AB Finco 1 (RF) Limited

(Registration number:2007/033844/06)
Annual Financial Statements
for the reporting period ended 31 December 2023

Audited Financial Statements
in compliance with the Companies Act of South Africa
Prepared by: Steven Mulaudzi
Supervised by: Gary Nyamugama
Designation: CA(SA)

AB Finco 1 (RF) Limited

(Registration Number 2007/033844/06)
Annual Financial Statements for the year ended 31 December 2023

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Directors' responsibilities and approval

The directors are responsible for overseeing the preparation, integrity and objectivity of the financial statements that fairly present the state of the affairs of AB Finco 1 (RF) Limited ("the Company") at the end of the financial year and the financial performance and cash flows for the reporting period, and other information contained in this report.

To enable the directors to meet these responsibilities:

- The board of directors sets standards and management implement 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 of directors 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 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 in all material respects with International Financial Reporting Standards as issued by the IASB (IFRS® Accounting Standards) 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 auditor to report on the annual financial statements. Their report to the shareholder of the Company is set out on pages 15 to 23 of this report.

The directors' report on pages 12 to 14 and financial statements of the company which appears on pages 24 to 64 were approved by the board of directors on 23 April 2024 and are signed on its behalf by:

DocuSigned by:

D023873913934C5...

Melanie de Nysschen
Sandton

DocuSigned by:

Brendan Purbick

178055A2B3A948F...

Brendan Purbrick
Sandton

Company secretary's certificate

To the shareholder of AB Finco 1 (RF) Limited,

In accordance with the provisions of section 88(2)(e) of the Companies Act of South Africa, I, in my capacity as a duly authorised representative of the Company Secretary hereby certify that, in respect of the year ended 31 December 2023, 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.

DocuSigned by:
Gerrie Van Rooyen
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ABSA Secretarial Services Proprietary Limited
Represented by: Gerrie van Rooyen
23 April 2024

Corporate governance report

The Company’s corporate governance practices are guided by the Companies Act No. 71 of 2008 (as amended), and the Company's Memorandum of Incorporation (MoI) and JSE Debt Listing requirements. The Company is also subject to the Absa Group Governance Risk Framework that was adopted.

The Company applies the principles and governance practices of the King Report on Corporate Governance for South Africa, 2016 (“King IV Report”) as far as they are applicable and proportional to the company’s needs. The Board is of the opinion that the Company has applied the principles and recommendations of the Code in all material aspects for the year ended 31 December 2023.

BOARD OF DIRECTORS

Role of the Board

The Board of the Company ("the Board") sets the overarching governance principles to be upheld and practiced by embedding good governance practices. The Board is responsible for delivering sustainable value to the shareholder.

MANAGEMENT OF THE COMPANY

The Board oversees the management of the Company’s business by challenging and approving the strategy and plans proposed by management.

The Board has delegated the day-to-day management of the Company to Absa Corporate and Investment Banking Special Purpose Vehicle (CIB SPV) Management Team, in terms of a Service Level Agreement, whose performance the Board monitors through regular operational and financial reporting.

Composition of the Board

As at 31 December 2023, the Board comprised four directors, three of whom were independent non-executive directors (including the Chairman), and one executive director. The independent non-executive directors are representatives of the shareholder, Issuer Owner Trust and are appointed through TMF Corporate Services (South Africa) (Pty) Limited ("TMF”).

Name of director	Status	Appointment date
Melanie de Nysschen	Independent Non-executive Director	1 August 2018
Stewart Adams	Independent Non-executive Director	22 September 2023
Nicholas Clarke	Independent Non-executive Director	22 September 2023
Brendan Purbrick	Executive Director	17 November 2023

The following Board resignations were received during 2023.

Jonathan Burnett (resigned with effect 17 November 2023); Rishendrie Thanthony (resigned with effect 22 September 2023) and Jonathan Wheeler (resigned with effect 22 September 2023)

Director Conflicts of Interest

The Board reviews the directors' declarations of interest and other directorships on an ongoing basis and has considered the declarations during the reporting period.

Meetings

The Board held 3 scheduled meetings during the year under review. All meetings held complied with the requirements of quorum.

Meetings were held on 12 April 2023, 20 July 2023 and 8 November 2023.

Professional Advice

The Board and individual directors have access to the advice and services of the Company Secretary and may also, if necessary, procure independent professional advice at the expense of the Company in the discharge of their duties as directors. Requests for independent professional advice is governed by the Group Legal Entity and Directors Policy.

Board performance effectiveness evaluation

The Board conducted a self-evaluation of the effectiveness of its performance as a collective.

Corporate governance report

Company Secretarial and Governance support

Absa Secretarial Services (Proprietary) Limited, a subsidiary of Absa Group, is the duly appointed Company Secretary of the Company and is represented by a qualified and skilled Company Secretary.

The day-to-day subsidiary corporate secretarial and governance support duties are managed by the dedicated Company Secretary with support from the Head of Secretarial Services for South Africa and the statutory administration team at Absa Group Secretariat.

Remuneration

The Company is a ring-fenced special purpose vehicle. All services are outsourced to external service providers and as such the Company has no employees and thus does not have a remuneration committee.

Director remuneration:

The independent non-executive directors are not employees of the Company and receive fees for their services as directors. These directors' fees were paid to TMF Corporate Services (South Africa) Proprietary Limited in terms of a service level agreement. The independent non-executive directors are employed and remunerated by TMF Corporate Services (South Africa) Proprietary Limited on a separate basis.

The executive director of the Company, who is an employee of Absa Bank Limited, does not receive any fees for his services as a director of the Company.

CONTROL FUNCTIONS

Internal Audit function

The Company's internal audit function is conducted by the Group's Internal Audit division.

Risk Management function

The Board and executive management are responsible for the Company's risk governance and management within the overall context of the Company's risk appetite and principal risks.

The Company's Audit Committee, in conjunction with Absa Corporate and Investment Banking ("CIB"), a division of Absa Bank Limited, develops appropriate risk processes for managing risks.

The Board believes that the risk of the Company is adequately managed.

Compliance function

The Company relies on the compliance function of Absa Bank Limited.

The Board, being ultimately responsible for compliance of the Company, engages with management regularly to discuss and develop compliance processes for the Company.

Integrated sustainability reporting and disclosure

The Company is a ring-fenced special purpose vehicle whose sustainability is determined by the length of time of the transaction for which the Company has been incorporated. The Board is, however, responsible for ensuring the accuracy of the financial information which is reported to all the relevant stakeholders.

Information Technology (IT)

The Company is reliant on the Group's IT systems and infrastructure and is governed in accordance with the Group's IT governance policies.

BOARD COMMITTEES

The establishment of Board committees is informed by legislation and the company's needs. The Board has two committees namely an Audit Committee and a Social and Ethics Committee.

Corporate governance report

AUDIT COMMITTEE

The Committee was established in terms of section 94(7) of the Companies Act. The Audit Committee is required by the Companies Act to report annually to the shareholder describing how it performed its duties during the year, pronouncing on the independence of the auditor, and commenting on the financial statements. The Audit Committee assumes responsibility for fulfilment of audit function. All functions were performed as per the Committee's terms of reference and the Companies Act.

Notwithstanding the role of the Audit Committee in relation to the audit function, the Board remains at all times accountable for monitoring the effectiveness of the company control environment. The Audit Committee reviews and recommends the financial statements to the Board for approval and the Board, via delegation to the Audit Committee, engages with representatives of the internal and external audit for assurance on the integrity of the financial and related information.

Membership

The membership of the Committee comprised three independent non-executive directors who are directors of the Board. On an annual basis the shareholder appoints the members of the Committee at the annual general meeting.

In accordance with the Companies Act, the members of the Committee were re-appointed by the shareholder at the annual general meeting held on 23 August 2023.

Name of director	Status	Appointment date
Melanie de Nysschen	Independent Non-executive Director	1 August 2018
Stewart Adams	Independent Non-executive Director	22 September 2023
Nicholas Clarke	Independent Non-executive Director	22 September 2023

The following Board and Audit Committee resignations were received during 2023:

Rishendrie Thanthony (resigned with effect 22 September 2023) and Jonathan Wheeler (resigned with effect 22 September 2023).

Meetings

The Committee held 2 scheduled meetings during the year under review. All meetings held complied with the requirements of quorum. Meetings were held on 12 April 2023 and 8 November 2023.

Private meetings were held with all the assurance providers in the absence of management to discuss among other, any difficulties that the assurance providers may have encountered in the performance of their work.

