BAYPORT SECURITISATION (RF) LIMITED
(REGISTRATION NUMBER 2008/003557/06)

FINANCIAL STATEMENTS FOR THE 15 MONTHS ENDED 31 DECEMBER 2014

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

GENERAL INFORMATION

Country of incorporation:	South Africa
Date of incorporation:	11 February 2008
Nature of business:	Securitisation vehicle
Directors:	Brendan Harmse Stephen Williamson David Woollam Bryan Arlow Jack Trevena Rishendrie Thanthony
Registered office:	Bayport House 23 A 10th Avenue Rivonia Johannesburg 2128
Business address:	Bayport House 23A 10th Avenue Rivonia Johannesburg 2128
Postal address:	Postnet Suite 116 Private Bag X43 Sunninghill 2157
Bankers:	First National Bank of South Africa Standard Bank of South Africa ABSA
Auditors:	Deloitte & Touche Chartered Accountants Registered Accountants and Auditors
Company secretary:	Alison Blanchard
Company registration:	2008/003557/06

BAYPORT SECURITISATION (RF) LIMITED

ANNUAL FINANCIAL STATEMENTS

For the 15 months ended 31 December 2014

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

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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 period 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 after the approval date of the annual financial statements 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 pages 7 to 8.

The annual financial statements set out on pages 12 to 49 which have been prepared on the going concern basis, were approved by the board of directors on 28 April 2015 and were signed on its behalf by:

These Annual Financial Statements were signed by Bryan Arlow on 28 April 2015. Copies of the version bearing such signature are available for inspection at the Specified Office of the Company.

Bryan Arlow

These Annual Financial Statements were signed by Stephen Williamson on 28 April 2015. Copies of the version bearing such signature are available for inspection at the Specified Office of the Company.

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 period ended 31 December 2014 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 Alison Blanchard on 28 April 2015. Copies of the version bearing such signature are available for inspection at the Specified Office of the Company.

Alison Blanchard

Company secretary
28 April 2015

REPORT OF THE AUDIT COMMITTEE

For the 15 months ended 31 December 2014

The audit committee presents its report for the financial period ended 31 December 2014.

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 31 December 2014, comprised Jack Trevena (chairman), Brendan Harmse and Rishendrie Thanthony who are independent non-executive directors of the company. The committee meets at least twice per annum.

Functions of the audit committee

- Approving the external audit engagement terms;
- Reporting on the independence of the auditors Deloitte & Touche;
- Reviewing the performance and effectiveness of the external audit process;
- Assessing the nature and extent of non-audit services;
- Making submissions to the board on accounting policies, financial controls, records and reporting; and
- Reviewing the annual 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 Jack Trevena on 28 April 2015. Copies of the version bearing such signature are available for inspection at the Specified Office of the Company.

Jack Trevena

Chairman: Audit Committee
28 April 2015

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF BAYPORT SECURITISATION (RF) LIMITED

We have audited the financial statements of Bayport Securitisation (RF) Limited set out on pages 12 to 49, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 15 month period then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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 the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 31 December 2014 and its financial performance and its cash flows for the 15 month period then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 to the annual financial statements, which highlights the significant changes in the unsecured lending industry in the current financial period, the impact of that on the company and the actions the board took to respond to these. We also draw attention to Notes 5 and 6 which indicate that a related party has subordinated its loan and provided a 12 month warehouse facility until the company's assets, fairly valued, exceeds it's liabilities, fairly valued.

Other reports required by the Companies Act

As part of our audit of the financial statements for the 15 month period ended 31 December 2014, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche

Deloitte & Touche
Registered Auditors
Per: Danie Crowther
Partner
28 April 2015

The directors present their report on the activities of the company for the period ended 31 December 2014.

1. Review of activities

Main business and operations

The company is a special purpose vehicle incorporated to purchase the loan claims and cellular purchase and subscription agreements originated by Bayport Financial Services 2010 (Pty) Ltd (BFS2010). The company provides flexible and efficiently priced funding.

During this reporting period the unsecured lending industry experienced significant events and changes, largely triggered by the demise of African Bank. This required the company to consider the impact and revisit its operating and financial reporting models. After careful consideration the board responded thought the following actions:

- **Impairments**
  In response to the evolution of the interpretation of IAS39 in the financial services sector, a new impairment model was introduced during the period under review. The main change from the previous model is that the point of impairment has been moved from the previous Contractual Delinquency (CD) 4 to CD1. This aligns more closely with current industry practice. This change resulted in a significant increase in the impairment of loans and advances. Approving a significant increase in impairments of loans and advances caused a loss after tax which the directors believe will not be repeated (refer notes 3 and 19).

  The additional impairment raised (refer note 3) was processed effective December 2014. An injection of R550 million of additional subordinated debt from BFS2010 ensured that no covenants were breached. The bad and doubtful debt ratio in the Bayport Securitsation Programme Memorandum has been amended to reflect the new impairment methodology.

  The company is not in breach or default of any provisions of the terms or conditions of the agreements governing borrowings. (refer note 5);

- **Deferred tax**
  The company moved into an assessed loss position following additional loan impairments raised during the year (refer note 3) that exceeded taxable income. The company has not recognised R136.6 million of the deferred tax asset that was created as a function of the change in impairments. (refer note 7);

- **Going concern and liquidity**
  In performing this assessment, the directors have considered all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to the directors.

  As part of their assessment, the directors have considered if there are any material uncertainties relating to events or conditions that might cast significant doubt upon the continuing use of the going concern basis of accounting in future periods. Uncertainties relating to such events or conditions would be considered material, and therefore disclosed, if their disclosure could reasonably be expected to affect the economic decisions of shareholders and other users of the financial statements. This is a matter of judgement. In making this judgement, the directors have considered the uncertainties arising from their assessment, both individually and in combination with others.

