 600 000 000 |
| Automotive | Aaa.za | **1 800 000 000** | 200 000 000 |
| Financial services | Aa1 | **900 000 000** | 68 783 972 |

The Company has a credit limit of R10 billion with Absa Bank Limited for the purchase of corporate bonds of which it has utilized R5.4 billion.

The Company issued various notes which are listed on the Johannesburg Stock Exchange (JSE) to investors. The notes constitute direct, secured, limited recourse obligations of the Company.

The notes were rated by GCR Ratings agency and they are a financial liability to pay cash and are accounted for at amortised cost.

## 23. RISK MANAGEMENT (continued)

### 23.6 LIQUIDITY RISK

Liquidity risk results from both the differences between the magnitude of assets and liabilities and the disproportion in their maturities. Liquidity risk is the risk that operations cannot be funded and financial commitments cannot be met timeously and cost effectively. Liquidity risk management deals with the overall time profile of the current statement of financial position as well the expected future structure. The Company's risk to liquidity is a result of insufficient funds being available in order to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities. The Series 1 Notes are fully supported by an irrevocable and unconditional guarantee issued by Absa (the “Absa Guarantee”) to both the Series 1 Noteholders and the Issuer. The Absa Guarantee is specific to Series 1 and covers the Series 1 Noteholders (including MTN Noteholders) against any payment obligations by the Issuer to the Noteholders arising from an Event of Default in terms of the Transaction Documents. The Absa Guarantee also provides an irrevocable and unconditional guarantee to the Issuer for any and all payment obligations incurred by the Issuer under the Transaction Documents. The Absa Guarantee also covers the Issuer against any Liquidity Shortfalls arising from a payment mismatch at the maturity date of the Notes.

**Liquidity and interest risk tables**

The following are the contractual maturities of financial liabilities including estimated interest payments.

| | Less than 1 year<br>R | Total<br>R |
|---|---|---|
| **Liabilities** | | |
| **2018** | | |
| Trade and other payables | **1 837 960** | **1 837 960** |
| Debt securities in issue | **5 413 325 102** | **5 413 325 102** |
| Other financial liabilities | **586 694** | **586 694** |
| | **5 415 749 756** | **5 415 749 756** |
| **2017** | | |
| Trade and other payables | 16 165 614 | 16 165 614 |
| Debt securities in issue | 3 163 499 998 | 3 163 499 998 |
| | 3 179 665 612 | 3 179 665 612 |

| | Less than 1 year<br>R | 1-5 years<br>R | Total<br>R |
|---|---|---|---|
| **Assets** | | | |
| **2018** | | | |
| Cash and cash equivalents | **97 069 069** | **-** | **97 069 069** |
| Other receivables | **357 437** | **-** | **357 437** |
| Loans and advances | **1 131 032 028** | **2 144 261 765** | **3 275 293 793** |
| Investment securities | **-** | **2 127 373 012** | **2 127 373 012** |
| | **1 228 458 534** | **4 271 634 777** | **5 500 093 311** |

## 23. RISK MANAGEMENT (continued)

### 23.6 LIQUIDITY RISK (continued)

**Assets (continued)**

| | **Less than 1 year R** | **1-5 years R** | **Total R** |
|---|---|---|---|
| **2017** | | | |
| Cash and cash equivalents | 36 672 724 | - | 36 672 724 |
| Other receivables | 357 437 | - | 357 437 |
| Loans and advances | 300 000 000 | 1 753 105 057 | 2 053 105 057 |
| Investment securities | - | 1 106 571 458 | 1 106 571 458 |
| Other financial assets | 3 823 484 | - | 3 823 484 |
| | 340 853 645 | 2 859 676 515 | 3 200 530 160 |

The mechanism of an asset backed commercial paper (ABCP) conduit is to fund long-dated assets with short-term notes. The notes roll on maturity to match the final maturity of the assets. The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