SOCIAL AND ETHICS COMMITTEE

The Committee held one meeting during the period under review and reported to the shareholder at the annual general meeting.

The Social and Ethics Committee assumes responsibility for fulfillment of Social and Ethics fuction. All functions were perfomed as per the Committee's terms of reference.

Membership

The membership of the Committee comprised two independent non-executive directors and once excutive director, all of whom are also member of the Board.

Corporate governance report

Name of director	Status	Appointment date
Stewart Adams	Independent Non-executive Director	22 September 2023
Nicholas Clarke	Independent Non-executive Director	22 September 2023
Brendan Purbrick	Excutive Director	17 November 2023

The following Board and Ethics Committee resignations were received during 2023:

Rishendrie Thanthony (resigned with effect 22 September 2023) and Jonathan Wheeler (resigned with effect 22 September 2023).

Meeting

The Committee held one scheduled meeting during the year under review. The meeting held complied with the requirements of quorum. The meeting was held on 20 July 2023.

Fundamental and affected transactions

There were no fundamental transactions for the period under review.

The King Report on Corporate Governance for South Africa 2016 ('King IV' or the 'Code') is the main governance code applicable to companies in South Africa. The principles and practices of the Code are to be applied to the extent required and beneficial to a company (the proportionality principle), taking into consideration a number of factors such as the size of turnover and workforce, resources, complexity and nature of business of an entity.

The Board has satisfied itself that for the year under review the company has applied the principles of King IV to the extent deemed necessary, or has put alternative measures in place. Further information on the company's corporate governance is disclosed under "Corporate Governance Statement" of the Financial Statements ('AFS').

Application of each principle of King IV is expected to result in certain governance outcomes categorised as 'primary' or 'secondary' depending on the degree of impact on governance of applying the practices under the principle.

Leadership and Organisational Ethics

Expected Outcomes - (i) Ethical Culture (primary), (ii) Legitimacy (primary), (iii) Effective Control (secondary) and (iv) Good Performance (secondary)

Principle 1 - The governing body should lead ethically and effectively.

Principle 2 - The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

The Board is committed to the highest standards of corporate governance and in this regard the directors 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) and the Board Charter. The directors are also committed to and adhere to the ethical standards of behaviour stipulated by the Group's Code of Conduct and related policies.

The Board, in conjunction with the Absa Group's board, and through the Group's Social and Ethics Committee, is responsible for executing policies and programmes to embed ethics in the company. Key focus areas of ethics during the current period can be found from Absa Group's Integrated Report available on the website.

Responsible Corporate Citizenship and Regulatory Compliance

Expected Outcomes - (i) Ethical culture (primary), (ii) Legitimacy (primary) and (iii) Good performance (secondary)

Corporate governance report

Principle 3 - The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.
The company's corporate citizenship and regulatory compliance are governed in accordance with the framework set by the Group Board. The Group Board, through the Group Social and Ethics Committee, approves policies and strategies, and monitors and evaluates programmes that strengthen and maintain the Group's standing as a good corporate citizenship.

Principle 13 - The governing body should govern compliance with laws adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.
The Board complies with regulation relevant to its oversight responsibilities and ensures that management also complies with laws applicable to the company. In formulating the company's strategy, the Board has regard to matters relevant to its corporate citizenship status (including the impact of the company's operations on the social and economic environments).

King Report on Corporate Governance
The Board complies with regulation relevant to its oversight responsibilities and ensures that management also complies with laws applicable to the company. In formulating the company's strategy, the Board has regard to matters relevant to its status as a good corporate citizenship (including the impact of the company's operation on the social and economic environments).

Strategy and Performance
Expected Outcomes - (i) Good performance (primary) and (ii) Effective Control (secondary)

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 creationg process.
The Board is responsible for creating and delivering sustainable value for the shareholder and benefits to the company's stakeholders by overseeing the management of the business. The Board: (i) approves the company's strategic objectives, business plans and annual budgets, and (ii) monitors management's implementation of the strategy and plans accordingly to the approved risk appetite, the available opportunities, and the macro and regulatory environment.

Report and Assurance
Expected Outcomes - (i) Effective control (primary), (ii) Good performance (primary), (iii) Ethical culture (secondary) and (iv) Legitimacy (secondary)

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 financial statements in which the company's business activities and financial performance over the period are detailed and recorded.

The Board oversees preparation of the 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 Board, in overseeing assurance services and the effectiveness of the control environment in order to ensure the objectivity and integrity of the financial statements, relies on the work performed by the Group Internal Audit, Group Risk Committee and the oversight role of the Group Audit and Compliance Committee. The Board is ultimately responsible for the integrity of the report and approves the financial statements.

Board's Primary Role and Responsibility
Expected Outcomes - (i) Effective control (primary) and (ii) Good performance (primary)

Corporate governance report

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. The company's customized Memorandum of Incorporation (MoI), King IV, the Companies Act No. 71 of 2008 (as amended) ('the Companies Act') determine the governance of the company. The Board is the focal point and custodian of the company's corporate governance and its role, reponsibilities and procedural conduct are documented the company's MoI, the Companies Act.

The Board is the focal point and custodian of the company's corporate governance and its role, responsibilities and procedural conduct are documented the company's MoI, the Companies Act.

Board Composition
Expected Outcomes - Good performance (primary)

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, industry knowledge, gender and race diversity required to enable the Board function to effectively. Due regard is also given to the Group's requirements for appointing board members as set out in the Group Governance Framework and the Legal Entities and Directors' Policy.

Newly appointed directors only serve until the first Annual General Meeting after their appointment unless they are elected by the shareholder. Each director serves a maximum of three terms of three years each, and will only continue beyond 9 years on approval of the shareholder, and subject to their performance and behaviour meeting the Board's standards.

The current membership of the Board is included in the directors' report.

Delegation to Management and Committees
Expected Outcomes - (i) Effective control (primary) and (ii) Good performance (primary)

Principle 8 - The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.

Principle 10 - The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.
The Shareholder delegates authority to the Board through the Company's MoI and shareholder resolutions passed at the shareholder's meetings.

Board and committee performance evaluations
Expected Outcomes - Good performance (primary)

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 are assessed biennially (previously annually), against set criteria. Matters arising, including areas requiring improvement, and remedial plans are presented to the Board. Remediation is coordinated by the Company Secretary and monitored by the Board until next evaluation.

The Board conducted a self-evaluation of the effectiveness of its performance as a collective during November 2023. The Audit Committee Self-assessment will be conducted during October 2024.

Corporate governance report

Risk Governance
Expected Outcomes - (i) Effective control (primary) and (ii) Good performance (primary)

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

The Board oversees the company's risk management within the framework of the Group's enterprise risk management framework (incorporating the principal and key risks). Risk levels appropriate for the company's business are determined by management and approved by the Board. The AC assist the Board in executing its oversight role over risk management.

Executive management of the company is responsible for embedding risk in the organisation and does this through various programmes, including by ensuring that employees receive the necessary training to be able to identify, mitigate, manage and when necessary, escalate actual or potential risks within their work environment.

Technology and information Governance
Expected Outcomes - (i) Effective control (primary)

Principle 12 - The governing body should govern technology and information in a way that supports the organisation setting and achieving
The Group Information Technology Committee of Absa Group Limited has overall oversight responsibility for information and technology governance in the Group.

The Board acting through the Manager of the company is responsible for the following oversight duties over the management of IT in general, including monitoring the following, as set out in the Group Governance Framework:
- The resilience of the technology systems, infrastructure and applications in supporting customers and employees.
- The robustness and resilience of processes to identify and exploit technology and information opportunities to improve the entity's performance and sustainability.
- Planning, testing and user acceptance in relation to new systems and applications.
- The use of information (and data) to sustain and enhance the entity's intellectual capital and strategic advantage.
- The continual monitoring of security of information, including personal information of customers, employees and other stakeholders.

Executive management is responsible for the day-to-day management of IT.

Remuneration Governance
Expected Outcomes - (i) Ethical culture (primary), (ii) Good performance (primary), (iii) Legitimacy (primary) and (iv) Effective control (secondary)

Principle 14 - The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

The company pays a corporate service fee to TMF for the provision of non-executive directors. The independent non-executive directors of the company are remunerated separately by TMF. The Absa appointed director who is an employee of Absa Group Limited is remunerated as an employee of Absa and not separately for his role as a director of the company.