1. Review of activities (continued)

- In determining whether there are material uncertainties, the directors have considered: the magnitude of the potential impacts of the uncertain future events or changes in conditions on the company and the likelihood of their occurrence;
- the realistic availability and likely effectiveness of actions that the directors would consider undertaking to avoid, or reduce the impact or likelihood of occurrence, of the uncertain future events or changes in conditions; and
- whether the uncertain future events or changes in conditions are unusual, rather than occurring with sufficient regularity to make predictions about them with a high degree of confidence.

Uncertainties are not considered material if the likelihood that the company will not be able to continue to use the going concern basis of accounting is assessed to be remote, however significant the assessed potential impact.

In evaluating the company's ability to continue as a going concern during the ensuing twelve months, the liquidity position of the company, amongst others, have been considered in making the assessment:

- As a function of the capital structure, the company has regular debt redemption needs that require access to the wholesale debt markets. There is currently uncertainty as to the available liquidity in the debt markets. The directors have considered this potential difficulty and for the following reasons believe that there is no going concern risk at present:
  - The company has the willing support of its shareholder Bayport Management Limited, which has access to a far broader international spectrum of capital markets which was demonstrated by the injection of R550 million in equity in December 2014 together with a R600 million warehouse facility in April 2015;
  - The company has access to a R500 million warehousing facility with the Standard Bank of South Africa that expires in June 2015 and is expected to be renewed. If it is not renewed the facility can be converted into a 3 year amortising senior note;
  - Because of heightened scrutiny in the industry, management and the board tested the appetite of its current bondholders during March 2015 to roll their current bonds upon maturity and were met with verbal indications, with almost no exception, that they will do so. Since then 80% of the only bond that fell due on 31 March 2015 has already been rolled;
  - The company can suspend origination and trade to February 2016 using the existing warehouse facility without rolling current long-term debt as it matures and without needing to raise debt capital from new sources. This would result in a breach of the senior debt cashflow cover ratio. This breach can be resolved through consent of the bondholders to repay senior debt early. In extreme scenarios it may need to approach its shareholder for additional subordinated funding as a last resort;
  - If the company reduces origination by 50% from current origination levels it can trade to February 2016 using the existing Standard Bank warehouse facility without rolling any long term debt as it matures and without the need to raise debt capital from new sources. Accessing the BML warehouse facility will allow the company to trade beyond March 2016. Covenant ratios are not breached at current already constrained origination levels, but reducing origination below these levels will cause breach of the senior debt cash flow covenant ratios from August 2015. In both scenarios the company is profitable and, before origination, cashflow positive and can settle all debt due over the next 12 months. The breaches can be remedied by responsibly increasing origination, improved collections, early settlement of senior notes or requesting bondholders to waive these breaches until the market appetite for higher responsible lending improves. Management and the Board is aware of this risk if origination drops further and is actively pursuing strategies to resolve this through operational improvements. (Refer notes 6 and 19)

2. Subsequent events

No subsequent events other than those disclosed, that require adjustment have occurred between 31 December 2014 and the date of the approval of the annual financial statements by the board of directors.

3. Authorised and issued ordinary and preference share capital

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

4. Dividends paid

No dividend was declared to the preference shareholder on 31 December 2014 (2013: R40 million).

5. Directors

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	Non-Executive Director	08 November 2010	
Peter Katzenellenbogen	Non-Executive Director	30 January 2012	13 January 2014
Stuart Stone	Non-Executive Director	30 January 2012	21 July 2014
David Woollam	Independent Non-Executive Director	13 January 2014	
Brendan Harmse	Independent Non-Executive Director	31 January 2013	
Jack Trevena	Independent Non-Executive Director	31 January 2013	
RishendrieThanthony	Independent Non-Executive Director	31 January 2013	
Bryan Arlow	Non-Executive Director	27 September 2014	
Werner Janse Van Rensburg	Non-Executive Director	21 July 2014	27 September 2014

6. Holding company

The Bayport Securitisation Ownership Trust holds 100% of the ordinary share capital in Bayport Securitisation (RF) Ltd, whilst Bayport Financial Services 2010 (Pty) Ltd holds 100% of the preference share capital. Bayport Financial Services 2010 (Pty) Ltd is a subsidiary of Bayport Management Limited (BML).

7. Auditors

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

8. Secretary

Alison Blanchard remained the company secretary for the 2014 financial year.

BAYPORT SECURITISATION (RF) LIMITED

STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 R'000	2013 R'000
Assets			
Cash	17	148 760	305 647
Income tax assets		-	27 138
Trade and other receivables	2	20 225	13 629
Loans and advances	3	3 665 596	4 666 335
Deferred tax asset	7	217 261	-
Total assets		4 051 842	5 012 749
Liabilities			
Tax liabilities		1 357	-
Trade and other payables	4	15 758	21 014
Interest bearing liabilities	5	4 811 287	4 669 506
Deferred tax liabilities	7	-	37 846
Total liabilities		4 828 402	4 728 366
Equity			
Share capital	8	1	1
Retained earnings		(776 561)	284 382
Equity attributable to the owners of the company		(776 560)	284 383
Total equity		(776 560)	284 383
Total equity and liabilities		4 051 842	5 012 749

BAYPORT SECURITISATION (RF) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the 15 months ended 31 December 2014