## 24. FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE

All of the below financial assets and financial liabilities have carrying amounts that approximate their fair values. The disclosed fair value of these financial assets and financial liabilities measured at amortised cost approximate their carrying value.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Carrying amount R** | **Fair value R** | Carrying amount R | Fair value R |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **97 069 069** | **97 069 069** | 36 672 724 | 36 672 724 |
| Loans and advances | **3 275 293 793** | **3 275 293 793** | 2 053 105 057 | 2 053 105 057 |
| Other receivables | **357 437** | **357 437** | 32 111 249 | 32 111 249 |
| Investment securities | **2 127 373 012** | **2 127 373 012** | 1 106 571 458 | 1 106 571 458 |
| Total | **5 500 093 311** | **5 500 093 311** | 3 228 460 488 | 3 228 460 488 |
| **Financial Liabilities** | | | | |
| Trade and other payables | **1 837 960** | **1 837 960** | 16 165 614 | 16 165 614 |
| Debt securities in issue | **5 413 325 102** | **5 413 325 102** | 3 163 499 998 | 3 163 499 998 |
| Total | **5 415 163 062** | **5 415 163 062** | 3 179 665 612 | 3 179 665 612 |

## 24. FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE (continued)

### 24.1. FAIR VALUE HIERARCHY

The following table provides an analysis of the Company's financial assets and financial liabilities that are not measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the instrument's fair value is observable. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are defined below.

**Level 1**
Items valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.
An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

**Level 2**
Items valued using inputs other than quoted prices as described above for Level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/corroborated by observable market data.

**Level 3**
Items valued using significant inputs that are not only based on observable market data. These include inputs based on an entity's own assumptions and assumptions applied by other market participants in pricing similar assets.

## 24. FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE (continued)

### 24.1. FAIR VALUE HIERARCHY (continued)

| | Level 2<br>R | Total<br>R |
|---|---|---|
| **2018** | | |
| **Financial Assets** | | |
| **Trade and other receivables** | | |
| Trade and other receivables | **357 437** | **357 437** |
| | **357 437** | **357 437** |
| **Loans and advances** | | |
| Loans and advances | **3 275 293 793** | **3 275 293 793** |
| | **3 275 293 793** | **3 275 293 793** |
| **Financial Liabilities** | | |
| **Trade and other payables** | | |
| Trade and other payables | **1 837 960** | **1 837 960** |
| | **1 837 960** | **1 837 960** |
| **Debt securities in issue** | | |
| Debt securities in issue | **5 413 325 102** | **5 413 325 102** |
| | **5 413 325 102** | **5 413 325 102** |
| **2017** | | |
| **Financial Assets** | | |
| **Trade and other receivables** | | |
| Trade and other receivables | 32 111 249 | 32 111 249 |
| | **32 111 249** | **32 111 249** |
| **Loans and advances** | | |
| Loans and advances | 2 053 105 057 | 2 053 105 057 |
| | **2 053 105 057** | **2 053 105 057** |
| **Financial Liabilities** | | |
| **Trade and other payables** | | |
| Trade and other payables | 16 165 614 | 16 165 614 |
| | **16 165 614** | **16 165 614** |
| **Debt securities in issue** | | |
| Debt securities in issue | 3 163 499 998 | 3 163 499 998 |
| | 3 163 499 998 | 3 163 499 998 |

## 24. FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE (continued)

### 24.2. VALUATION TECHNIQUES FOR THE LEVEL 2 FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT HELD AT FAIR VALUE

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments, which are not held at fair value, but whose fair value is categorised as Level 2. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations is set out in the table below:

| Category of liability | Types of financial instruments | Valuation techniques applied | Significant observable inputs |
|---|---|---|---|
| **Trade and other payables** | Creditors | Discounted cash flow | Credit spread |

The table below sets out information about significant observable inputs used at the end of the reporting period in measuring financial instruments that are not held at fair value, but whose fair value is categorised as Level 2.

| Category of asset | Types of financial instruments | Valuation techniques applied | Significant observable inputs |
|---|---|---|---|
| **Trade and other receivables** | Debtors | Discounted cash flow | Interest rate curves |
| **Loans and advances** | Interest receivable | Discounted cash flow | Interest rate curves |
| **Investment securities** | Bonds | Discounted cash flow | Interest rate curves / Credit spread |

| Category of liability | Types of financial instruments | Valuation techniques applied | Significant observable inputs |
|---|---|---|---|
| **Trade and other payables** | Creditors | Discounted cash flow | Credit spread |
| **Debt securities in issue** | Notes issued | Discounted cash flow | Interest rate curves |
| **Other financial liabilities** | Interest rate swap | Discounted cash flow | Interest rate curves |

Loans and advances are derived from observable inputs and should therefore be classified as Level 2 for 2018 and 2017 respectively.

