BAYPORT SECURITISATION (RF) LIMITED
(REGISTRATION NUMBER M2008/003557/06)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

These financial statements were prepared under the supervision of Stephen Williamson (Executive Director) CA (SA)

BAYPORT SECURITISATION (RF) LIMITED

ANNUAL FINANCIAL STATEMENTS

For the year ended 30 September 2011

GENERAL INFORMATION

Country of incorporation:	South Africa
Date of incorporation:	11 February 2008
Nature of business:	Securitisation vehicle
Directors:	Roderick Fehrsen Stephen Williamson Theodor Bohlmann Peter Katzenellenbogen Stuart Stone Michael Ilsley
Registered office:	42 Wierda Road West Wierda Valley Sandton Johannesburg 2196
Business address:	Bayport House 23A 10th Avenue Rivonia Johannesburg 2128
Postal address:	Private Bag X10046 Sandton 2146
Bankers:	First National Bank of South Africa Standard Bank of South Africa ABSA Mercantile
Auditors:	Deloitte & Touche Chartered Accountants Registered Accountants and Auditors
Company Secretary:	Alison Blanchard
Company registration:	M2008/003557/06

BAYPORT SECURITISATION (RF) LIMITED

ANNUAL FINANCIAL STATEMENTS

For the year ended 30 September 2011

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

Index

DIRECTORS' RESPONSIBILITIES AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors are required by the South African Companies Act, 2008, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial period and the results of their operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors' acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the cash flow forecast for the year to 30 September 2012 and are satisfied that the company has access to adequate resources to continue as a going concern for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the annual financial statements. The annual financial statements have been examined by the external auditors and their report is presented on page 7.

The annual financial statements set out on pages 8 to 43 which have been prepared on the going concern basis, were approved by the board of directors on 30 January 2012 and were signed on its behalf by:

These Annual Financial Statements were signed by Rederick Fehrsen on 30 Jan 2012. Copies of the version bearing such signature are available for inspection at the Specified Office of the Company.

These Annual Financial Statements were signed by Stephen Williamson on 30 Jan 2012. Copies of the version bearing such signature are available for inspection at the Specified Office of the Company.

Roderick Fehrsen

Stephen Williamson

CERTIFICATE FROM THE COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act, 2008, I certify that to the best of my knowledge and belief, Bayport Securitisation (RF) Limited has lodged with the Registrar of Companies for the financial year ended 30 September 2011 all such returns as are required of a public company in terms of the Companies Act, and that all returns are true, correct and up to date.

The certificate from the company secretary was signed by Peter Katzenellenbogen on 30 Jan 2012. Copies of the version bearing such signature are available for inspection at the Specified Office of the Company.

Peter Katzenellenbogen

Company secretary
30 January 2012

BAYPORT SECURITISATION (RF) LIMITED

REPORT OF THE AUDIT COMMITTEE

For the year ended 30 September 2011

The audit committee presents its report for the financial year ended 30 September 2011

Purpose of the audit committee

The main purpose of the audit committee is to assist the board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and the preparation of accurate financial reporting and statements in compliance with all legal requirements and accounting standards.

Membership and attendance

The audit committee, appointed by the board in respect of the year ended 30 September 2011, comprised Mr TR Bohlmann (chairman) and Mr RJ Fehrsen, who are independent non-executive directors of the company and Mr SF Williamson. The committee meets at least three times per annum.

Functions of the audit committee

- Reviewing and approving the company external audit plan including the proposed audit scope, approach to company risk activities and the audit fee;
- Confirming the independence of the auditors Deloitte & Touche;
- Reviewing external audit reports;
- Assessing the nature and extent of non-audit services;
- Reviewing the accounting policies adopted by the company and all proposed changes in accounting policies and practices;
- Reviewing the annual financial statements to confirm the financial statements are prepared in accordance with International Financial Reporting Standards, the Companies Act of South Africa (Act 71 of 2008, as amended) and the Listing Requirements of the JSE Limited;
- Reviewing the company compliance plan and assessing the procedures for identifying the regulatory risks; and
- Reviewing the legal matters that could have a significant impact on the company's financial statements.

Attendance by auditors and executive directors

The external auditors are advised of all meetings of the audit committee. The executive directors of Bayport Financial Services 2010 (Pty) Ltd also attended meetings by invitation.

Independence of external auditor

The audit committee has satisfied itself that the auditors are independent of the company.

Internal financial controls, accounting practices and company annual financial statements

Based on the work of the company's assurance providers, nothing has come to the attention of the committee which indicates that the company's system of internal financial controls and accounting practices, in all material respects, does not provide a basis for reliable annual financial statements.

The committee is satisfied that the company annual financial statements are in compliance, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards, and recommended the financial statements for approval by the board.

The report of the audit committee was signed by Theodor Bohlmann on 30 Jan 2012. Copies of the version bearing such signature are available for inspection at the Specified Office of the Company.

Theodor Bohlmann

Chairman: Audit Committee
30 January 2012

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BAYPORT SECURITISATION (RF) LIMITED

We have audited the annual financial statements of Bayport Securitisation (RF) Limited, which comprise the statement of financial position as at 30 September 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 8 to 43.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bayport Securitisation (RF) Limited as at 30 September 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

Deloitte & Touche

Deloitte & Touche
Registered Auditors

Per: Cathryn Emslie
Partner
30 January 2012

BAYPORT SECURITISATION (RF) LIMITED

DIRECTORS' REPORT

For the year ended 30 September 2011

The directors present their report on the activities of the company for the year ended 30 September 2011.

1. Review of activities

Main business and operations

The company is a special purpose vehicle incorporated to purchase the loan claims and cellular subscription agreements originated by Bayport Financial Services 2010 (Pty) Ltd and to provide flexible and efficiently priced funding.

2. Subsequent events

No subsequent events have occurred between 30 September 2011 and the date of the approval of the annual financial statements by the board of directors.

3. Authorised and issued share capital

There was no change in share capital during the period under review.

4. Dividends paid

A dividend of R40 000 000 was declared to preference shareholders on 30 September 2011. (R50 000 000: 2010)

5. Directors

The company became a public company during the course of the financial year ended 30 September 2011. As a result the company became obliged to appoint (i) an independent audit committee as required in terms of section 84(4) of the Companies Act, 2008 ("the Act"), and (ii) a further three directors to increase the number of directors on the board to six directors as required by section 66(2) of the Act. The audit committee was duly established and the additional directors duly appointed by the shareholders in general meeting of the company held on 30 January 2012. The audit committee replaces the previous audit committee established by the board. The audit committee report on page 6 was prepared by the previous audit committee. The directors are satisfied that the company is now compliant with the relevant provisions of the Act.