	Notes	2014 R'000	2013 R'000
Interest and other similar income		1 784 377	1 457 797
Interest and other similar expense		(594 588)	(416 854)
Net interest income	9	1 189 789	1 040 943
Impairment of loans and advances	3	(2 102 554)	(754 385)
Risk adjusted net interest income		(912 765)	286 558
Non-interest revenue	10	247 865	285 604
Direct costs	11	(4 077)	(2 556)
Non interest gross profit		243 788	283 048
Indirect costs	12	(614 861)	(462 081)
Profit before tax		(1 283 838)	107 525
Income tax expense	13	222 895	(30 107)
Profit for the year		(1 060 943)	77 418
Other comprehensive income		-	-
Total comprehensive income for the year		(1 060 943)	77 418

BAYPORT SECURITISATION (RF) LIMITED

STATEMENT OF CHANGES IN EQUITY

For the 15 months ended 31 December 2014

	Share capital R'000	Retained earnings R'000	Total equity R'000
Balance at 30 September 2012	1	246 964	246 965
Total comprehensive income	-	77 418	77 418
- Profit for the year	-	77 418	77 418
- Dividend paid to preference shareholder	-	(40 000)	(40 000)
Balance at 30 September 2013	1	284 382	284 383
Total comprehensive income		(1 060 943)	(1 060 943)
- Loss for the year	-	(1 060 943)	(1 060 943)
Balance at 31 December 2014	1	(776 561)	(776 560)

BAYPORT SECURITISATION (RF) LIMITED

STATEMENT OF CASH FLOWS

For the 15 months ended 31 December 2014

	Notes	2014 R'000	2013 R'000
Cash flows from operating activities			
Cash (utilised)/generated by operations	14	(823 600)	632 921
Income taxes paid	15	(3 717)	(46 705)
Cash (utilised)/generated by operating activities before changes in operating assets and liabilities		(827 317)	586 216
Decrease/(increase) in operating assets and liabilities		682 282	(382 898)
Decrease/(increase) in gross loans and advances		540 501	(1 193 169)
Increase in funding of loans and advances		141 781	810 271
Increase in working capital		(11 852)	(83 023)
Increase in trade and other receivables		(6 596)	(2 300)
Decrease in trade and other payables		(5 256)	(80 723)
Net cash generated/(utilised) by operating activities		670 430	(465 921)
Cash flows from financing activities			
Dividend paid to preference shareholder	16	-	(40 000)
Net cash utilised by financing activities		-	(40 000)
Net (decrease)/increase in cash for the year		(156 887)	80 295
Cash at beginning of the year		305 647	225 352
Cash at end of the year	17	148 760	305 647

The financial statements of the company are prepared in accordance with International Financial Reporting Standards ('IFRS'), interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC'), AC 500 standards as issued by the Accounting Practices Board, the Johannesburg Stock Exchange ('JSE') Listings Requirements, the going-concern principle and the requirements of the South African Companies Act 71 of 2008.

The company annual financial statements are prepared on the historical cost basis.

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.

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

The principle accounting policies are set out below

1. 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.

The company recognises financial assets and financial liabilities at the trade date when it becomes a party to the contractual provisions of the instrument.

Initial recognition

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 added to or deducted from the fair value of the financial assets or financial liabilities, 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.

Financial instruments are grouped into classes that are appropriate taking into account the characteristics and risks of those financial instruments. Classes of financial instruments have been determined by referring to the nature and extent of risks arising from the financial instruments and how these are managed.

The company generally does not reclassify financial instruments between different categories subsequent to initial recognition.

1. Financial Instruments (continued)

Classification

Financial assets are classified into the following categories:

- Financial assets at fair value through profit or loss;
- Held-to-maturity investments;
- Loans and receivables; and
- Available-for-sale financial assets.

Financial liabilities are classified into the following categories:

- Financial liabilities at fair value through profit or loss; and
- Financial liabilities at amortised cost.

Financial instruments at fair value through profit or loss are held for trading or designated as at fair value through profit or loss.

A financial asset or a financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling (assets) or repurchasing (liabilities) in the short term; or
- it is a part of an identified portfolio of financial assets or financial liabilities in which there is recent evidence of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets and financial liabilities other than those held for trading may be designated as at fair value through profit or loss upon initial recognition to the extent it produces more relevant information because it either:

- forms part of a group of financial assets and/or financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the company's documented risk management or investment strategy, and information about the grouping is provided internally to management on that basis; or
- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Loans and receivables

These instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets which have been classified as loans and receivables include cash that do not meet the definition of cash as defined in IAS 7 Statement of Cash Flows, trade and other receivables, loans and advances, purchased book debts and other loans receivable.

1. Financial Instruments (continued)

Loans and receivables are initially recognised at fair value. Subsequently loans and receivables are carried at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated by taking into account any transaction costs on acquisition and fees and costs that are an integral part of the effective interest rate.

The carrying amount of loans considered to be impaired on the statement of financial position is reduced through the use of an appropriate impairment methodology.

The majority of the company's advances are included in the loans and receivables category.

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.

Carrying value of the written off book

Loans and receivables that have been written-off individually are re-recognised as a separate portfolio at their net recoverable amount when it is probable that economic benefits relating to the portfolio are expected to flow to the company by reversing the allowance account against the gross loan and receivable and renaming the portfolio to the 'carrying value of the written-off book'. The recoverable amount is determined by discounting the estimated future cash flows at the original effective interest rate. The estimate of the cash flows is performed on a portfolio basis as the advances exhibit similar credit characteristics.

Rehabilitated loans

Loans and receivables recorded as part of the 'carrying value of the written-off book', which get rehabilitated by subsequently having a regular repayment profile are written back on to the statement of financial position in the loans and receivables portfolio. The loans and advances are recorded on an individual account basis at the gross amount outstanding, along with the appropriate allowance account.