Shareholder Relationships
Expected Outcomes - (i) Legitimacy (primary) and (iv) Good performance (secondary)

Corporate governance report

Principle 16 - In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

The company's stakeholders are integral to the success of the business. The Board proactively engages with material stakeholders in an inclusive manner that balances their needs, interest and expectations, and to address their concerns in the best way possible.

This allows the company to manage issues effectively and timeously and reduces the likelihood of reputational risks. The Board understands that communication with stakeholders in respect of financial and non-financial information is vital and open interaction is actively pursued.

AB Finco 1 (RF) Limited

(Registration Number 2007/033844/06)
Annual Financial Statements for the year ended 31 December 2023

Audit committee report

The Committee was established in terms of section 94(7) of the Companies Act. The Audit Committee is required by the Companies Act to report annually to the shareholder describing how it performed its duties during the year, pronouncing on the independence of the auditor, and commenting on the financial statements. The Audit Committee assumes responsibility for fulfilment of audit function. All functions were performed as per the Committee's terms of reference and the Companies Act.

Notwithstanding the role of the Audit Committee in relation to the audit function, the Board remains at all times accountable for monitoring the effectiveness of the company control environment. The Audit Committee reviews and recommends the financial statements to the Board for approval and the Board, via delegation to the Audit Committee, engages with representatives of the internal and external audit for assurance on the integrity of the financial and related information.

Membership, meetings and chairperson:

The membership of the Committee comprised three independent non-executive directors who are directors of the Board. On an annual basis the shareholder appoints the members of the Committee at the annual general meeting.

In accordance with the Companies Act, the members of the Committee were re-appointed by the shareholder at the annual general meeting held on 23 August 2023.

Name of director	Status	Appointment date
Melanie de Nysschen	Independent Non-executive Director	1 August 2018
Stewart Adams	Independent Non-executive Director	22 September 2023
Nicholas Clarke	Independent Non-executive Director	22 September 2023

The following Board and Audit Committee resignations were received during 2023:

Rishendrie Thanthony (resigned with effect 22 September 2023) and Jonathan Wheeler (resigned with effect 22 September 2023).

Meetings

The Committee held 2 scheduled meetings during the year under review. All meetings held complied with the requirements of quorum. Meetings were held on 12 April 2023 and 8 November 2023.

Private meetings were held with all the assurance providers in the absence of management to discuss among other, any difficulties that the assurance providers may have encountered in the performance of their work.

DocuSigned by:

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Nicholas Clarke (Chairperson: Audit Committee)
23 April 2024

Directors' report

Registration number 2007/033844/06

Country of incorporation and domicile South Africa

Date of publication 23 April 2024

Nature of business and principal activities

The activities of AB Finco 1 (RF) Limited (the Company) are restricted by the Issuer Transaction Documents and will be limited to the issue of Notes, the purchase of Loan Agreements, the exercise of related rights and powers and other activities referred to in the Issuer transaction documents or reasonably incidental to such activities.

Directors

Name	Status	Appointment date	Resignation date
Melanie de Nysschen	Independent Non-executive Director	1 December 2018	
Brendan Purbrick	Executive Director	17 November 2023	
Stewart Adams	Independent Non-executive Director	22 September 2023	
Nicholas Clarke	Independent Non-executive Director	22 September 2023	
Jonathan Burnett	Executive Director	5 November 2019	17 November 2023
Rishendrie Thanthony	Independent Non-executive Director	27 February 2015	22 September 2023
Jonathan Wheeler	Independent Non-executive Director	1 December 2018	22 September 2023

Registered office

7th Floor
ABSA Towers West
15 Troye Street
Johannesburg
2000

Business address

7th Floor
ABSA Towers West
15 Troye Street
Johannesburg
2000

Postal address

PO Box 7735
Johannesburg
Gauteng
2000

Holding company Issuer Owner Trust (IT002095/2019G).

Ultimate holding company Issuer Owner Trust. Absa Bank Limited holds 100% of the notes issued by the Company and hence controls the Company in terms of IFRS10

AB Finco 1 (RF) Limited

(Registration Number 2007/033844/06)
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Directors' report

Shareholder	**Name**	**Holding %**
	Issuer Owner Trust (IT002095/2019G)	100.00

Bankers ABSA Bank

Auditors PricewaterhouseCoopers Inc.
4 Lisbon Lane, Waterfall City, Jukskei View,
Private Bag X36, Sunninghill,2157
South Africa
2090

Supervised by These financial statements are prepared under the direction and supervision of Gary Nyamugama CA(SA) and audited by PricewaterhouseCoopers Inc.

Company Secretary	**Name**	**Appointment date**	**Resignation date**
	ABSA Secretarial Services Proprietary Limited	17 September 2018	

Date of incorporation 26 November 2007

Directors' report

Review of operations

To the best of their knowledge and belief, based on the below, 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 directors have performed the required solvency and liquidity tests required by the Companies Act of South Africa.

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	2023 R	2022 R
Profit for the year	**17,762,214**	6,078,109
Total comprehensive income	**17,762,214**	6,078,109
Taxation	**(6,569,586)**	(2,540,373)
Dividend declared and paid	**(22,250,000)**	(33,000,000)
Net liabilities	**(10,934,101)**	(6,446,314)
Net current (liabilities) / assets	**(35,692,134)**	16,471,419

Authorised and issued share capital

There were no changes to the authorised share capital for the year under review. The share capital is disclosed in note 13.

Events after the reporting date

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

Going concern

The 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.

Preference dividends paid

A dividend of R22,250,000 (2022: R33,000,000) was declared and paid.

Restatement of prior year financial statements

No restatement of prior year financial statements has occurred.

Related party event

No significant related party events have occurred.

Independent auditor's report

To the Shareholder of AB Finco 1 (RF) Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AB Finco 1 (RF) Limited (the Company) as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards and the requirements of the Companies Act of South Africa.

What we have audited

AB Finco 1 (RF) Limited's financial statements set out on pages 24 to 64 comprise:

- the statement of comprehensive income for the year then ended;
- the statement of financial position as at 31 December 2023;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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

Independence

We are independent of the Company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

PricewaterhouseCoopers Inc., 4 Lisbon Lane, Waterfall City, Jukskei View, 2090
Private Bag X36, Sunninghill, 2157, South Africa
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, www.pwc.co.za

Our audit approach

Overview

	Overall materiality • R50.8 million which represents 1% of total assets
	Key audit matters • Provision for Expected Credit Losses (ECL) on interest in loans

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	R50.8 million
How we determined it	1% of Total Assets
Rationale for the materiality benchmark applied	The Company is set up for the purpose of allowing external note holders to gain exposure to certain investments. The Company functions as a pass-through vehicle that allows for the transfer of South African corporate credit exposures to capital market investors. We therefore selected total assets as our materiality benchmark because, in our view, it is the most appropriate benchmark and is a generally accepted benchmark. We chose 1% which is consistent with materiality thresholds used for similar companies within this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
Provision for Expected credit losses (ECL) on interest in loans The disclosure associated with ECL on Interest in loans is set out in the financial statements in the following accounting policies and notes: ● 2.6.3 - Expected Credit Losses on Financial Assets ● 3 - Judgements and estimates ● 11 - Interest in Loans ● 22 - Credit Risk Reconciliation of Expected Credit Loss Allowance ● 24.5 - Credit Risk	

Key Audit Matter	How our audit addressed the key audit matter
The Company's interest in loans are material to the financial statements and the related ECL includes significant judgements and assumptions. We identified the audit of ECL on interest in loans to be a matter of most significance to the current year audit due to the following: 1. There is a high degree of estimation uncertainty and significant judgements and assumptions in estimating modelled ECL on interest in loans; 2. Economic scenario forecasts incorporating forward-looking information (FLI) which are used to estimate the ECL on interest in loans require estimation and incorporation of multiple forward-looking macroeconomic scenarios and weightings into the ECL calculation. Any impacts not captured by the statistical model are accounted for via further management adjustments. Such adjustments are also posted where current and forward-looking risks are not fully reflected in the historic data used to calibrate models; and 3. The credit risk disclosures incorporate multiple data inputs and management judgement impacting the completeness and accuracy of the disclosures. As at 31 December 2023 the Company's total carrying amount of Interest in loans was R 5,095,558,097 while the recognised ECL was R 33,515,043. In calculating the ECL, the key areas of significant management judgement and estimation included:	Making use of our internal actuarial, quantitative and economics expertise, our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on interest in loans, as set out below. In addition, we tested controls and performed substantive procedures over the model data inputs.
1. Modelled ECL impairment losses • A significant portion of ECL is calculated on a modelled basis which incorporates observable data, assumptions and estimations. The development and execution of these models requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters. • Significant increase in credit risk (SICR) is assessed based on the current risk of default of an account relative to its risk of default at origination. This incorporates judgement and estimation by management.	**1. Modelled ECL impairment losses** • We obtained an understanding of management's data, methodologies and assumptions used in the various ECL models and how these were calibrated to use historical information to estimate ECL, including the controls over the governance of changes to ECL models and the implementation of new ECL models where relevant. • On a sample basis we assessed the controls over changes and approval of ECL models.