The directors of the company during the accounting period and up to the date of this report were as follows:

Name	Position	Date appointed	Date resigned
Stephen Williamson	Executive Director	08 November 2010	
David Rajak	Independent Non –Executive Director	01 October 2009	28 February 2011
Roderick Fehrsen	Independent Non –Executive Director	15 January 2011	
Theodor Bohlmann	Independent Non –Executive Director	15 January 2011	
Peter Katzenellenbogen	Independent Non –Executive Director	30 January 2012	
Stuart Stone	Executive Director	30 January 2012	
Michael Ilsley	Independent Non –Executive Director	30 January 2012	

6. Holding company

The company is a wholly owned subsidiary of the Bayport Securitsation Ownership Trust and is controlled by Bayport Financial Services 2010 (Pty) Ltd by way of a management agreement. Bayport Financial Services 2010 (Pty) Ltd is a subsidiary of Transaction Capital (Pty) Ltd.

7. Auditors

Deloitte & Touche will continue in office in accordance with section 90(2) of the Companies Act.

8. Secretary

Peter Katzenellenbogen was appointed company secretary on 2 March 2011 and resigned on 30 January 2012. Alison Blanchard was appointed company secretary on 30 January 2012.

9. Change of name

During the financial year the name of the company was changed to comply with the new Companies Act 71 of 2008 and listing requirements. The name was changed from Bayport Securitisation (Pty) Ltd to Bayport Securitisation (RF) Ltd.

10. Listing

The companies DMTN (Domestic Medium Term Note) programme of R4.4 billion was successfully listed on the JSE in June 2011.

BAYPORT SECURITISATION (RF) LIMITED

STATEMENT OF FINANCIAL POSITION

At 30 September 2011

	Notes	2011 R'000	2010 R'000
Assets			
Cash and cash equivalents	15	98 489	117 069
Trade and other receivables	1	13 882	75
Loans and advances	2	2 696 581	1 801 790
Deferred tax assets	3	-	14 212
Total assets		2 808 952	1 933 146
Liabilities			
Bank overdrafts	15	-	417
Tax liabilities		9 657	29 020
Deferred tax liabilities	3	5 603	-
Trade and other payables	4	39 797	8 314
Interest bearing liabilities	5	2 580 253	1 788 394
Total liabilities		2 635 310	1 826 145
Equity			
Share capital	6	1	1
Retained earnings		173 641	107 000
Equity attributable to the owners of the company		173 642	107 001
Total equity		173 642	107 001
Total equity and liabilities		2 808 952	1 933 146

BAYPORT SECURITISATION (RF) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2011

	Notes	2011 R'000	2010 R'000
Interest and other similar income		797 302	538 800
Interest and other similar expense		(249 981)	(157 645)
Net interest income	7	547 321	381 155
Impairment of loans and advances	2	(322 853)	(212 736)
Risk adjusted net interest income		224 468	168 419
Non-interest revenue	8	175 278	100 740
Direct costs	9	(21 055)	(8 988)
Non interest gross profit		154 223	91 752
Indirect costs	10	(230 579)	(131 224)
Profit before tax		148 112	128 947
Income tax expense	11	(41 471)	(36 105)
Profit for the year		106 641	92 842
Other comprehensive income		-	-
Total comprehensive income for the year		106 641	92 842

BAYPORT SECURITISATION (RF) LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2011

	Share capital R'000	Retained earnings R'000	Total equity R'000
Balance at 30 September 2009	-	64 158	64 158
Total comprehensive income	-	92 842	92 842
- Profit for the year	-	92 842	92 842
- Dividends paid to preference shareholders	-	(50 000)	(50 000)
Issue of shares	1	-	1
Balance at 30 September 2010	1	107 000	107 001
Total comprehensive income	-	106 641	106 641
- Profit for the year	-	106 641	106 641
- Dividends paid to preference shareholders	-	(40 000)	(40 000)
Balance at 30 September 2011	1	173 641	173 642

BAYPORT SECURITISATION (RF) LIMITED

STATEMENT OF CASH FLOWS

For the year ended 30 September 2011

	Notes	2011 R'000	2010 R'000
Cash flow from operating activities			
Cash generated by operations	12	305 733	220 754
Income tax paid	13	(41 019)	(46 248)
Cash flow from operating activities before changes in operating assets and liabilities		264 714	174 506
Increase in operating assets and liabilities		(260 553)	(85 749)
Increase in gross loans and advances		(1 052 412)	(862 558)
Net funding of loans and advances		791 859	776 809
Change in working capital		17 676	64 790
(Increase)/decrease in trade and other receivables		(13 807)	279
Increase in trade and other payables		31 483	64 511
Net cash utilised by operating activities		(242 877)	(20 959)
Cash flow from financing activities			
Issue of shares		-	1
Dividends paid to preference shareholders	14	(40 000)	(50 000)
Net cash flow from financing activities		(40 000)	(49 999)
Net (decrease)/increase in cash and cash equivalents		(18 163)	103 548
Cash and cash equivalents at beginning of the year		116 652	13 104
Cash and cash equivalents at end of year	15	98 489	116 652

Accounting policies

The financial statements of the company are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, and the requirements of the South African Companies Act, 2008.

The company annual financial statements are prepared on the historical cost basis modified by the measurement of financial instruments accounted for in terms of IAS 39 and inventories accounted for in terms of IAS 2.

The company's statement of financial position is presented in order of liquidity. Reference to the current maturities of these financial assets and liabilities are disclosed in the statement of financial position notes and in the analysis of financial assets and liabilities. The accounting policies are consistent with the previous year, except where otherwise specifically stated.

As part of its annual improvements project the IASB made amendments to a number of accounting standards. The aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. The annual improvements project for 2009 is effective for annual periods commencing on or after 1 January 2010 and the improvements made to IFRS 3 and IAS 27 as part of the 2010 annual improvements project is effective for annual periods commencing on or after 1 July 2010. The company has adopted these amendments during the current financial year. These amendments have not had a significant impact on the company's results nor has it resulted in the restatement of prior year numbers.

The company adjusts comparative figures to conform to changes in presentation in the current year.