1. Financial Instruments (continued)

Impairment

The company reviews the carrying amounts of financial assets, other than those at fair value through profit or loss, on an annual basis to determine whether there is any indication that those financial instruments have become impaired using objective evidence. A financial asset 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 borrower;
- 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; or
- 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 group, including;

  - adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or
  - national or local economic conditions that correlate with defaults on the assets in the group (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 group).

The company considers evidence of impairment for financial assets at both a specific asset and portfolio level. All individually significant financial assets are assessed for specific impairment. Individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar credit risk characteristics (e.g. on the basis of the company’s grading process that considers asset type, collateral type, past due status and other relevant factors). Trade and other receivables that are not originated through the lending business are assessed specifically for impairment and not on a collective basis.

In assessing collective impairment the company uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

1. Financial Instruments (continued)

Impairment (continued)

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against the financial assets.

Where the impairment loss subsequently reverses and the reversal can be related objectively to an event occurring after the impairment was recognised, the carrying amount of the financial asset 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 profit or loss.

Cash collected on financial assets which have been written off is recognised in profit or loss as bad debts recovered as and when the cash is received.

2. Revenue recognition

General policy

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 fees for rendering of services to customers, and finance charges on loans.

Revenue excludes non-operating income and value added taxation.

Interest income

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

The effective interest 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 and points paid or received between parties to the contract that are an integral part of the effective interest rate.

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 revenue.

In instances where a loan is in arrears and no qualifying payment has been received in the last six 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.

2. Revenue recognition (continued)

Rendering of services

Fees are recognised on a percentage of completion basis when costs can be reliably measured and receipt of the future economic benefits is probable.

3. Direct costs

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

4. Interest expense

Interest expense comprise interest on borrowings including debentures, dividends on redeemable preference shares, 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 method except to the extent in which it meets the criteria for capitalisation against a qualifying asset in which case it is capitalised as part of the cost of the asset.

5. 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.

5. Taxation (continued)

Deferred tax

Deferred tax is calculated using the 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 nor tax loss.

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 profit or loss, 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 related to fair value measurement of cash flow hedges, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in profit or loss together with the deferred gain or loss.

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

Indirect taxation in the form of non-claimable value-added tax (VAT) on expenses is disclosed as indirect taxation in the statement of comprehensive income. The non-claimable VAT on the cost of acquisition of fixed assets is amortised over the useful lives of the fixed assets and is included in depreciation in the statement of comprehensive income. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

6. 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.

7. 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 or 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.

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

Deferred tax

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.

Impairment of financial assets

The estimation of impairments of financial assets 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. Financial assets are stated net of identified impairments and incurred but not yet identified impairments. Financial assets 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. In this regard instalments past due date are considered in breach of contract;
- Historical loss experience of groups of financial assets with similar repayment terms; and
- 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.

7. Management estimates (continued)

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 financial assets 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.

8. New and amended accounting standards and interpretations

The company adopted the following accounting standards that became applicable during the current reporting period.

IFRS and title	**Details of change**
IFRS 7 – *Financial instruments: Disclosures*	Requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.

9. New standards issued but not yet effective

IFRS 9 – *Financial Instruments*
IFRS 15 – *Revenue from Contracts with Customers*

1. Review of activities

During this reporting period the unsecured lending industry experienced significant events and changes, largely triggered by the demise of African Bank. This required the company to consider the impact and revisit its operating and financial reporting models. After careful consideration the board responded by:

- Approving a significant increase in impairments of loans and advances, which has resulted in a loss after tax that the directors believe will not be repeated (refer notes 3 and 19);
- Approving a partial impairment of the deferred tax asset, which arose from the increase in impairments and resultant loss after tax (refer note 7);
- Approaching bondholders to approve changes to the bond programme (refer note 5);
- Obtaining a R550 million structurally subordinated debt injection (refer note 5) and a R600 million warehousing facility from BFS2010; and
- Assessing the impact on the liquidity of the company and its funding plans and options and concluding on going concern (refer notes 6 and 19)

2. Trade and other receivables

	2014 R'000	2013 R'000
Prepayments	11 740	8 365
Value added taxation receivable	8 485	5 264
	20 225	13 629

The above values approximate fair values.

3. Loans and advances

During the period under review a new impairment model was introduced. The point of impairment in the new model was moved from the previous Contractual Delinquency (CD) 4 to CD1. This change resulted in a significant increase in the impairment of loans and advances. Management consider the additional impairment raised to be a function of a change in estimate as envisaged by IAS39 as the change was precipitated by events that occurred during the period and not as a result of an error in the prior year.

	2014 R'000	2013 R'000
Gross loans and advances	4 884 909	5 832 281
Allowance for impairment	(1 761 308)	(1 301 070)
Carrying value of written-off book	541 995	135 124
	3 665 596	4 666 335

Gross loans and advances by asset type:

	2014 R'000	2013 R'000
Unsecured loans	4 884 909	5 832 281
	4 884 909	5 832 281

The above values approximate fair values. Loans and advances are ceded as security for interest bearing liabilities issued by the company (refer note 5).