Key Audit Matter	How our audit addressed the key audit matter
● The credit impairment models are subject to formal model governance and approval.	● We reperformed and/or benchmarked the model calculations for material portfolios based on the assumptions as per the model documentation, independently reperformed a sample of the PD, EAD and LGD parameters, to test the accuracy, assumptions and appropriateness of the judgement applied in the ECL calculations and noted that the ECL calculated as a result was within an acceptable range of ours. ● For a sample of interest in loans we assessed the appropriateness of the SICR methodologies and model calibrations and tested the resultant stage allocation and noted that the stage allocation was within an acceptable range of ours. ● We tested the completeness and accuracy of data inputs into the models by tracing a sample of data inputs back to information sourced by management from internal systems and external data providers and noted no exceptions. ● Through discussions with management and inspection of relevant documentation, we obtained an understanding of the methodologies and assumptions used by management in the various ECL models and how these were calibrated to use historical information to estimate future cash flows. We noted no matters for further consideration.
2. Estimation and incorporation of multiple forward-looking macroeconomic scenarios and weightings into the ECL calculation ● The macroeconomic scenario forecasts are developed internally and require management judgement. Given the uncertain macroeconomic environment, both locally and internationally, there is complexity in incorporating these scenario forecasts, FLIs and probability weightings into the estimation of ECL.	**2. Estimation and incorporation of multiple forward-looking macroeconomic scenarios and weightings into the ECL calculation** ● We obtained an understanding of management's approval processes and tested controls over the approval of macroeconomic forecasts and variables used within the models by the appropriate governance structures. With assistance from our

Key Audit Matter	How our audit addressed the key audit matter
- Management adjustments to the modelled ECL output were used within the portfolio to address specific risks which were not catered for in the FLIs incorporated into the models. - Determining the key macroeconomic drivers of credit risk including the relative importance/weighting of each identified factor incorporates judgement and estimation by management.	internal economics experts, we assessed the appropriateness of the macroeconomic scenario forecasts and probability weightings by benchmarking these against external evidence and economic data. We noted no matters for further consideration. - We tested the performance and sensitivity of the forward-looking models in order to evaluate whether the chosen macroeconomic variables and model structure provides a reasonable representation of the impact of macroeconomic changes on the ECL, SICR and baseline information built into the forward-looking economic model. We noted no matters for further consideration. - We assessed the reasonableness of how management considered the uncertain macroeconomic environment on the ECL model through independent ECL quantification and sensitivity analysis. We noted no matters for further consideration. - We tested the governance process over management adjustments; assessed management's rationale for the adjustments; and the appropriateness of the assumptions and data used in the determination of the management adjustments. We further evaluated whether these were reflective of current market volatility, idiosyncratic risks or emerging trends. We noted no matters for further consideration.
3. Disclosures related to credit risk Credit risk disclosures are significant as they rely on material data inputs and explain management judgement, estimates and assumptions used in determining the ECL.	**3. Disclosures related to credit risk** - We evaluated whether the credit risk disclosures are consistent with the ECL information tested which included the ECL data, models, estimates and macroeconomic forecasts. - We assessed the adequacy of the disclosures in the financial

Key Audit Matter	How our audit addressed the key audit matter
	statements in accordance with the requirements of IFRS 9. We noted no matters for further consideration in respect of the results on our testing of the disclosures relating to credit risk.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled AB Finco 1 (RF) Limited Annual Financial Statements for the reporting period ended 31 December 2023, which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of AB Finco 1 (RF) Limited for two years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Louwrens van Velden
Registered Auditor
Johannesburg, South Africa
24 April 2024

Statement of comprehensive income

	Notes	2023 R	2022 R
Investment Income	4	606,115,062	415,369,576
Administration expenses	5	(164,814)	(157,687)
Other expenses	6	(1,902,351)	(1,882,632)
Finance costs	7	(573,533,326)	(382,105,858)
Credit impairment (charges)	8	(6,182,771)	(22,604,917)
Profit before tax		**24,331,800**	**8,618,482**
Taxation expenses	9	(6,569,586)	(2,540,373)
Profit for the year		17,762,214	6,078,109
Total comprehensive income for the year		17,762,214	6,078,109

AB Finco 1 (RF) Limited

(Registration Number 2007/033844/06)
Financial Statements for the year ended 31 December 2023

Statement of financial position

	Notes	2023 R	2022 R
Assets			
Non-current assets			
Deferred tax assets	10	5,432,006	4,430,397
Interest in loans	11	2,683,938,942	5,015,368,896
Total non-current assets		**2,689,370,948**	**5,019,799,293**
Current assets			
Current tax assets		1,631,995	2,107,580
Interest in Loans	11	2,378,104,112	916,842,112
Cash and cash equivalents	12	13,842,163	26,299,069
Total current assets		**2,393,578,270**	**945,248,761**
Total assets		**5,082,949,218**	**5,965,048,054**
Equity and liabilities			
Equity			
Capital and reserves			
Attributable to ordinary equity holders			
Share capital	13	100	100
Accumulated loss		(10,934,201)	(6,446,414)
Equity attributable to owners of the company		(10,934,101)	(6,446,314)
Total equity		**(10,934,101)**	**(6,446,314)**
Liabilities			
Non-current liabilities			
Debt securities in issue	14	2,664,612,915	5,042,717,026
Total non-current liabilities		**2,664,612,915**	**5,042,717,026**
Current liabilities			
Trade and other payables	15	426,850	13,575,200
Debt securities in issue	14	2,428,843,554	915,202,142
Total current liabilities		**2,429,270,404**	**928,777,342**
Total liabilities		**5,093,883,319**	**5,971,494,368**
Total Equity and Liabilities		**5,082,949,218**	**5,965,048,054**

Statement of changes in equity

	Ordinary share capital	Accumulated loss	Capital and reserves attributable to equity holders	Total equity
	R	R	R	R
2022				
Balance at the beginning of the reporting year	100	20,475,477	20,475,577	20,475,577
Total comprehensive income for the year	-	6,078,109	6,078,109	6,078,109
Dividends paid during the reporting period	-	(33,000,000)	(33,000,000)	(33,000,000)
Balance at the end of the reporting year	100	(6,446,414)	(6,446,314)	(6,446,314)
Notes	13			
2023				
Balance at the beginning of the reporting year	100	(6,446,415)	(6,446,315)	(6,446,315)
Total comprehensive income for the year	-	17,762,214	17,762,214	17,762,214
Dividends paid during the reporting period	-	(22,250,000)	(22,250,000)	(22,250,000)
Balance at the end of the reporting year	100	(10,934,201)	(10,934,101)	(10,934,101)
Notes	13			

Statement of cash flows

	Notes	2023 R	2022 R
Cash flows from operating activities			
Cash (used in) generated by operations	16	(15,913,883)	10,312,285
Dividends paid	17	(22,250,000)	(33,000,000)
Interest received	18	601,365,119	401,180,869
Interest paid	19	(568,546,674)	(367,735,861)
Taxation (paid)	20	(9,171,393)	(8,266,010)
Tax refund received		2,075,784	-
Net cash (used in) generated by operating activities		(12,441,048)	2,491,283
Cash flows from investing activities			
Interest in loans extended		-	(875,000,000)
Interest in loans settled		858,251,902	470,754,053
Net cash from (used in) investing activities		858,251,902	(404,245,947)
Cash flows from financing activities			
Repayment of debt securities in issue		(858,251,902)	(470,754,053)
Proceeds from debt securities in issue		-	875,000,000
Net cash (used in) from financing activities		(858,251,902)	404,245,947
Net (decrease) increase in cash and cash equivalents		(12,441,048)	2,491,283
Cash and cash equivalents at the beginning of the year	12	26,299,069	23,807,786
Cash and cash equivalents at the end of the year	12	13,858,021	26,299,069

Summary of accounting policies

1. Statement of compliance

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

2. Material accounting policies

The material accounting policies applied in the preparation of these 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 IFRS-IC that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2023. For details of the new and revised accounting policies refer to note 28.