All monetary information and figures presented in these financial statements are stated in thousands of South African Rand (R'000), unless otherwise indicated.

1. Management estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. This forms the basis of making the judgements on carrying values of assets and liabilities that are not otherwise readily apparent. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management

Certain accounting policies have been identified as involving particularly complex or subjective judgements or assessments, as follows:

Deferred tax assets

Deferred tax assets are recognised to the extent it is probable that taxable income will be available in future against which they can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation, taxation rates and competitive forces.

Accounting policies (continued)

1. Management estimates (continued)

Impairment of assets

Future cash flows expected to be generated by the assets are projected, taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using an appropriate discount rate, is compared to the current asset value and, if lower, the assets are impaired to the present value.

Impairment of loans and receivables

The estimation of impairments of loans and receivables is inherently uncertain and depends on many factors, including general economic conditions, structural changes within industries, changes in individual customer circumstances and other external factors such as legal requirements, regulatory specifications and governmental policy changes. Loans and receivables are stated net of identified impairments and incurred but not yet reported impairments. Loans and receivables are considered impaired only if there is objective evidence of impairment as a result of events that occurred after initial asset recognition (known as loss events) and these loss events have an adverse impact on the assets' estimated future cash flows that can be reliably measured.

Objective evidence that loans and advances may be impaired includes the following observable data:

- A breach of contract, such as a default or delinquency in interest or principal payments. Instalments past due date are considered in breach of contract
- Historical loss experience of groups of financial assets with similar repayment terms.
- Data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group.

Loans and advances are subjected to regular evaluations of the overall client risk profile and payments record in determining whether a loss event has occurred.

The historical loss experience is adjusted on the basis of observable data to remove the effects of the conditions in the historical period that do not currently exist.

The company assesses whether objective evidence of impairment exists for groups of financial assets with similar repayment terms. If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the carrying amounts of the assets and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the effective interest rates.

Accounting policies (continued)

2. Financial instruments

A financial instrument is defined as a contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial instruments, as reflected on the statement of financial position, include all financial assets, financial liabilities, derivative instruments and equity instruments held for investment, but exclude investments in subsidiaries, property and equipment, inventory, deferred taxation, taxation payable, provisions, intangible assets and goodwill.

Financial instruments are accounted for under IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures.

Financial assets are classified as loans and receivables.

Financial liabilities are classified as financial liabilities at amortised cost.

The classification of financial assets and financial liabilities depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

Initial recognition and measurement

Financial assets and financial liabilities are initially measured at fair value when the related contractual rights or obligations exist. Transaction costs are included in the initial value recognised.

Loans, advances and other trade receivables

These instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The financial assets fall into the originated trade receivables category.

Loans and receivables are initially recognised at fair value. Subsequently loans and receivables are carried at amortised cost using the effective interest rate method, less any impairment losses.

Trade and other receivables

Trade receivables originated by the company are initially recorded at fair value. A provision for impairment is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows discounted at the market rate of interest for similar borrowers. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income within direct costs. When the trade receivable is uncollectable, it is written off against the allowance account for trade receivables.

Subsequent recoveries of amounts previously written off are credited against direct costs in the statement of comprehensive income. The carrying amount of trade and other receivables approximates fair value as the effect of time value of money is immaterial. The recency of payment indicators are applied in assessing the need for impairment of originated receivables.

Accounting policies (continued)

2. Financial instruments (continued)

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention to trade the receivable. Loans and advances comprise personal unsecured loans payable in fixed equal instalments.

Loans and advances are measured at amortised cost using the effective interest rate method, less any impairment losses through the use of an allowance account. Origination fees and monthly service fees that are integral to the effective interest rate are capitalised to the value of the loan and amortised to the statement of comprehensive income over the contractual life of the loan using the effective interest rate method. Beyond the original contractual term of the loan, the monthly servicing fee is recognised in the statement of comprehensive income as it is charged to the customer on a monthly basis.

Loans and advances are disclosed net of impairment provisions.

The company reviews the carrying amounts of its loans and advances to determine whether there is any indication that those loans and advances have become impaired using objective evidence at a loan level. A loan is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower is over-indebted;
- indication that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the company, including:
    - adverse changes in the payment status of borrowers in the company (e.g. an increased number of delayed payments); or
    - national or local economic conditions that correlate with defaults on the assets in the company (e.g. an increase in the unemployment rate in the geographical area of the borrowers or adverse changes in industry conditions that affect the borrowers in the company).

Where it is not possible to estimate the recoverable amount of an individual loan or advance, the company estimates the recoverable amount using portfolio statistics derived based on past performance of similar financial assets, taking into account collection measures and projected future market conditions.

Accounting policies (continued)

2. Financial instruments (continued)

Loans and advances (continued)

The recoverable amount is the sum of the estimated future cash flows, discounted to their present value using a discount rate that reflects the portfolio of advances' original effective interest rate.

If the recoverable amount of the advance is estimated to be less than the carrying amount, the carrying amount of the advance is reduced to its recoverable amount by raising an impairment provision (through the use of a separate allowance account), which is recognised as an expense in the statement of comprehensive income. Advances, which are deemed uncollectible, are written off either fully or partially against the impairment allowance account.

Where the impairment loss subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in prior years. A reversal of an impairment loss is immediately recognised in the statement of comprehensive income.

Loans previously written off which subsequently result in certain minimum cash flows being received are written back onto the statement of financial position in the advances portfolio.

The write back of a previously written off loan means the recording of the recoverable outstanding amount of the loan on the statement of financial position at amortised cost without an allowance account, at the time it meets the definition of an asset and certain predetermined performance criteria. This recoverable amount is determined by discounting the estimated future cash flows at the original effective interest rate. The estimated future cash flows are based on the historic cash collected on these loans since they were written off and on similar loans that were, subsequent to being written off, brought back onto the statement of financial position in prior reporting periods. Subsequent to this initial recording, an impairment allowance account is used in subsequent reporting periods to recognise any amount of the loan, the recovery of which is regarded as being doubtful or irrecoverable.

Cash collected on loans, which have previously been written off and which remain off statement of financial position, is recognised in the statement of comprehensive income as bad debts recovered as and when the cash is received.

Loans are treated as past due when an instalment payment is overdue and remains unpaid as at the reporting date. In these instances, the full outstanding amount is considered overdue even if part of it is not yet due. The number of days past due is referenced to the earliest due date of the loan. The past due analysis is performed for disclosure purposes.