3. Loans and advances (continued)	2014 R'000	2013 R'000
Allowance for impairment:		
Balance at the beginning of the year	(1 301 070)	(775 674)
Movement in impairment provision	(2 745 042)	(988 008)
Impairment recognised in profit and loss	(2 102 554)	(754 385)
Reversal from written-off book to gross loans and advances	(406 872)	(114 426)
Writeback and recoveries	(235 616)	(119 197)
Utilisation of allowance for write-off	2 284 804	462 612
Allowance for impairment	(1 761 308)	(1 301 070)
Related credit risk exposure and enhancements:		
Carrying value of loans and advances less impairment	3 665 596	4 666 335

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

Loans and advances past due but not impaired:		
Amounts 30 days overdue	163 352	263 123
Amounts 30 to 60 days overdue	-	106 299
Amounts 60 to 90 days overdue	-	95 945
Amounts 90 to 120 days overdue	-	93 858
Amounts in excess of 120 days overdue	-	830 492
	163 352	1 389 717

Allowance for impairment on loans and advances can be aged as follows:		
Amounts in current	(478 203)	(9 862)
Amounts 30 days overdue	(147 222)	(56 382)
Amounts 30 to 60 days overdue	(149 063)	(63 523)
Amounts 60 to 90 days overdue	(140 610)	(66 272)
Amounts in excess of 90 days overdue	(709 996)	(1 095 791)
Specific impairment	(1 625 094)	(1 291 830)
Incurred but not reported impairment	(136 214)	(9 240)
Total allowance for impairment	(1 761 308)	(1 301 070)

	2014	2013
4. Trade and other payables	R'000	R'000
Trade payables and accruals	15 758	19 127
Interest payable	-	1 887
	15 758	21 014

Trade and other payables bear no interest.

5. Interest bearing liabilities	R'000	R'000
Debentures and loans		
Senior debt	2 751 937	3 371 465
Mezzanine debt	474 232	377 221
Junior debentures- Bayport Financial Services 2010 (Pty) Ltd	199 000	199 000
Loan from Bayport Financial Services 2010 (Pty) Ltd	1 386 118	721 820
	4 811 287	4 669 506
Payable within 12 months	1 746 806	1 769 658
Payable thereafter	3 064 481	2 899 848
	4 811 287	4 669 506
Undrawn facility at year end	500 000	800 000

The company is not in breach or default of any provisions of the terms or conditions of the agreements governing borrowings. The additional impairment raised (refer note 3) was processed effective December 2014. The injection of R550 million of additional subordinated debt from BFS2010 ensured that no covenants were breached. The bad and doubtful debt ratio in the Bayport Securitsation Programme Memorandum has been amended to reflect the new impairment methodology. Bondholders approved the exclusion of the effects of such a change in the bad and doubtful debt ratio in determining covenant compliance.

The company will change its calculation of the senior debt interest cover ratio going forward to correctly include interest on all qualifying loan agreements, and not reduce the ratio by interest suspended and not recognized for accounting purposes. This change serves to properly align the calculation with the legal interpretation of the covenant.

The company operates in strict accordance with the Bayport Securitisation Programme Memorandum which stipulates how the priority of payments is to be effected.

The company has appointed MBD as the stand-by administrator who can step into the role of manager if called to do so by the senior noteholders.

5. Interest bearing liabilities (continued)

Senior debt

2014	**Balance** R'000	**Interest**	**Maturity**
Fixed rate loans	836 964	9.28% to 12.55%	31 March 2015 – 03 April 2018
Variable rate loans	1 914 973	JIBAR plus 2.00% to JIBAR plus 5.00%	30 September 2015 – 01 April 2019
	2 751 937		

2013	**Balance** R'000	**Interest**	**Maturity**
Fixed rate loans	1 149 941	9.28% to 12.55%	30 September 2015 – 03 April 2018
Variable rate loans	2 221 524	JIBAR plus 0.80% to JIBAR plus 5.00%	31 March 2014 – 31 December 2018
	3 371 465		

Only R327.5 million of the Bayport Financial Services 2010 (Pty) Ltd (BFS2010) loan is interest bearing. The remainder of the loan is interest free. There are no fixed repayment terms.

The BFS2010 loan is subordinated in favour of the company's creditors, until such time as the assets, fairly valued, exceed the liabilities.

Junior debentures (2014 and 2013)

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

The following has been ceded as security for senior debt:

- Pledge and cession of the company's title and interest in loans and advances; and
- The bank accounts of the company.

5. Interest bearing liabilities (continued)

Mezzanine debt

2014	**Balance** R'000	**Interest**	**Maturity**
Fixed rate loans	209 232	13.92% to 15.55%	31 March 2016 – 31 March 2017
Variable rate loans	265 000	JIBAR plus 5.75% to JIBAR plus 8.00%	01 October 2018 – 30 September 2020
	474 232		

2013	**Balance** R'000	**Interest**	**Maturity**
Fixed rate loans	227 221	13.92% to 15.55%	31 March 2016 – 31 March 2017
Variable rate loans	150 000	JIBAR plus 7.5% to JIBAR plus 8.00%	01 July 2019 – 30 September 2020
	377 221		

6. Going concern assessment

In performing this assessment, the directors have considered all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to the directors.

As part of their assessment, the directors have considered if there are any material uncertainties relating to events or conditions that might cast significant doubt upon the continuing use of the going concern basis of accounting in future periods. Uncertainties relating to such events or conditions would be considered material, and therefore disclosed, if their disclosure could reasonably be expected to affect the economic decisions of shareholders and other users of the financial statements. This is a matter of judgement. In making this judgement, the directors have considered the uncertainties arising from their assessment, both individually and in combination with others.

In determining whether there are material uncertainties, the directors have considered:

- the magnitude of the potential impacts of the uncertain future events or changes in conditions on the company and the likelihood of their occurrence;
- the realistic availability and likely effectiveness of actions that the directors would consider undertaking to avoid, or reduce the impact or likelihood of occurrence, of the uncertain future events or changes in conditions; and
- whether the uncertain future events or changes in conditions are unusual, rather than occurring with sufficient regularity to make predictions about them with a high degree of confidence.