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 (authorised on 23 April 2024) have been prepared on the historical cost basis. The principal accounting policies are set out below.

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

The financial statements are presented in South African Rand (R), which is the presentation and functional currency of the company.

2.3 Segmental reporting

AB Finco 1 (RF) Limited isses 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 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.

2.4 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. Material accounting policies (continued)

2.4 Revenue recognition (continued)

IFRS 9 requires interest income to be calculated on stage 1 or stage 2 financial assets by multiplying the EIR by the gross carrying amount of such assets. Dissimilar to stage 1 and stage 2 assets, IFRS 9 requires interest income on stage 3 financial assets to be calculated based on the net carrying value of the exposure, that is, the gross carrying value less the ECL allowance. In order to practically give effect to this requirement, the company first suspends the recognition of contractual interest, and second, multiplies the net carrying value by the EIR. Unrecognised interest (which is referred to as interest in suspense (IIS)) is the difference between the interest calculated on the gross carrying amount of the financial asset (that is, the interest charged), and the net interest amount, calculated based on the net carrying amount of the financial asset. In some instances, an entity may recover cash flows which are in excess of the cumulative interest previously recognised over the life of the instrument. The IIS recovered is presented as a gain within ECL.

2.5 Taxation

Income tax expense represents the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities.

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.

2.6 Financial instruments

2.6.1 *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.

Summary of accounting policies

2. Material accounting policies (continued)

2.6 Financial instruments (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.

2.6.2 *Classification and measurement of financial instruments*

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.

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.

Summary of accounting policies

2. Material accounting policies (continued)

2.6.2 Classification and measurement of financial instruments (continued)

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 Effective interest income using the effective interest rate method. The carrying amount is adjusted by the cumulative expected credit losses recognised.

Financial Liabilities

Financial liabilities that are held at amortised cost are measured in accordance with the effective interest rate method. 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.

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.

2.6.3 *Expected credit losses on financial assets*

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.

2. Material accounting policies (continued)
2.6.3 Expected credit losses on financial assets (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 as guided by the regulatory definition of default. 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 is 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.

Expected loss calculation

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 uses 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. This applies to overdrafts, credit cards and other revolving products.

2. Material accounting policies (continued)

2.6.3 Expected credit losses on financial assets (continued)

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

Financial assets are written off, and accordingly derecognised, when the company believes there to be no reasonable expectation of recovery.

Assets are classified as defaulted when the company considers that the obligor is unlikely to pay its credit obligations. Elements to be taken as indications of unlikeliness to pay include the following:

- The company consent to a distressed restructuring/forbearance of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness of principal, interest or fees;
- The customer is under debt review, business rescue or similar protection, advice is received of customer insolvency; or,
- The obligor is 90 days or more past due on any credit obligation to the company.

2.6.4 *Derecognition of financial instruments*

Derecognition of financial assets

In the course of its normal activities, the company makes transfers of financial assets, either legally (where legal rights to the cash flows from the asset are passed to the counterparty) or beneficially (where the company retains the rights to the cash flows, but assumes a responsibility to transfer them to the counterparty). Depending on the nature of the transaction, this may result in derecognition of the assets in their entirety, partial derecognition or no derecognition of the assets subject to the transfer.

The gain or loss on derecognition of financial assets is determined as the difference between the carrying value of the financial asset derecognised (including impairment, if any) and the fair value of any proceeds received.

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. Material accounting policies (continued)

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

2.7 Cash and cash equivalents

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

Repurchase and reverse repurchase agreements are not considered to be part of cash equivalents.

Notes to the annual financial statements

	2023 R	2022 R

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.

Expected Credit losses

Expected Credit Loss estimate was made considering all reasonable and supportable information, including our best estimate of the impact of multiple forward-looking economic scenarios. The Expected Credit Loss estimate is an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. Models, processes and assumptions applied in making the Expected Credit Loss estimate, including management adjustments, costs of collection of outstanding loan exposures, collateral valuation, assessment of significant increase in credit risk and credit impaired exposures, write-off points and the definition of default have been applied consistently and are appropriate in the context of IFRS.

ECL estimation must reflect an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible macroeconomic outcomes. Whilst economic activity across South Africa has started to recover due to the easing of lock-down restrictions, economic concerns remain due to high levels of unemployment and the risk of a possible resurgence of the virus. Such risks have been incorporated in the scenarios used to calculate the Company's ECL charge at 31 December 2023.

A 40% probability weighting was applied to the baseline scenario; with a 30% probability weighting applied to both the upside and downside scenarios.

The key forward looking macro-economic information used by the credit model in the calculation of expected credit losses include externally sourced data on South Africa's Real Gross Domestic Product, Consumer Price Index, the Repo Rate and the Producer Price Index.

Default assets that are classified as in default are characterised by the distinct possibility that the borrower will default, and should the collateral pledged be insufficient to cover the asset, the Company will sustain some loss when default occurs.

4. Investment income

4.1 Interest Income

	2023	2022
Interest in Loans	606,044,266	415,369,576
Other Interest income	70,796	-
Total Interest income	606,115,062	415,369,576

Other interest income is interest received on Tax refund from SARS.

Notes to the annual financial statements

	2023 R	2022 R

5. Administration expenses

5.1 Audit Remuneration

Audit fees-current reporting period	164,814	157,687
Total Audit remuneration	164,814	157,687
Total Administration expenses	164,814	157,687

6. Other expenses

6.1 Other

Bank charges	25,383	19,138
Directors fees	210,616	203,512
Management fee expenses	824,625	667,778
Administration fees and expenses	841,727	992,204
Total Other	1,902,351	1,882,632
Total Other expenses	1,902,351	1,882,632

7. Finance costs

7.1 Interest expense

On Debt securities in issue	573,533,326	382,105,858
Total Interest expense	**573,533,326**	**382,105,858**
Total Finance costs	573,533,326	382,105,858

8. Credit impairment (charges)

Financial assets

Impairment losses recognised on Interest in loans	**(6,182,771)**	**(22,604,917)**
Stage 1	308,010	1,074,235
Stage 2	(6,490,781)	(23,679,152)
Total Impairment losses	**(6,182,771)**	**(22,604,917)**

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9. Taxation expense recognised in profit or loss

	2023 R	2022 R
Current tax		
Current tax-current year	(7,571,195)	(5,974,693)
Total Current tax	(7,571,195)	(5,974,693)
Deferred tax		
Other Deferred taxation	1,001,609	3,434,320
Total Deferred tax	1,001,609	3,434,320
Total taxation expense recognised in the current year	(6,569,586)	(2,540,373)
Reconciliation between profit before tax and the taxation expense		
In currency units		
Profit before tax	24,331,800	8,618,482
	24,331,800	8,618,482
Applicable tax rate:	27%	28%
Tax calculated at a statutory tax rate	(6,569,586)	(2,413,175)
Effect on deferred tax balances due to the change in income tax rate	-	(127,197)
Total taxation expense recognised in statement of comprensive income	(6,569,586)	(2,540,372)

During the budget speech presented on 23 February 2022, the finance minister announced that the South African corporate tax rate will be reduced from 28% to 27%, effective for tax assessment years ending after 31 March 2023. This change was substantively enacted at 31 December 2022 and has therefore been reflected in the measurement of the Group’s deferred tax balances at 31 December 2022.

10. Deferred tax

10.1 Deferred tax

	Balance at the beginning of reporting year	Recognised in profit or loss	Balance at the end of the reporting year
2023			
Expected credit losses	4,430,397	1,001,609	5,432,006
	4,430,397	1,001,609	5,432,006

	Balance at the beginning of reporting year	Recognised in profit or loss	Balance at the end of the reporting year
2022			
Expected credit losses	996,076	3,434,321	4,430,397
	996,076	3,434,321	4,430,397

Deferred tax assets	5,432,006	4,430,397
Total deferred tax	5,432,006	4,430,397

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11. Interest in Loans

	2023 R	2022 R
Capital	5,042,717,027	5,911,468,012
Interest accrual	52,841,070	48,091,126
	5,095,558,097	**5,959,559,138**
Expected credit losses	(33,515,043)	(27,348,130)
Total carrying amount of Interest in loans	**5,062,043,054**	**5,932,211,008**
Maturity of Interest in loans		
Current	2,378,104,112	916,842,112
Non-current	2,683,938,942	5,015,368,896
	5,062,043,054	**5,932,211,008**

AB Finco 1 (RF) Limited bought the above loan exposures from Absa Bank Limited.