Financial assets that would otherwise be past due or impaired that have been renegotiated, are classified as neither past due nor impaired assets. Renegotiated advances are advances where, due to deterioration in the counterparty’s financial condition, the group granted a concession where original terms and conditions of the facility were amended. Where the advances were reclassified as neither past due nor impaired, the adherence to the new terms and conditions are closely monitored. These assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

Accounting policies (continued)

2. Financial instruments (continued)

Financial liabilities

Financial liabilities are initially recognised at the fair value, and subsequently carried at amortised cost using the effective interest rate method. Where the time value of money is not considered to be material, instruments are not discounted as their nominal values approximate amortised cost.

Financial liabilities comprise interest bearing liabilities including bank overdrafts and trade payables.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances, call deposits and bank overdrafts. Cash and cash equivalents are measured at fair value.

Amortised cost

Amortised cost is calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the instrument. All fees, transaction costs and other premiums or discounts are included in the calculation.

Set off

Financial assets and liabilities are offset and the net amount reported in the statement of financial position, when there is a legally enforceable right to set off the recognised amounts and there is an intention to realise the asset and settle the liability simultaneously.

Derecognition

Financial assets (or a portion thereof) are derecognised when the company realises the rights to the benefits specified in the contract, the rights expire or the company surrenders or otherwise loses control of the contractual rights that comprise the financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in the statement of comprehensive income.

Financial liabilities (or a portion thereof) are derecognised when the obligation specified in the contract is discharged, cancelled or expires. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and the amount paid for it are included in the statement of comprehensive income.

3. Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the company and the revenue can be reliably measured.

Revenue comprises collection of owned book debts and finance charges on loans. Revenue excludes non-operating income and value added taxation.

Accounting policies (continued)

3. Revenue recognition (continued)

Interest income

Interest income is recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating the interest income to the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. The company defers any related operating costs which are directly attributable to individual transactions.

While origination fees and monthly services fees are regarded as integral parts of the effective interest rate, they are not accounted for as interest income, but as non-interest income.

In instances where a loan is in arrears for greater than three months and no payment has been received in the last three months, an assessment is made regarding the recoverability of the loan or group of loans and if necessary, based on available evidence at that date, the accrual of interest from that date is suspended and not recognised in the statement of comprehensive income.

4. Direct costs

Direct costs comprise funding and listing fees and legal collection fees expensed during the year directly attributable to the borrowing of funds and the collection of loans and advances.

5. Interest expense

Interest expense comprises interest on borrowings, dividends on redeemable preference shares, debentures and other costs incurred in connection with the borrowing of funds.

Interest expense is recognised in the period in which it is incurred using the effective interest rate method except to the extent in which these meet the criteria for capitalisation against a qualifying asset in which case it is capitalised as part of the cost of the asset.

6. Taxation

Current

The charge for current tax is based on the results for the year adjusted for items which are tax exempt or are not tax deductible. Tax is calculated using rates that have been enacted or substantively enacted by the financial year end.

Secondary taxation on companies

Secondary taxation on companies (STC) is recognised in the year dividends are declared.

Accounting policies (continued)

6. Taxation (continued)

Deferred tax

Deferred tax is calculated using the statement of financial position liability method.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit or taxable profit or tax loss.

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, except to the extent that both of the following conditions are satisfied:

- the company is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated using taxation rates that have been enacted or substantially enacted at financial year end. The effect on deferred tax of any changes in taxation rates is charged to the statement of comprehensive income, except to the extent that it relates to items previously charged or credited directly to equity in which case the deferred tax is charged to equity.

Deferred tax assets are recognised to the extent that it is probable that future profits will be available against which the associated tax deductible temporary differences can be utilised.

Deferred tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Indirect taxation

The net amount of VAT recoverable from the taxation authority is included as part of the receivables in the statement of financial position.

7. Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount. They are recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities and contingent assets are not recognised in the financial statements.

8. Dividends paid

Dividends are recognised against equity in the period in which they are approved by the company's directors. Dividends declared after the reporting date are not recognised but disclosed as a post reporting date event.

Accounting policies (continued)

Standards

Standards and interpretations effective in the current period

In the current period the company adopted the following new standards and interpretations. The early adoption of standards has no impact on the results of the company for the year ended 30 September 2011.

Standard	Details of amendment	Annual periods beginning on or after
IAS 1:	• Clarification of statement of changes in equity	1 January 2011
IAS 1:	• Classification in other comprehensive income	1 July 2012
IAS 24:	• Clarification of definition of related party	1 January 2011

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective and have not yet been applied by the company.

Standard	Details of amendment	Annual periods beginning on or after
IFRS 7: Financial instruments: Disclosures	• Clarification of disclosures • Enhancing disclosures about transfer of financial assets	1 January 2011 1 July 2011
IFRS 9: Financial instruments	• New standard that forms the first part of a three part project to replace IAS 39 Financial Instruments: Recognition and Measurement	1 January 2015
IFRS 10: Consolidated financial statements	• Replaces the consolidation requirements in SIC-12 Consolidation - Special Purpose Entities and IAS 27 Consolidated and separate financial statements.	1 January 2013
IFRS 12: Disclosure of interests in other entities	• Disclosure requirements for all forms of interests in other entities.	1 January 2013
IFRS 13: Fair value measurement	• New guidance on fair value measurement and disclosure requirements	1 January 2013

Accounting policies (continued)

Standards (continued)

Standard	Details of amendment	Annual periods beginning on or after
IAS 27: Consolidated and separate financial statements	• Consequential amendments resulting from the issue of IFRS 10,11 and 12	1 January 2013
IAS 28: Investments in associates and joint ventures	• Sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures	1 January 2013
IAS 34:	• Interim financial reporting - significant events and transactions	1 January 2011

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the company.

The following new standards, amendments and interpretations which are in issue but not yet effective, are not relevant to the company's operations:

IFRS 1:	First-time adoption of international financial reporting standards (various amendments)
IFRS 11:	Joint arrangements - accounting for joint arrangements
IAS 12:	Income taxes - rebuttable presumption that an investment property will be recovered in its entirety through sale
IAS 19:	Accounting for defined benefit plans
IAS 21, 27, 28 and 31	The effects of changes in foreign exchange rates - consequential amendments from changes to IAS 27 consolidated and separate financial statements
IAS 24:	Simplification of the disclosure requirements for government related entities
IFRIC 13:	Customer loyalty programmes
IFRIC 14:	IAS 19 – The limit on a defined benefit asset, minimum funding

	2011 R'000	2010 R'000

1. Trade and other receivables

	2011 R'000	2010 R'000
Prepayments	13 863	68
Sundry debtors	19	7
	13 882	75

The above values approximate fair values. Trade and other receivables are denominated in South African Rands.