Uncertainties are not considered material if the likelihood that the company will not be able to continue to use the going concern basis of accounting is assessed to be remote, however significant the assessed potential impact.

In evaluating the company's ability to continue as a going concern during the ensuing twelve months, the following areas, amongst others, have been considered in making the assessment:

6. Going concern assessment (continued)

1. Liquidity

As a function of the capital structure, the company has regular debt redemption needs that require access to the wholesale debt markets. There is currently uncertainty as to the available liquidity in the debt markets. The directors have considered this potential difficulty and for the following reasons believe that there is no going concern risk at present:

- The company has the willing support of its shareholder Bayport Management Limited, which has access to a far broader international spectrum of capital markets which was demonstrated by the injection of R550 million in equity in December 2014 together with a R600 million warehouse facility in April 2015;
- The company has access to a R500 million warehousing facility with the Standard Bank of South Africa that expires in June 2015 and is expected to be renewed. If it is not renewed the facility can be converted into a 3 year amortising senior note;
- Because of heightened scrutiny in the industry, management and the board tested the appetite of its current bondholders during March 2015 to roll their current bonds upon maturity and were met with verbal indications, with almost no exception, that they will do so. Since then 80% of the only bond that fell due on 31 March 2015 has already been rolled;
- The company can suspend origination and trade to February 2016 using the existing warehouse facility without rolling current long-term debt as it matures and without needing to raise debt capital from new sources. This would result in a breach of the the senior debt cashflow cover ratio. This breach can be resolved through consent of the bondholders to repay senior debt early. In extreme scenarios it may need to approach its shareholder for additional subordinated funding as a last resort;
- If the company reduces origination by 50% from current origination levels it can trade to February 2016 using the existing Standard Bank warehouse facility without rolling any long term debt as it matures and without the need to raise debt capital from new sources. Accessing the BML warehouse facility will allow the company to trade beyond March 2016. Covenant ratios are not breached at current already constained origination levels, but reducing origination below these levels will cause breach of the senior debt cash flow covenant ratios from August 2015. In both scenarios the company is profitable and, before origination, cashflow positive and can settle all debt due over the next 12 months. The breaches can be remedied by responsibly increasing origination, improved collections, early settlement of senior notes or requesting bondholders to waive these breaches until the market appetite for higher responsible lending improves. Management and the Board is aware of this risk if origination drops further and is actively pursuing strategies to resolve this through operational improvements;
- The company estimates that it will need to raise R305 million of external debt funding over the next 12 months at current origination levels. The board is planning and confident that, on a conservative basis, they will be able to roll at least 50% (R100 million) of current bonds with bullet payments due in the next 12 months, and will be able to raise at least another R300 million of new bonds over the next 12 months, conservative if compared to the R900 million (with rolls of 83%) actually rolled and raised during the prior financial year. Strategically the group intends to responsibly increase origination by about 25% from current constrained levels and is confident that it can realistically raise R1.75 billion of new bonds over the next 12 months which may include accessing the R1.1 billion warehouse facilities;
- The company has recently received a rating upgrade to an “A+” rating and has successfully raised funds in the local market recently and reasonably expects to be able to do so again in the next 12 months;
- The company has structured its assets and liabilites in such a fashion that in an extreme scenario, the assets of the business will release in advance of the liabilities meaning that the chances of the company not being able to pay its debts as they fall due are remote.

6. Going concern assessment (continued)

1. Liquidity (continued)

- The company operates in strict accordance with the Bayport Securitisation Programme Memorandum which stipulates how the priority of payments is to be effected; and
- The company has appointed MBD as the stand-by administrator who can step into the role of manager if called to do so by the senior noteholders.

2. Consumer

The company is exposed to the financial health of the consumer. Currently there are a number of factors impacting the financial health of the consumer including, debt to income levels, ongoing employment and inflation.

- Debt to income: consumers debt to disposable income peaked in 2008 at levels of around 88%. There has been a consistent downward trend with the level dropping from around 82% in 2013 to 78% in 2014. Together with real wage growth, there will be more disposable income to service debt.
- Employment: other than the civil service which is a stable employer, the company does not have any concentration risk to any one sector. Notwithstanding concerns surrounding employment given the ongoing energy crisis, the company does not expect any material adverse impact on portfolio performance. The company is selective about which industries it chooses to lend into and will act accordingly if any stress in a particular sector arises.
- Inflation: one of the main contributors to inflation is fuel prices in that it affects both the cost of transport and goods and services that require transport as part of the delivery chain, such as food. With the significant reduction in oil prices, consumers will be paying less for transport increasing disposable income.

Taking the aforementioned factors into account, the directors consider the going concern basis of accounting appropriate and that there are no material uncertainties that would cast doubt upon that assertion.

7. Deferred tax assets/(liabilities)

The company moved into an assessed loss position following additional loan impairments raised during the year (refer note 3) that exceeded taxable income. The company has not recognised R136.6 million of the deferred tax asset that was created as a function of the change in impairments. The remainder of the asset is considered recoverable through future taxable earnings in the form of normal operating profits. In determining the expected utilisation of the tax loss, management has adjusted the normal operating profits to include a decrease in the management fees between Bayport Financial Services 2010 (Pty) Ltd and Bayport Securitisation RF Ltd. The valuation of the assets is contingent on operating performance approximating the approved budget. To the extent there is a material deviation to budget, in either direction, the asset would need to be re-valued accordingly.