All the company's rights and interest to the loan exposures are pledged to AB Finco 1 Security SPV(RF) (Pty) Ltd (refer to note 14).

All outstanding interest in loans are ZAR denominated variable or fixed rate instruments. The company is a serialised Issuance Programme. This allows the entity to issue multiple series of Notes under separate series in one legal entity. Each series is backed by a single borrower loan which are held at amortised cost.

During 2022 financial year, the company changed the narration of the loan exposures held from "Loans and Advances" to "Interest in Loans" to better reflect the true nature of the exposures as a single receivable from Absa Bank Limited based on the requirements from IFRS. From a legal rights and obligations perspective, this does not change the underlying loan exposures. From an IFRS perspective, the underlying loan exposure is reflected through the Interest in Loans.

12. Cash and cash equivalents

	2023 R	2022 R
Cash and bank balances	13,858,021	26,299,069
	13,858,021	**26,299,069**
Expected credit losses	(15,858)	-
Net Cash and Cash Equivalents	**13,842,163**	**26,299,069**

All the Company's rights and interest to these balances are pledged to the Security SPV (refer to note 14)

13. Share capital

13.1 Share capital

	Authorised number of shares	Issued number of shares	Authorised Amount	Issued Amount	Price per share
2023					
Ordinary shares	1,000	100	100	100	1
Non-cumulative redeemable preference share	1	-	-	-	0
			100	100	
2022					
Ordinary shares	1,000	100	100	100	1
Non-cumulative redeemable preference share	1	-	-	-	0
			100	100	

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.

There were no shares issued during the current reporting period.

There were no shares issued during the prior reporting period.

Notes to the annual financial statements

	2023 R	2022 R

14. Debt securities in issue

14.1 Debt securities held at amortised cost

	2023 R	2022 R
Floating rate notes	2,428,843,554	915,202,142
Promissory notes	2,664,612,915	5,042,717,026
	5,093,456,469	5,957,919,168
Total Debt securities in issue	5,093,456,469	5,957,919,168

14.2 Debt securities in issue

Non-current portion

	2023 R	2022 R
Debt securities held at amortised cost (Floating Rate Notes)	2,664,612,915	5,042,717,026
	2,664,612,915	5,042,717,026

Current portion

	2023 R	2022 R
Debt securities held at amortised cost (Floating Rate Notes)	2,378,486,778	869,832,018
Accrued interest on debt securities in issue	50,356,776	45,370,124
	2,428,843,554	915,202,142

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14. Debt securities in issue (continued)

14.3 Terms and conditions of outstanding balances were as follows:

	Interest rate	Maturity date	2023	2022
ABF001 - (AA+Rating)	3M Jibar+150bp	14/09/2026	691,040,116	941,774,024
ABF003 - (AA Rating)	3M Jibar+190bp	18/07/2024	1,531,950,475	1,526,841,991
ABF007 - (A Rating)	3M Jibar+220bp	01/12/2030	1,599,129,733	1,825,781,546
ABF004 - (AA Rating)	Fixed 9.65%	30/06/2026	292,873,023	398,747,911
ABF005 - (AA Rating)	Fixed 9.34%	30/12/2030	415,482,300	451,847,062
ABF006 - (AAA Rating)	3M Jibar+200bp	31/03/2026	562,980,822	812,926,634
			5,093,456,469	5,957,919,168

	2023 R	2022 R

14. Debt securities in issue (continued)

14.4 Summary of terms

In terms of the Security SPV Guarantee, AB Finco 1 Security SPV(RF) (Pty) Ltd holds and can realise security for the benefit of the Series Transaction Secured Creditors (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. The default event that drives the guarantee is AB Finco 1 (RF) Limited defaulting on the notes and not the underlying borrowers defaulting on their loans.

The South African Reserve Bank (SARB) announced in 2020 that the JIBAR would cease to exist in the near future as it did not comply with the International Organisation of Securities Commissions Principles for Financial Benchmarks. The SARB Market Practitioners Group (MPG), a joint public-private body has been mandated to facilitate decisions on the choice of alternative reference rates for financial contracts that should replace JIBAR. The transition journey for JIBAR has made some progress at an industry level however transition timelines are yet to be announced by the SARB. The company's administrator, Absa Bank Limited, participates in the SARB's MPG which has started the preparations for the transition of JIBAR at an industry level. The company will leverage the experience gained by its administrator in the IBOR transition journey to plan for the upcoming JIBAR transition. The company's JIBAR journey thus far has been limited to the participation of its administrator on the MPG. The administrator of the company has also been submitting daily transaction data to the SARB for the calculation and publication of ZARONIA. Following the conclusion of the ZARONIA observation period on the 3rd of November 2023, the SARB announced that market participants may use ZARONIA as a reference rate in financial contracts.

The prior year breakdown of outstanding balances as shown on Note 14.2 has been restated. The balance on ABF004 was changed from R360,436,895 to R398,747,911.

15. Trade and other payables

15.1 Trade payables

	2023 R	2022 R
Trade payables	-	(1)
Total trade payables	-	(1)

15.2 Other payables

	2023 R	2022 R
Audit fee accrual	139,064	172,214
Administration fees	234,696	314,407
Rating agency fees	53,090	122,111
Interest payable to Absa	-	12,966,469
Total Other payables	426,850	13,575,201
Total trade and other payables	426,850	13,575,200

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	2023 R	2022 R

16. Cash (used in)/generated by operating activities

	2023 R	2022 R
Profit before tax	24,331,801	8,618,482
Adjustments for:		
Interest expense	573,533,326	382,105,858
Expected credit losses	6,182,771	22,604,917
Amortisation on discount granted on notes	(698,366)	(839,953)
Investment Income	(606,115,062)	(415,369,576)
Cash flow (used in) operating activities before changes in operating assets and liabilities	(2,765,530)	(2,880,272)
Changes in operating assets and liabilities		
(Decrease)/increase in trade and other payables	(13,148,353)	13,192,557
Total changes in working capital	**(13,148,353)**	**13,192,557**
Cash (used in)/generated by operations	**(15,913,883)**	**10,312,285**

17. Dividends paid

	2023 R	2022 R
Dividends declared during the current year	(22,250,000)	(33,000,000)
Dividends paid	(22,250,000)	(33,000,000)

The preference dividend declared and paid during the year amounts to R22,250,000 per share in issue (1 share in issue).

18. Interest received

	2023 R	2022 R
Interest income recognised in profit and loss	606,115,063	415,369,576
Accrued interest receivable at the beginning of the year	48,091,126	33,902,419
Accrued interest receivable at the end of the year (Note 11)	(52,841,070)	(48,091,126)
Total interest received	601,365,119	401,180,869

Interest income recognised in profit and loss is net of R10,499,084 (2022: R14,119,402) of premium amortised on loans.

19. Interest paid

	2023 R	2022 R
Interest expense recognised in profit and loss	(573,533,326)	(382,105,858)
Accrued interest payable at the beginning of the year	(45,370,124)	(31,000,127)
Accrued interest payable at the end of the year (Note 14.2)	50,356,776	45,370,124
Total interest paid	(568,546,674)	(367,735,861)

Interest expense recognised in profit and loss is net of R11,197,450 (2022: R14,959,355) of discount on notes issued.