2. Loans and advances

	2011 R'000	2010 R'000
Gross loans and advances	3 087 287	2 034 875
Allowance for impairment	(390 706)	(233 085)
	2 696 581	1 801 790

Gross loans and advances by asset type:

	2011 R'000	2010 R'000
Unsecured loans	3 087 287	2 034 875
	3 087 287	2 034 875

The above values approximate fair values. Loans are ceded as security for debentures issued by the company as disclosed in note 5.

Allowance for impairment:

	2011 R'000	2010 R'000
Balance at the beginning of the period	(233 085)	(141 278)
Impairment recognised in profit and loss	(322 853)	(212 736)
Impairment recognised in profit and loss	(339 340)	(222 313)
Reversal of impairment recognised in profit or loss in prior periods	16 487	9 577
Utilisation of allowance for impairment	165 232	120 929
Allowance for impairment	(390 706)	(233 085)

Related credit risk exposure and enhancements:

	2011 R'000	2010 R'000
Carrying loans and advances less impairment	2 696 581	1 801 790

The allowance for impairment on loans and advances is calculated by considering breach of contract, i.e. payment delinquency or default, as well as recency of payments and likelihood of rehabilitation.

		2011 R'000	2010 R'000
2.	**Loans and advances (continued)**		
	Loans and advances past due but not impaired:		
	Amounts 30 days overdue	155 814	107 984
	Amounts 30 to 60 days overdue	51 683	-
	Amounts 60 to 90 days overdue	37 176	-
	Amounts in excess of 90 days overdue	335 518	-
		580 191	107 984
	Impairment on loans and advances can be aged as follows:		
	Amounts in current	1 038	3 582
	Amounts 30 days overdue	23 831	10 707
	Amounts 30 to 60 days overdue	31 518	11 831
	Amounts 60 to 90 days overdue	33 777	13 993
	Amounts in excess of 90 days overdue	291 267	186 290
	Specific impairment	381 431	226 403
	Incurred but not reported impairment	9 275	6 682
	Total impairment	390 706	233 085
3.	**Deferred tax (liabilities)/assets**		
	Deferred tax is presented on the statement of financial position as follows:		
	Deferred tax assets	-	14 212
	Deferred tax liabilities	(5 603)	-
		(5 603)	14 212
	The movements during the period are analysed as follows:		
	Net deferred tax asset/(liability) at the beginning of the period	14 212	(13 896)
	Tax charge to the statement of comprehensive income	(19 815)	6 089
	Prior period adjustments	-	22 019
	Net deferred tax (liability)/asset at the end of the period	(5 603)	14 212

	Opening balance R'000	Tax charge R'000	Closing balance R'000
3. Deferred tax (liabilities)/assets (continued)			
2011			
Write offs	4 377	316	4 693
Impairment of loans and advances	5 299	(1 116)	4 183
Subscription agreements	4 536	(8 082)	(3 546)
Monthly service fees IFRS adjustment	-	(7 116)	(7 116)
Deferred funding expenses	-	(3 817)	(3 817)
Net deferred tax assets/(liabilities)	14 212	(19 815)	(5 603)
2010			
Write offs	-	4 377	4 377
Impairment of loans and advances	1 825	3 474	5 299
Subscription agreements	(15 721)	20 257	4 536
Net deferred tax (liabilities)/assets	(13 896)	28 108	14 212

	2011 R'000	2010 R'000
4. Trade and other payables		
Trade payables and accruals	14 636	601
Interest payable	386	-
Value added taxation payable	24 775	7 713
	39 797	8 314

Trade and other payables bear no interest and are denominated in South African Rands.

	2011 R'000	2010 R'000
5. Interest bearing liabilities		
Debentures and loans		
Senior debt	1 924 711	1 391 394
Mezzanine debt	234 847	118 416
Junior debentures- Bayport Financial Services 2010 (Pty) Ltd	199 000	199 000
Loan from Bayport Financial Services 2010 (Pty) Ltd	221 695	79 584
	2 580 253	1 788 394
Payable within 12 months	835 271	169 874
Payable thereafter	1 744 982	1 618 520
	2 580 253	1 788 394
Undrawn facility at year end	400 000	209 000

The company is not in breach or default of any provisions of the terms or conditions of the agreements governing borrowings.

Senior debt

2011	**Balance** R'000	**Interest**	**Maturity**
Fixed rate loans	749 390	11.005% to 12.550%	30 September 2015 - 31 December 2017
Variable rate loans	1 175 321	Prime plus 0.32% to JIBAR plus 5.00%	30 June 2012 - 31 March 2016
	1 924 711		

2010	**Balance**	**Interest**	**Maturity**
Fixed rate loans	466 394	11.45% to 12.6%	31 August 2015 to 31 March 2016
Variable rate loans	925 000	JIBAR plus 4.75% to JIBAR plus 4.9%	20 June 2012 to 30 September 2016
	1 391 394		

The following has been ceded as security for senior debt:

- Pledge and cession of the company's title and interest in loans and advances.
- The bank accounts of the company; and
- The Junior debentures issued by the company to Bayport Financial Services 2010 (Pty) Ltd.

5. Interest bearing liabilities (continued)

Mezzanine debt

2011	R'000		
Fixed rate loans	144 847	13.923% to 15.55%	31 March 2016 - 31 October 2016
Variable rate loans	90 000	JIBAR plus 7.75%	31 March 2012
	234 847		

2010			
Fixed rate loans	28 416	JIBAR plus 7.19% to JIBAR plus 7.75%	31 August 2015 to 31 March 2016
Variable rate loans	90 000	15.55%	31 March 2016
	118 416		

Junior debentures (2011 and 2010)

Junior debentures are made up of the following tranches:

Start date	Repayment date	Interest rate	Balance R'000
30 September 2010	14 May 2035	Prime plus 1.5%	34 000
30 September 2010	14 May 2035	17.01% per annum	13 000
30 September 2010	14 May 2035	18.69% per annum	25 000
17 May 2010	14 May 2035	Prime plus 2%	27 000
16 April 2010	14 May 2035	Jibar plus 7.12%	50 000
16 April 2010	14 May 2035	Prime plus 1.5%	50 000
			199 000

Loan from Bayport Financial Services 2010 (Pty) Ltd

Interest is charged in accordance with the official rate of interest per paragraph 1 of the Seventh Schedule to the Income Tax Act, 1962. The current official rate of interest is 6.5%.