	2014 R'000	2013 R'000
Deferred tax is presented on the statement of financial position as follows:		
Deferred tax assets/(liabilities)	217 261	(37 846)
	217 261	(37 846)

7. Deferred tax assets/(liabilities) (continued)

	2014 R'000	2013 R'000
The movements during the year are analysed as follows:		
Deferred tax liability at the beginning of the year	(37 846)	(15 791)
Tax charge to the statement of comprehensive income	222 895	(22 055)
Prior year adjustment	32 212	-
Deferred tax assets/(liabilities) at end of the year	217 261	(37 846)

Deferred tax assets/(liabilities)	Opening balance R'000	Tax charge R'000	Closing balance R'000
2014			
Impairment of loans and advances	19 025	143 035	162 060
Estimated tax losses	-	64 597	64 597
Fair value of financial liabilities	(12 846)	(1 450)	(14 296)
Fair value of written off book	(37 407)	37 407	-
Revenue and expense recognition timing differences	(6 618)	11 518	4 900
Net deferred tax (liabilities)/assets	(37 846)	255 107	217 261
2013			
Impairment of loans and advances	9 981	9 044	19 025
Fair value of financial liabilities	(9 051)	(3 795)	(12 846)
Fair value of written off book	(5 795)	(31 612)	(37 407)
Revenue and expense recognition timing differences	(10 926)	4 308	(6 618)
Net deferred tax liabilities	(15 791)	(22 055)	(37 846)

	2014 R'000	2013 R'000
8. 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
9. Net interest income		
Interest and other similar income is earned from:		
Cash	15 969	8 174
Loans and advances	1 768 408	1 449 623
	1 784 377	1 457 797
Interest and other similar expenses are paid on:		
Interest bearing liabilities	594 588	416 854
	594 588	416 854
Interest and other similar income	1 784 377	1 457 797
Interest and other similar expense	(594 588)	(416 854)
	1 189 789	1 040 943

	2014 R'000	2013 R'000

10. Non-interest revenue

Non-interest revenue comprises:

	2014 R'000	2013 R'000
Service fees	135 993	134 464
Cellular subscription income	82 827	129 350
Legal collection recoveries	29 045	21 790
	247 865	285 604

11. Direct costs

Direct costs comprise:

	2014 R'000	2013 R'000
Transactional costs	70	-
Funding and listing fees	3 581	1 721
Legal collection costs	426	835
	4 077	2 556

12. Indirect costs

Included in indirect costs are the following:

	2014 R'000	2013 R'000
Professional fees	505	356
Management fees	569 768	432 946

13. Income tax expense

South African normal taxation:

	2014 R'000	2013 R'000
Current taxation	(32 212)	(8 052)
Current year	-	(5 146)
Prior year	(32 212)	(2 906)
Deferred taxation	255 107	(22 055)
Current year	222 895	(24 961)
Prior year	32 212	2 906
	222 895	(30 107)

Tax rate reconciliation:

	2014	2013
South African tax rate	28%	28%
Deferred tax asset not recognised	(11%)	-
Effective tax rate	17%	28%

	2014 R'000	2013 R'000

14. Cash generated by operations

	2014 R'000	2013 R'000
(Loss)/profit before tax	(1 283 838)	107 525
Movement in allowance for impairment	460 238	525 396
	(823 600)	632 921

15. Income taxes paid

	2014 R'000	2013 R'000
Amounts (receivable)/payable at beginning of the year	(27 138)	11 515
Charged in the statement of comprehensive income	32 212	8 052
Amounts (payable)/recoverable at end of the year	(1 357)	27 138
	3 717	46 705

16. Dividend paid to preference shareholder

	2014 R'000	2013 R'000
Amounts payable at the beginning of the year	-	-
Dividend for the year	-	40 000
Amounts payable at the end of the year	-	-
	-	40 000

17. Cash

	2014 R'000	2013 R'000
Bank balances	148 760	305 647
	148 760	305 647

Bank balances carry interest at rates ranging from 2.5% to 6.5% per annum. Interest on overdraft accounts is charged at 9.3% per annum. Bank balances are ceded as security for interest bearing liabilities issued by the company (refer note 5).

	2014 R'000	2013 R'000

18. Related parties

Relationships

Company which exercises control and provides management services:

Bayport Financial Services 2010 (Pty) Ltd

Related party balances

	2014 R'000	2013 R'000
Junior debentures issued by Bayport Financial Services 2010 (Pty) Ltd (refer note 5)	199 000	199 000
Loans from Bayport Financial Services 2010 (Pty) Ltd	1 386 118	721 820

Related party transactions

	2014 R'000	2013 R'000
Directors fees		
Theodor Bohlmann	-	75
Roderick Fehrsen	-	75
David Woollam	-	75
TMF Corporate Services (South Africa) (Pty) Ltd (formerly GMG Trust Company (SA) (PTY) Ltd)	172	70
Interest on junior debentures: Bayport Financial Services 2010 (Pty) Ltd	35 256	24 172
Interest on loan: Bayport Financial Services 2010 (Pty) Ltd	59 271	41 574
Management fee: Bayport Financial Services 2010 (Pty) Ltd	569 768	432 946

19. Financial Risk Management and Governance

The board of directors of the company is 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 and risk committee (ARC) which comprises three independent non-executive directors and meets twice annually. Invitees to the ARC meetings include the external auditors, the internal auditors as well as representatives of Bayport Financial Services and Bayport Management Ltd (BML), the parent company of Bayport Financial Services.

The ARC assists the board with:

- combined assurance;
- internal audit;
- external audit; and
- governance

19.1 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”.

19.1 Financial risk management (continued)

Bayport Financial Services has constituted a credit committee. 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 Domestic Medium Term Note (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 company with the necessary details to make an informed credit decision. A three stage approach to credit advancement is applied as follows:

- assessing basic credit criteria;
- scoring the individual against a proprietary scorecard; and
- verifying details and performing an affordability check.