Notes to the annual financial statements

	2023 R	2022 R

20. Taxation paid

	2023 R	2022 R
Tax receivable/(payable) at the beginning of the year	2,107,580	(183,737)
Current tax expense	(7,571,195)	(5,974,693)
Tax (receivable)/ payable at the end of the year	(1,631,995)	(2,107,580)
Refund received from SARS	(2,075,783)	-
Taxation paid	(9,171,393)	(8,266,010)

21. Reconciliation of changes in liabilities arising from financing activities

2023	Debt securities in issue	Total
	R	R
Balance at the beginning of the reporting period	5,957,919,168	5,957,919,168
Interest accrued	573,533,326	573,533,326
Cash utilised to settle the capital on notes	(858,251,902)	(858,251,902)
Cash utilised to settle interest on notes	(568,546,673)	(568,546,673)
Discount on notes issued	(11,197,450)	(11,197,450)
Balance at the end of the reporting period	5,093,456,469	5,093,456,469

2022	Debt securities in issue	Total
	R	R
Balance at the beginning of the reporting period	5,554,262,579	5,554,262,579
Interest accrued	382,105,858	382,105,858
Proceeds from issue of notes	875,000,000	875,000,000
Cash utilised to settle the capital on notes	(470,754,053)	(470,754,053)
Cash utilised to settle interest on notes	(367,735,861)	(367,735,861)
Discount on notes issued	(14,959,355)	(14,959,355)
Balance at the end of the reporting period	5,957,919,168	5,957,919,168

22. Credit Risk Reconciliation of Expected Credit Loss Allowance

	Balances at the beginning of the reporting period	Current period provision	Balance at the end of the reporting period
2023			
Cash and cash equivalents			
Stage 1	-	15,858	15,858
Total expected credit losses	-	15,858	15,858
Interest in Loans			
Stage 1	1,708,379	(329,907)	1,378,472
Stage 2	25,639,751	6,496,820	32,136,571
Total expected credit losses	27,348,130	6,166,913	33,515,043

22. Credit Risk Reconciliation of Expected Credit Loss Allowance (continued)

	Balances at the beginning of the reporting period	Current period provision	Originated/ purchased credit impaired assets	Balance at the end of the reporting period
2022				
Cash and cash equivalents				
Stage 1	34,808	(34,808)	-	-
Total expected credit losses	34,808	(34,808)	-	-
Interest in Loans				
Stage 1	4,708,405	(3,020,981)	20,955	1,708,379
Stage 2	-	25,639,751	-	25,639,751
Total expected credit losses	4,708,405	22,618,770	20,955	27,348,130

During the current financial year, interest on loans decreased to R5,095,558,097 a decrease of R864,001,041 from prior year. During the current year, no new loans have been originated and no loans have been derecognised. Interest on Loans settled during the current year amounted to R858,251,902 resulting in a decrease of R329,907 to the ECL allowance. The deterioration in Transnet's credit risk as reflected in the increase of the internal default grade from 11 to 14 in the prior year resulted in an increase of R23,446,642 to the ECL allowance for 2022 and an increase of R6,496,820 to the current year ECL allowance. The Transnet internal default grade did not change in the current year. Transnet transferred from stage 1 to stage 2 in the prior year.

Current year expected credit losses of R15,858 have been recognised on the Cash and cash equivalents balance (2022: R0.00).

23. Financial instruments

23.1 Categories of Financial instruments

	Amortised Cost - Debt instruments	Amortised cost financial liabilities	Total - Amortised Cost	Total Assets and Liabilities
	R	R	R	R
2023				
Assets				
Cash and cash equivalents	13,842,163	-	**13,842,163**	**13,842,163**
Interest in Loans	5,062,043,054	-	**5,062,043,054**	**5,062,043,054**
Total	**5,075,885,217**	**-**	**5,075,885,217**	**5,075,885,217**
Liabilities				
Trade and other payables	-	426,849	**426,849**	**426,849**
Debt securities in issue	-	5,093,456,469	**5,093,456,469**	**5,093,456,469**
Total	**-**	**5,093,883,318**	**5,093,883,318**	**5,093,883,318**

	Amortised Cost - Debt instruments	Amortised cost financial liabilities	Total - Amortised Cost	Total Assets and Liabilities
	R	R	R	R
2022				
Assets				
Cash and cash equivalents	26,299,069	-	**26,299,069**	**26,299,069**
Interest in Loans	5,932,211,008	-	**5,932,211,008**	**5,932,211,008**
Total	**5,958,510,077**	**-**	**5,958,510,077**	**5,958,510,077**
Liabilities				
Trade and other payables	-	13,575,201	**13,575,201**	**13,575,201**
Debt securities in issue	-	5,957,919,168	**5,957,919,168**	**5,957,919,168**
Total	**-**	**5,971,494,369**	**5,971,494,369**	**5,971,494,369**

24. Risk management

24.1 Capital risk management

The company monitors capital on the basis of the relationship between debt and equity. 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 the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of ordinary dividends paid to the shareholder. There are no externally imposed capital requirements on the company.

Oversight of risk management is the responsibility of the company's management, the management team satisfies itself that an effective control environment exists within the company and that all major risks are adequately managed and that a structure exists which ensures good corporate governance practices.

Company's capital consists of share capital, preference shares capital and debt securities issued (See note 13 and note 14).

24.2 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 minimize 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.

24.3 Market risk

Market risk is the risk that the Company's earnings or capital, or its ability to meet its objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rate, foreign exchange rate, equity prices, commodity prices and credit spreads. 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.

- The introduction of an interest rate risk management policy which uses a sensitivity analysis to simulate changes in the market and the effects thereof.

24. Risk management (continued)

24.4 Interest rate risk management

In the past the Company was exposed to interest rate risk as assets were earning at a fixed rate and funds were borrowed at both fixed and floating interest rates. The risk on these historic positions were managed with the use of interest rate swap contracts and forward interest rate contracts. As at 31 December 2023 all interest bearing assets and liabilities on the balance sheet are either at floating interest rates with matching maturity profiles between assets and liabilities, or are at fixed rate with matching profiles between assets and liabilities. As a result the income is not sensitive to interest rate movements.

24.5 Credit risk

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.

The credit risk ratings are classified in terms of GCR Ratings as at 31 December 2023.

Corporate loans are extended on an unsecured basis, and no specific collateral are held against these exposures.

	Gross maximum exposure	12 months expected credit losses-Stage 1		Lifetime expected credit losses-Stage 2
		AA+	AA	A
	R	R	R	R
Maximum credit risk exposure				
2023				
Cash and cash equivalents	13,858,021	-	13,858,021	-
Interest in Loans	5,095,558,097	1,962,704,921	1,532,646,575	1,600,206,600
Total gross maximum exposure credit risk	5,109,416,118	1,962,704,921	1,546,504,596	1,600,206,600
Expected credit losses	(33,530,901)	(1,253,736)	(271,986)	(32,005,179)
Total net exposure to credit risk as disclosed on the statement of financial position	5,075,885,217	1,961,451,185	1,546,232,611	1,568,201,421
Total financial assets per the statement of financial position	5,075,885,217	1,961,451,185	1,546,232,611	1,568,201,421

24. Risk management (continued)

24.5 Credit risk (continued)

	Gross maximum exposure	12 months expected credit losses-Stage 1		Lifetime expected credit losses-Stage 2
		AA+	AA	A
	R	R	R	R
Maximum credit risk exposure				
2022				
Cash and cash equivalents	26,299,069	-	26,299,069	-
Interest in Loans	5,959,559,138	2,605,707,161	1,526,839,726	1,827,012,251
Total gross maximum exposure credit risk	5,985,858,207	2,605,707,161	1,553,138,795	1,827,012,251
Expected credit losses	(27,348,130)	(1,456,696)	(361,178)	(25,530,256)
Total net exposure to credit risk as disclosed on the statement of financial position	5,958,510,077	2,604,250,465	1,552,777,617	1,801,481,995
Total financial assets per the statement of financial position	5,958,510,077	2,604,250,465	1,552,777,617	1,801,481,995

Industrial analysis

	Interest in Loans
	R
2023	
Credit exposure by industry	
Local Government - (AA+ Rating)	708,379,188
Development Financing - (AA+ Rating)	1,254,325,733
Telecommunication - (AA Rating)	1,532,646,575
Transportation - (A Rating)	1,600,206,600
Bank - (AA Rating)	13,858,021
Gross amounts	5,109,416,118
Expected credit losses	(33,530,901)
Net carrying amount	5,075,885,217

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24. Risk management (continued)
24.5.1 Industrial analysis (continued)

2022

Credit exposure by industry	
Local Government - (AA+ Rating)	850,615,171
Development Financing - (AA+ Rating)	1,755,091,990
Telecommunication - (AA Rating)	1,526,839,726
Transportation - (A Rating)	1,827,012,251
Bank - (AA Rating)	26,299,069
Gross amounts	5,985,858,207
Expected credit losses	(27,348,130)
Net carrying amount	5,958,510,077

24. Risk management (continued)

24.6 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity risk tables

24.6.2 Maturity analysis for undiscounted financial liabilities

The following tables detail the company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the company may be required to pay.