	2011 R'000	2010 R'000
6. Share capital		
Authorised		
100 non redeemable preference shares of R1 each	0.1	0.1
45 ordinary shares of R20 each	0.9	0.9
	1.0	1.0
Issued		
100 non redeemable preference shares of R1 each	0.1	0.1
25 ordinary shares of R20 each	0.5	0.5
	0.6	0.6
Ordinary share capital movements		
Opening balances	0.5	0.1
Share issue	-	0.4
Closing balance	0.5	0.5
7. Net interest income		
Interest and other similar income is earned from:		
Cash and cash equivalents	5 733	2 446
Loans and advances	791 569	536 354
	797 302	538 800
Interest and other similar expenses are paid on:		
Bank overdrafts	106	336
Interest bearing liabilities	249 875	157 309
	249 981	157 645
Interest and other similar income	797 302	538 800
Interest and other similar expense	(249 981)	(157 645)
	547 321	381 155

	2011 R'000	2010 R'000
8. Non-interest revenue		
Non-interest revenue comprises:		
Service fees	111 185	63 935
Cellular subscription income	64 093	31 424
Sundry income	-	5 381
	175 278	100 740
9. Direct costs		
Direct costs comprise:		
Transactional costs	79	396
Funding and listing fees	1 948	-
Legal collection costs	19 028	8 592
	21 055	8 988
10. Indirect costs		
Included in indirect costs are the following:		
Audit fees	825	622
Professional fees	5	45
Management fees	210 621	121 901

	2011 R'000	2010 R'000
11. Income tax expense		
South African tax	(21 656)	(42 194)
Current year	(26 359)	(42 194)
Prior year	4 703	-
Deferred tax	(19 815)	6 089
Current year	(15 112)	6 089
Prior year	(4 703)	-
	(41 471)	(36 105)

Tax rate reconciliation:

The South African tax rate as well as the company's effective tax rate was 28% in both 2011 and 2010.

12. Cash generated by operations

	2011 R'000	2010 R'000
Profit before tax	148 112	128 947
Movement in allowance for impairment	157 621	91 807
	305 733	220 754

13. Income tax paid

	2011 R'000	2010 R'000
Amounts payable at beginning of the year	29 020	11 055
Charged in the statement of comprehensive income	21 656	42 194
Amounts payable at end of the year	(9 657)	(29 020)
Non cash movement	-	22 019
	41 019	46 248

14. Dividends paid to preference shareholders

	2011 R'000	2010 R'000
Amounts payable at the beginning of the year	-	-
Ordinary dividends for the year	40 000	50 000
Amounts payable at the end of the year	-	-
	40 000	50 000

	2011 R'000	2010 R'000
15. Cash and cash equivalents		
Bank balances	7 823	14 865
Call deposits	90 666	102 204
	98 489	117 069
Bank overdrafts	-	(417)
Per statement of cash flows	98 489	116 652

Bank balances and call deposits carry interest at rates ranging from 3% to 4% per annum. Interest on overdraft accounts is charged at 9% per annum.

Ceded as security for interest bearing loans.

16. Related parties

Relationships

Company which exercises control:

Bayport Financial Services 2010 (Pty) Ltd

Related party balances

	2011 R'000	2010 R'000
Junior debentures issued by Bayport Financial Services 2010 (Pty) Ltd (refer to note 5)	199 000	199 000
Loans from Bayport Financial Services 2010 (Pty) Ltd	221 695	79 584

Related party transactions

	2011 R'000	2010 R'000
Directors fees		
Theodor Bohlmann	180	-
Roderick Fehrsen	180	-
Interest on junior debentures: Bayport Financial Services 2010 (Pty) Ltd	25 174	21 626
Interest on loan: Bayport Financial Services 2010 (Pty) Ltd	7 220	-
Management fee: Bayport Financial Services 2010 (Pty) Ltd	210 621	121 901

17. Financial Risk Management and Governance

The board of directors of the company are ultimately responsible for financial risk management and governance. The day-to-day management of the company is the responsibility of Bayport Financial Services 2010 (Pty) Ltd (Bayport Financial Services) through the authority granted by the board of the company by way of the management agreement between the company and Bayport Financial Services. The board has constituted an audit, risk and compliance committee (ARC) which comprises the members of the board of directors and meets three times annually. Invitees to the committee meetings include the external auditors, the internal auditors as well as representatives of Bayport Financial Services and Transaction Capital (Pty) Ltd (Transaction Capital). To assist in discharging its responsibilities, the board makes use of the Transaction Capital board committees namely:

- the assets and liabilities committee (ALCO);
- the audit committee; and
- the risk and compliance committee.

The ALCO assists the board with monitoring:

- liquidity risk;
- interest rate risk;
- counter-party risk;
- concentration risk;
- currency risk;
- capital adequacy; and
- relevant regulatory developments.

The audit committee assists the board with:

- integrated reporting;
- risk management;
- combined assurance;
- internal audit; and
- external audit.

The risk and compliance committee assists the board in:

- identifying acceptable levels of risk tolerance and risk appetite;
- overseeing the development, implementation and review of the risk management policy and plan;
- monitoring the management of risks within the board-approved levels; and
- liaising closely with the audit committee regarding risk that impacts it’s functioning.

17.1 Credit risk

Credit risk management and measurement

The company manages its exposure to credit losses by monitoring the credit granting criteria applied by Bayport Financial Services. These criteria include assessing affordability, risk profile and employment stability. Impairments are monitored and provided for using statistical techniques including experiential and behavioural models. These models are based on customers' financial performance information and assume that recent performance is a strong indicator of future performance. Models are either developed internally or by expert external advisors.

The company has formulated a detailed impairment allowance policy in terms of the principles of IFRS “IAS 39 Financial Instruments: Recognition and Measurement”.

17. Financial risk management (continued)

Bayport Financial Services has constituted a credit committee as a subcommittee of its board. The credit committee is the ultimate custodian of the credit policy which governs the terms and conditions under which a credit application will be processed, assessed, approved or declined and ensures that the credit decision is at all times within the ambit and scope of the credit granting criteria that form part of the DMTN programme memorandum. Adherence to the Bayport Financial Services credit policy, credit granting criteria and decisions taken by the credit committee are reported to the board on a quarterly basis.