## 25. FAIR VALUE HIERARCHY OF ASSETS AND LIABILITIES HELD AT FAIR VALUE

### 25.1 FAIR VALUE HIERARCHY

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from 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).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 25. FAIR VALUE HIERARCHY OF ASSETS AND LIABILITIES HELD AT FAIR VALUE (continued)

### 25.2 VALUATION TECHNIQUES FOR THE LEVEL 2 FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES HELD AT FAIR VALUE

The table below sets out information about significant observable inputs used at the end of the reporting period in measuring financial instruments that are held at fair value, but whose fair value is categorised as Level 2.

| Category of financial instruments | Types of financial instruments | Valuation techniques applied | Significant observable inputs |
|---|---|---|---|
| **Investment securities** | Bonds | Discounted cash flow | Interest rate curves / Credit spread |
| **Derivative liabilities** | Interest rate swap | Discounted cash flow | Interest rate curves |

| | **Investment securities R** | **Derivative liabilities R** | **Total R** |
|---|---|---|---|
| Balance at 1 January 2018 | **1 106 571 458** | **3 823 484** | **1 110 394 942** |
| Accrued interest and fair value adjustment | **27 373 012** | **-** | **27 373 012** |
| Additions/(Disposals) | **993 428 542** | **(3 236 790)** | **990 191 752** |
| **Balance at 31 December 2018** | **2 127 373 012** | **586 694** | **2 127 959 706** |
| Balance at 1 January 2017 | - | 8 215 194 | 8 215 194 |
| Accrued interest and fair value adjustment | 6 571 458 | - | 6 571 458 |
| Additions/(Disposals) | 1 100 000 000 | (4 391 710) | 1 095 608 290 |
| Balance at 31 December 2017 | 1 106 571 458 | 3 823 484 | 1 110 394 942 |

During 2017, Other financial assets of R 3 823 484 were classified as loans and advances. These amounts have been restated to give a true and fair reflection.

## 26. RELATED PARTIES

iMpumelelo Owner Trust owns 100% of the ordinary shares in the Company.

Absa Bank Limited invested in 100% of the Preference share capital.

Absa Bank Limited holds 72% (2017: 100%) of the notes issued on behalf of the Company under the Dealer Arrangement Agreement and hence control the Company. The Company is consolidated into Absa Bank Limited. Absa bank limited has issued a guarantee in respect to these notes. Refer to note 23.5.

Absa Corporate Investment Bank, a division of Absa Bank Limited, administers the Company and receives a management fee as compensation.

## 26. RELATED PARTIES (continued)

**Transactions**

| | Administration fees and expenses paid R | Interest received R | Bank charges R | Total R |
|---|---|---|---|---|
| **2018** | | | | |
| **Other** | | | | |
| Absa Bank Limited | **(2 771 240)** | **3 070 700** | **(34 968)** | **264 492** |
| | **(2 771 240)** | **3 070 700** | **(34 968)** | **264 492** |
| **2017** | | | | |
| **Other** | | | | |
| Absa Bank Limited | (2 301 433) | 1 300 553 | (872 539) | (1 874 419) |
| | (2 301 433) | 1 300 553 | (872 539) | (1 874 419) |

| | Current amounts receivable R | Cash and cash equivalents R | Preference share capital R |
|---|---|---|---|
| **2018** | | | |
| **Other related parties** | | | |
| Absa Bank Limited | **357 437** | **97 069 069** | **(1)** |
| | **357 437** | **97 069 069** | **(1)** |
| **2017** | | | |
| **Other related parties** | | | |
| Absa Bank Limited | 270 232 | 36 672 724 | (1) |
| | 270 232 | 36 672 724 | (1) |

## 27. EVENTS AFTER THE REPORTING DATE

The financial statements were approved by the directors on the date in the statement of directors' responsibility.

The directors are not aware of any events after the reporting date and at the date of authorisation of these annual financial statements.