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24. Risk management (continued)
24.6.2 Maturity analysis for undiscounted financial liabilities (continued)

	Less than 1 month	1-3 months	3 to 12 months	1- 5 years	5+ years	Total
	R	R	R	R	R	R
2023						
Debt securities in issue	38,723,178	254,738,261	2,523,127,366	2,974,248,884	363,175,367	6,154,013,056
Trade and other payables	-	426,849	-	-	-	426,849
	38,723,178	255,165,110	2,523,127,366	2,974,248,884	363,175,367	6,154,439,905
2022						
Debt securities in issue	31,600,100	262,585,883	1,100,708,081	5,392,439,870	712,504,524	7,499,838,458
Trade and other payables	-	13,535,201	-	-	-	13,535,201
	31,600,100	276,121,084	1,100,708,081	5,392,439,870	712,504,524	7,513,373,659

24.6.3 Maturity analysis for undiscounted financial assets

Assets

The following table details the Company's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Company's liquidity risk management as the liquidity is managed on a net asset and liability basis.

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24. Risk management (continued)
24.6.3 Maturity analysis for undiscounted financial assets (continued)

	Less than 1 month	1-3 months	3 to 12 months	1- 5 years	5+ years	Total
	R	R	R	R	R	R
2023						
Cash and cash equivalents	13,842,163	-	-	-	-	13,842,163
Interest in Loans	40,046,466	211,096,200	2,401,320,563	2,840,003,198	364,732,115	5,857,198,542
	53,888,629	211,096,200	2,401,320,563	2,840,003,198	364,732,115	5,871,040,705
2022						
Cash and cash equivalents	26,299,070	-	-	-	-	26,299,070
Interest in Loans	32,923,397	268,818,488	1,125,201,470	5,078,811,063	1,095,653,785	7,601,408,203
	59,222,467	268,818,488	1,125,201,470	5,078,811,063	1,095,653,785	7,627,707,273

25. Fair value of financial instruments not held at fair value

25.1 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.

	Level 2 R	Level 3 R	Total R
2023			
Financial assets			
Trade and other receivables			
Trade and other receivebles	426,849	-	426,849
	426,849	**-**	**426,849**
Interest in Loans			
Interest in Loans	3,078,678,255	1,983,364,799	5,062,043,054
	3,078,678,255	**1,983,364,799**	**5,062,043,054**

25. Fair value of financial instruments not held at fair value (continued)
25.1 Fair value hierarchy (continued)

	Level 2 R	Level 3 R	Total R
2022			
Financial assets			
Trade and other receivables			
Trade and other payables	13,575,201	-	13,575,201
	13,575,201	**-**	**13,575,201**
Interest in Loans			
Interest in Loans	3,679,181,918	2,253,029,090	5,932,211,008
	3,679,181,918	**2,253,029,090**	**5,932,211,008**

	Level 2 R	Level 3 R	Total R
2023			
Financial liabilities			
Debt securities in issue			
Debt securities in issue	5,093,456,469	-	5,093,456,469
	5,093,456,469	**-**	**5,093,456,469**

	Level 2 R	Level 3 R	Total R
2022			
Financial liabilities			
Debt securities in issue			
Debt securities in issue	5,957,919,168	-	5,957,919,168
	5,957,919,168	**-**	**5,957,919,168**

25. Fair value of financial instruments not held at fair value (continued)

25.2 Level 2 and Level 3 fair value measurements

Valuation techniques for level 2 fair value measurement of financial instruments 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 assets	Types of financial instruments	Valuation techniques applied	Significant observable inputs
Trade and other receivables	Debtors	Discounted cash flow	Interest rate curves
Interest in Loans	Loans	Discounted cash flow	Interest rate curves

Category of liabilities	Types of financial instruments	Valuation techniques applied	Significant observable inputs
Debt securities in issue	Notes issued	Discounted cash flow	Discounted cash flow
Trade and other payables	Creditors	Discounted cash flow	Discounted cash flow

25.3 Fair value of financial instruments not held at fair value

Some of the below financial assets and liabilities have carrying amounts that approximate their fair values.

	2023		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	R	R	R	R
Financial assets				
Cash and cash equivalents	13,842,163	13,842,163	26,299,070	26,299,070
Interest in Loans	5,062,043,054	5,066,823,853	5,932,211,008	5,922,060,170
Total assets	5,075,885,217	5,080,666,016	5,958,510,078	5,948,359,240
Financial liabilities				
Debt securities in issue	5,093,456,469	5,083,027,596	5,957,919,168	5,947,768,330
Trade and other payables	426,849	426,849	13,575,201	13,575,201
Total liabilities	5,093,883,318	5,083,454,445	5,971,494,369	5,961,343,531

26. Related parties

26.1 Summary of related party relationships

The following are defined as related parties of the Company:

• the parent;

• an entity controlled/jointly controlled or significantly influenced by the parent trust;

• key management personnel; and

• children and/or dependents and spouses or partners of the individuals referred to above.

26. Related parties (continued)

26.2 Details of related party balances

Included in the Statement of financial position are the following balances related to the respective related parties:

	Cash and cash equivalents	Debt securities in issue	Directors fees paid	Bank charges	Admin and management fees paid	Dividend	Interest paid
	R	R	R	R	R	R	R
2023							
Other related parties							
Absa Bank Limited	13,842,163	(5,093,456,469)	-	(25,383)	(824,625)	(22,250,000)	(573,533,326)
TMF Corporate Services (South Africa) Proprietary Limited	-	-	(210,616)	-	-	-	-
Total Other related parties	13,842,163	(5,093,456,469)	(210,616)	(25,383)	(824,625)	(22,250,000)	(573,533,326)

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26. Related parties (continued)
26.2 Details of related party balances (continued)

	Cash and cash equivalents	Debt securities in issue	Directors fees paid	Bank charges	Admin and management fees paid	Dividend	Interest paid
	R	R	R	R	R	R	R
2022							
Other related parties							
Absa Bank Limited	26,299,070	(5,957,919,168)	-	(19,138)	(667,778)	(33,000,000)	(401,788,595)
TMF Corporate Services (South Africa) Proprietary Limited	-	-	(203,512)	-	-	-	-
Total Other related parties	26,299,070	(5,957,919,168)	(203,512)	(19,138)	(667,778)	(33,000,000)	(401,788,595)

26. Related parties (continued)
26.2 Details of related party balances (continued)

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

Absa Bank Limited has invested in 100% (2022: 100%) of all notes issued by the Company. As a result, in terms of IFRS10, Absa Bank Limited controls the company.

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

All Interest in Loans has been purchased from Absa Bank Limited, and all Debt securities issues has been issued to Absa Bank Limited.

Included in trade and payables was interest payable to Absa Bank Limited of R12 966 469 in 2022.

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 R210 616 (2022: R203 512) are paid to TMF Corporate Services (South Africa) Proprietary Limited for non-executive director services provided to the Company. Non-executive directors are employees of and remunerated by TMF Corporate Services (South Africa) Proprietary Limited on a separate basis.

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 non-executive directors' fees of R210,616 (2022: R203,512) are paid to TMF Corporate Services (South Africa) Proprietary Limited for non-executive director services provided to the Company.

27. Events after the reporting date

The directors are not aware of any events, after the reporting date, that could materially impact these financials statements as currently presented

28. New accounting pronouncements

28.1 Standards, amendments to standards and circulars adopted for the first time in the current reporting period

Standard	Annual periods beginning on or after
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies	1 January 2023

The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, guidelines and examples have been developed to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2023

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, while changes in accounting policies are generally applied retrospectively to past transactions and other past events. The amendments are effective for reporting periods beginning on or after 1 January 2023.

Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

Amendments to IAS 12 International Tax Reform– Pillar Two Model Rules	1 January 2023

The Organisation for Economic Co-operation and Development (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum, 15% tax rate. The amendments will introduce:

- A temporary exception – to the accounting for deferred taxes arising from jurisdictions implementing the global tax rules. This will help ensure consistency in the financial statements while easing the implementation of the rules; and
- Targeted disclosure requirements – to help investors better understand a company's exposure to income taxes arising from the reform, particularly before legislation implementing the rules is in effect.

The Amendments were effective in the current financial year but, with the exception of the adoption of IFRS 17, had no impact on the financial statements of the company.

28. New accounting pronouncements (continued)

28.2 New standards and interpretations not yet adopted

A number of new standards and amendments to existing standards have been issued but not yet effective for the reporting period and have not been applied in preparing these financial statements. Unless specifically noted to the contrary, these amendments are not expected to have a material impact on the company.

Amendments to IFRS 16 sale and leaseback with variable payments that do not depend on an index or rate 1 January 2024

The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it doesn't recognise any amount of the gain or loss that related to the right of use it retains. The new requirements do not prevent a seller-lessee from recognising in profit or loss, any gain or loss relating to the partial or full termination of a lease. The amendments are effective for reporting periods beginning on or after 1 January 2024.