The credit policy is designed to ensure that the credit process is efficient for the applicant while providing the necessary details to make an informed credit decision. A three stage approach to credit advancement is applied which includes:

- basic credit criteria;
- scoring the individual against a proprietary scorecard; and
- verification of details and affordability check.

Instalments on credit agreements are payable monthly or weekly and are fully amortising with no residual payment at the end of the term.

17.1.1. Financial assets subject to credit risk

The maximum exposure to credit risk of financial assets at the statement of financial position is analysed as follows:

	Trade and other receivables R'000	Loans and advances R'000	Total R'000
30 September 2011			
Neither past due nor impaired	13 882	1 855 784	1 869 666
Past due but not impaired	-	580 191	580 191
Impaired	-	651 312	651 312
Total	13 882	3 087 287	3 101 169
Impairments:			
Specific provision	-	(381 431)	(381 431)
Incurred but not reported provision	-	(9 275)	(9 275)
Carrying value of financial assets	13 882	2 696 581	2 710 463

17.1.1. Financial assets subject to credit risk (continued)

	Trade and other receivables R'000	Loans and advances R'000	Total R'000
30 September 2010			
Neither past due nor impaired	75	1 343 090	1 343 165
Past due but not impaired	-	107 984	107 984
Impaired	-	583 801	583 801
Total	75	2 034 875	2 034 950
Impairments:			
Specific provision	-	(226 403)	(226 403)
Incurred but not reported provision	-	(6 682)	(6 682)
Carrying value of financial assets	75	1 801 790	1 801 865

17.1.2 Financial assets that are past due but not impaired

These are assets where contractual interest or principal payments are past due, but the company believes that impairment is not appropriate. Recent payment history is a key consideration in determining whether an asset is impaired. The age of loans and advances to customers and other assets that are past due but not impaired is as follows:

	Past due 1 month R'000	Past due 1 – 2 months R'000	Past due 2 – 3 months R'000	Past due greater than 3 months R'000	Total R'000
2011					
Loans and advances	155 814	51 683	37 176	335 518	580 191
Financial assets that are past due but not impaired	155 814	51 683	37 176	335 518	580 191
2010					
Loans and advances	107 984	-	-	-	107 984
Financial assets that are past due but not impaired	107 984	-	-	-	107 984

17. Financial risk management (continued)

17.1.3 Cash and cash equivalents

The company maintains cash and cash equivalents and short-term investments with various major financial institutions and in this regard it is the company's policy to limit its exposure to any one financial institution. Deposits are placed only with South African banks and limited to F1+ rated financial institutions within South Africa.

At the date of the annual financial statements, the company did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

17.2 Interest rate risk

Interest rate risk is the risk of loss arising from the fair value or future cash flows of a financial instrument because of changes in market interest rates.

The company is exposed to interest rate risk as it borrows and places funds. This risk is managed by utilising an appropriate mix of fixed and floating rate borrowings and by placing funds on short term deposit.

17.2.1 Risk profile of interest bearing liabilities and assets

2011	Floating rate liabilities R'000	Fixed rate liabilities R'000	Floating rate assets R'000	Fixed rate assets R'000	Net asset R'000
Secured borrowing/ Unsecured Lending	(1 648 016)	(932 237)	98 489	2 696 581	214 817
Total	(1 648 016)	(932 237)	98 489	2 696 581	214 817
2010					
Secured borrowing/ Unsecured Lending	(1 255 584)	(532 810)	-	1 801 790	13 396
Total	(1 255 584)	(532 810)	-	1 801 790	13 396

17.2.2 Weighted average interest rates are as follows:

	Bank balances	Borrowings
2011		
Interest bearing assets/ liabilities	5.5%	11.7%
2010		
Interest bearing assets/ liabilities	4.7%	11.6%

17. Financial risk management (continued)

17.3 Liquidity risk management

Liquidity risk is the risk that the company is unable to meet payment obligations when they fall due or that insufficient funds are available to meet loan demands in the ordinary course of business. The company's objectives in relation to liquidity risk management are to manage the contractual mismatch between cash inflows from assets and cash outflows to liabilities, to fund the expected statement of financial position growth, to honour all cash outflow commitments, to avoid raising funds at market premiums or through the forced sale of assets as a result of liquidity pressure, and to take advantage of attractive but unanticipated borrowing opportunities.

The board of directors is ultimately responsible for the management of liquidity risk and to this end makes use of the Transaction Capital asset and liability committee (ALCO). The monitoring and reporting of liquidity risk takes the form of, as a minimum, cash flow projections to settlement of the longest dated funding obligations, an analysis of the company's borrowing facilities and utilisation thereof, borrowing facilities under discussion, maturity profile and concentration of liability by counterparty, asset maturities and borrowing facility obligations and special conditions.

The Transaction Capital Debt Capital Markets (DCM) team is responsible for executing on fund raising mandates given to it by the company. This includes the ongoing assessment and evaluation of various funding sources designed to grow and diversify the company's funding base in order to achieve an optimal funding profile and sound liquidity risk management. The DCM team assists with the ongoing monitoring of asset portfolio performance and its impact on borrowing covenants.

The company manages its daily cash flow requirements to ensure covenants are maintained within acceptable risk tolerances and to produce financial projections to monitor the impact of business trends in order to notify the DCM team of any changes to the business environment that may impact funding requirements.

The company is exposed to interest rate risk associated with the effects of fluctuations in the prevailing levels of market rates on their financial positions and cash flows. The table below summarises the exposure to interest rate risk through grouping assets and liabilities into repricing categories, determined by date of maturity.