## 28. DIRECTORS EMOLUMENTS

Absa Group Limited representative directors are not remunerated for their services by the Company or any company in the Group as defined by the Companies Act. The Company’s directors’ fees of R 208 130 (2017: R193 800) are paid to TMF Corporate Services (South Africa) Proprietary Limited for non-executive director services provided to the Company.

## 29. NEW ACCOUNTING PRONOUNCEMENTS

**Adoption of new and revised Standards**

During the current year, the Company has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018. Apart from the detail included in note 4 the adoption of these new and revised standards and interpretations has not resulted in material changes to the Company's accounting policies.

The Company adopted the following standards, interpretations and amended standards during the year:

IFRS 9 — *Financial Instruments* introduces significant changes to three fundamental areas of the accounting for financial instruments, namely: The classification and measurement of financial instruments; the scope and calculation of credit losses, which has moved from an incurred loss, to an expected credit loss (ECL) approach; and the hedge accounting model.

IFRS 9 prescribes the classification of financial assets on the basis of an entity's business model for managing the instrument as well as the contractual cash flow characteristics. The accounting for financial liabilities remains largely unchanged, except for financial liabilities designated at fair value through profit or loss (FVPTL). Gains and losses on such financial liabilities are required to be presented in OCI, to the extent that they relate to changes in own credit risk. The Company early adopted this requirement in 2017.

The Company has elected to not restate its comparative information as permitted by IFRS 9. Accordingly, the impact of IFRS 9 has been applied retrospectively with an adjustment to the Company’s opening retained earnings on 1 January 2018. Therefore comparative information in the prior period annual financial statements will not be amended for the impact of IFRS 9.

IAS 1 — *Presentation of Financial Statements* - Amendments requiring interest revenue, which is calculated using the effective interest method, to be presented separately on the face of the statement of comprehensive income. This only includes interest earned on financial assets measured at amortised cost or at FVOCI.

IFRS 15 — *Revenue from Contracts with Customers* replaces the previous revenue recognition standards and interpretations, including IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. IFRS 15 establishes a single approach for the recognition and measurement of revenue, and requires an entity to recognise revenue as performance obligations are satisfied. It applies to all contracts with customers except for transactions specifically scoped out, which includes interest, dividends, leases, and insurance contracts.

## 29. NEW ACCOUNTING PRONOUNCEMENTS (continued)

| | |
|---|---|
| IAS 1 and IAS 8 | *Presentation of Financial Statements and Accounting Policies Changes in Estimates and Errors* **-** Amendments regarding the definition of material, in order to better clarify how materiality should be applied, as well as to align the definition across IFRS. The new definition states that 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.<br><br>The amendments to the definition:<br>• Explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information, and include examples of circumstances that may result in material information being obscured;<br>• Clarify that assessing materiality needs to take into account how primary users could reasonably be expected to be influenced in making economic decisions; and<br>• Refer to primary users in order to respond to concerns that the term users may be interpreted too widely.<br><br>The amendments are effective for reporting periods beginning 1 January 2020 and are required to be applied prospectively. The Company has however elected to early adopt the amendments as they allow for an enhanced understanding of the materiality requirements. |
| IFRIC22 | *Foreign Currency Transactions and Advance Consideration* **-** Interpretation clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. |

## 29. NEW ACCOUNTING PRONOUNCEMENTS (continued)

**New and revised International Financial Reporting Standards issued not yet effective**
At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

| | **Standard** | **Annual periods beginning on or after** |
|---|---|---|
| IFRIC23 | *Uncertainty Over Income Tax Treatments* - Interpretation clarifying the accounting for uncertainties in income taxes. The adoption of IFRIC 23 is not expected to have a significant impact on the Company. | 1 January 2019 |
| AIP 2015-2017 | Non-urgent but necessary clarifications and amendments to the following standards of IFRS:<br><br>IFRS 3 *Business Combinations*<br>IFRS 11 *Joint Arrangements*<br>IAS 12 *Income Taxes*<br>IAS 23 *Borrowing Costs* | 1 January 2019 |
| IFRS 3 | *Business Combinations* - Amendments to the definitions included in the appendix to IFRS 3 which will assist entities in determining whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. | Acquisitions on or after 1 January 2020 |

Apart from the instances detailed above the Company is in the process of assessing the potential impact that the adoption of these standards and interpretations may have on its future financial performance or disclosures in the annual financial statements.