17. Financial risk management (continued)

17.3 Liquidity risk management

2011	Up to 1 month R'000	1 to 3 months R'000	4 to 12 months R'000	Beyond 12 months R'000	Non-interest sensitive items R'000	Total R'000
Assets						
Cash and cash equivalents	98 489	-	-	-	-	98 489
Trade and other receivables	-	-	-	-	13 882	13 882
Loans and advances	-	-	-	-	2 696 581	2 696 581
Total assets	98 489	-	-	-	2 710 463	2 808 952
Liabilities and equity						
Trade and other payables	-	-	-	-	39 797	39 797
Interest bearing liabilities	-	6 723	411 820	1 229 473	932 237	2 580 253
Tax liabilities	-	-	-	-	9 657	9 657
Deferred tax liabilities	-	-	-	-	5 603	5 603
Shareholders' equity	-	-	-	-	173 642	173 642
Total liabilities and equity	-	6 723	411 820	1 229 473	1 160 936	2 808 952
Interest sensitivity	98 489	(6 723)	(411 820)	(1 229 473)	1 549 527	-

17. Financial risk management (continued)

17.3 Liquidity risk management

2010	Up to 1 month R'000	1 to 3 months R'000	4 to 12 months R'000	Beyond 12 months R'000	Non-interest sensitive items R'000	Total R'000
Assets						
Cash and cash equivalents	102 202	-	-	-	14 867	117 069
Trade and other receivables	-	-	-	-	75	75
Loans and advances	-	-	-	-	1 801 790	1 801 790
Deferred tax assets	-	-	-	-	14 212	14 212
Total assets	102 202	-	-	-	1 830 944	1 933 146
Liabilities and equity						
Bank overdrafts	417	-	-	-	-	417
Trade and other payables	-	-	-	-	8 314	8 314
Interest bearing liabilities	-	-	22 166	1 233 418	532 810	1 788 394
Tax liabilities	-	-	-	-	29 020	29 020
Shareholders' equity	-	-	-	-	107 001	107 001
Total liabilities and equity	417	-	22 166	1 233 418	677 145	1 933 146
Interest sensitivity	101 785	-	(22 166)	(1 233 418)	1 153 799	-

Assuming the financial assets and liabilities on hand at 30 September 2011 were to remain on hand until maturity or settlement without any action to alter the resulting interest rate risk exposure, an immediate and sustained 1% parallel decline in the yield curve could result in the net interest income of the company for the next twelve months increasing by R20 876 374.

17. Financial risk management (continued)

17.3 Liquidity risk management (continued)

The table below analyses financial liabilities and assets at the statement of financial position date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows:

2011	On demand	Within 1 year	From 1 – 5 years	More than 5 years	Total
Assets	R'000	R'000	R'000	R'000	R
Cash and cash equivalents	98 489	-	-	-	98 489
Trade and other receivables	-	13 882	-	-	13 882
Loans and advances	227 328	2 450 276	2 539 619	262	5 217 485
Financial assets	325 817	2 464 158	2 539 619	262	5 329 856
Non - financial assets	-	-	-	-	-
Total assets	325 817	2 464 158	2 539 619	262	5 329 856
Liabilities					
Trade and other payables	-	39 797	-	-	39 797
Tax liabilities	-	9 657	-	-	9 658
Interest bearing liabilities	221 695	869 384	1 842 120	843 978	3 777 177
Financial Liabilities	221 695	918 838	1 842 120	843 978	3 826 632
Non - financial liabilities	-	5 603	-	-	5 603
Total liabilities	221 695	924 441	1 842 120	843 978	3 832 235
Shareholders' equity	-	-	-	173 642	173 641
Total equity and liabilities	221 695	924 441	1 842 120	1 017 620	4 005 876
Net liquidity position of financial assets and liabilities	104 122	1 539 717	697 499	(1 017 358)	1 323 980

17. Financial risk management (continued)

17.3 Liquidity risk management (continued)

The table below analyses financial liabilities and assets at the statement of financial position date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows:

2010	On demand	Within 1 year	From 1 – 5 years	More than 5 years	Total
Assets	R'000	R'000	R'000	R'000	R'000
Cash and cash equivalents	117 069	-	-	-	117 069
Trade and other receivables	-	75	-	-	75
Loans and advances	-	1 428 632	1 781 704	-	3 210 336
Financial assets	117 069	1 428 707	1 781 704	-	3 327 480
Non - financial assets	-	14 212	-	-	14 212
Total assets	117 069	1 442 919	1 781 704	-	3 341 692
Liabilities					
Bank overdrafts	417	-	-	-	417
Trade and other payables	-	8 314	-	-	87 898
Tax liabilities	-	29 020	-	-	29 020
Interest bearing liabilities	79 584	295 474	1 890 826	263 002	2 449 302
Financial Liabilities	80 001	332 808	1 890 826	263 002	2 566 637
Non - financial liabilities	-	-	-	-	-
Total liabilities	80 001	332 808	1 890 826	263 002	2 566 637
Shareholders' equity	-	-	-	107 001	107 001
Total equity and liabilities	80 001	332 808	1 890 826	370 003	2 673 638
Net liquidity position of financial assets and liabilities	37 068	1 110 111	(109 122)	(370 003)	668 054

17. Financial risk management (continued)

17.4 Capital management

The objective of the company's capital management strategy is to maximise shareholder value whilst maintaining a strong capital base so as to retain investor and creditor confidence and to sustain future growth of the businesses of the company. To achieve this, the company considers the capital required to support growth, maintain credit ratings and to comply with debt covenants.

The company defines capital as equity and subordinated loans from Bayport Financial Services.

The board of directors monitors the cost of capital, which is defined as the weighted average cost of capital, taking into account the company's internally calculated cost of equity (shareholder funding) and long term cost of debt assumptions.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound equity position.

17.5 Insurance and assurance risk

Insurance and assurance risk is the risk assumed under any insurance contract which the insured event occurs. By the very nature of an insurance or assurance contract, this risk is random and unpredictable.

Exposure to assurance risk

The company is not exposed to underwriting risk.

17. Financial risk management (continued)

17.6 Sensitivity analysis

The company's exposures to various financial risks are set out below:

Interest rate risk

	Value subject to interest rate risk R'000	Effect on profit before tax of 1% change in rates R'000	Total carrying value of asset class R'000
30 September 2011			
Assets			
Loans and advances	-	-	2 696 581
Trade and other receivables	-	-	13 882
Cash and cash equivalents	98 489	985	98 489
	98 489	985	2 808 952
Liabilities			
Interest bearing borrowings	1 648 016	7 625	2 580 253
Trade and other payables	-	-	39 797
	1 648 016	7 625	2 620 050
30 September 2010			
Assets			
Loans and advances	-	-	1 801 790
Trade and other receivables	-	-	75
Cash and cash equivalents	102 202	(256)	117 069
	102 202	(256)	1 918 934
Liabilities			
Interest bearing borrowings	1 255 584	13 113	1 788 394
Trade and other payables	-	-	8 314
Bank overdrafts	417	4	417
	1 176 417	13 117	1 797 125