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

19.1.1 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
31 December 2014			
Neither past due nor impaired	20 225	2 477 887	2 498 112
Past due but not impaired	-	163 352	163 352
Impaired	-	2 243 670	2 243 670
Total	20 225	4 884 909	4 905 134
Impairments:	-	(1 761 308)	(1 761 308)
Specific impairment	-	(1 551 436)	(1 551 436)
Incurred but not reported impairment	-	(209 872)	(209 872)
Carrying value of written off book	-	541 995	541 995
Carrying value of financial assets	20 225	3 665 596	3 685 821

19. Financial risk management (continued)

19.1.1 Financial assets subject to credit risk (continued)

	Trade and other receivables R'000	Loans and advances R'000	Total R'000
30 September 2013			
Neither past due nor impaired	13 629	2 337 854	2 351 483
Past due but not impaired	-	1 389 717	1 389 717
Impaired	-	2 104 710	2 104 710
Total	13 629	5 832 281	5 845 910
Impairments:	-	(1 301 070)	(1 301 070)
Specific impairment	-	(1 291 830)	(1 291 830)
Incurred but not reported impairment	-	(9 240)	(9 240)
Carrying value of written off book	-	135 124	135 124
Carrying value of financial assets	13 629	4 666 335	4 679 964

During the period under review a new impairment model was introduced. The point of impairment in the new model was moved from the previous Contractual Delinquency (CD) 4 to CD1. This change resulted in a significant increase in the impairment of loans and advances. Management consider the additional impairment raised to be a function of a change in estimate as envisaged by IAS39 as the change was precipitated by events that occurred during the period and not as a result of an error in the prior year.

In determining the extent of impairment to be recognised, the company uses a ten year projection of expected cash flows discounted at the original effective rate. To the extent that a shorter forecast period is used, the resultant impairment would increase. The most conservative market practice is a five year forecast period. If the company moved to a five year forecast period, the impairment would increase by R89 million. The company is of the opinion that the ten year forecast is appropriate and can demonstrate cash received on loan and advances accounts post five years on book.

The company considers the point of impairment to be CD 1, being one month in arrears, and an impaired account to be cured if the customer makes three consecutive instalments of more than ninety percent of the contractual instalment. The company will have to adopt *IFRS 9: Financial Instruments* on 1 January 2018. The adoption of IFRS 9 would result in an additional impairment of R337 million. Management is currently formulating a strategy to manage the additional adoption cost.

19.1.2 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 3–4 months R'000	Past due greater than 4 months R'000	Total R'000
2014						
Loans and advances	163 352	-	-	-	-	163 352
	163 352	-	-	-	-	163 352
2013						
Loans and advances	263 123	106 299	95 945	93 858	830 492	1 389 717
	263 123	106 299	95 945	93 858	830 492	1 389 717

19. Financial risk management (continued)

19.1.2 Financial assets that are past due but not impaired (continued)

	2014 R'000	2013 R'000
Carrying value of loans and advances	3 665 596	4 666 335
Credit quality		
High	1 252 934	1 746 626
Medium	875 929	387 019
Low	349 024	204 209
Neither past due nor impaired	2 477 887	2 337 854

The credit quality segments have been determined by reference to both the scoring at application and behavioral performance.

19.1.3 Cash

The company limits its counterparty exposure arising from money market instruments by dealing only with well-established financial institutions of high credit standing.

The company's policy is to maintain cash and short-term investments with various financial institutions to limit its exposure to any one financial institution. Deposits are placed only with South African banks and limited financial institutions. At the date of the statement of financial position, the company did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

19.2 Interest rate risk

Interest rate risk is the risk of loss arising from the fair value of 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.

The company has exposure to the effects of fluctuations in the prevailing levels of market interest rates on both the value of interest sensitive assets and liabilities and cash flows. The table below summarises the exposure to interest rate risk through grouping liabilities and assets into repricing categories, determined to be the earlier of contractual repricing date or maturity.

19.2.1 Risk profile of interest bearing liabilities and assets

2014	Floating rate liabilities R'000	Fixed rate liabilities R'000	Floating rate assets R'000	Fixed rate assets R'000	Net (liabilities)/assets R'000
Unsecured Lending	(2 340 973)	(2 470 314)	148 760	3 665 596	(996 931)
Total	(2 340 973)	(2 470 314)	148 760	3 665 596	(996 931)
2013					
Unsecured Lending	(2 532 524)	(2 136 982)	305 647	4 666 335	302 476
Total	(2 532 524)	(2 136 982)	305 647	4 666 335	302 476

19.2.2 Weighted average interest rates are as follows:

	Bank balances	Borrowings
2014		
Interest bearing assets/(liabilities)	5.2%	(10.8%)
2013		
Interest bearing assets/(liabilities)	3.5%	(9.7%)

19. Financial risk management (continued)

19.2 Interest rate risk (continued)

19.2.3 Sensitivity analysis

	Fair value R'000	Effect on profit before tax of 1% change in rates R'000	Total carrying value of asset class R'000
The company's exposures to various financial risks are set out below:			
31 December 2014			
Assets			
Loans and advances	3 665 596	-	3 665 596
Trade and other receivables	20 225	-	20 225
Cash	148 760	14 876	148 760
	3 834 581	14 876	3 834 581
Liabilities			
Interest bearing borrowings	4 834 033	23 637	4 811 287
-Variable	2 363 719	23 637	2 340 973
-Fixed	2 470 314	-	2 470 314
Trade and other payables	15 758	-	15 758
	4 849 791	23 637	4 827 045
30 September 2013			
Assets			
Loans and advances	4 666 335	-	4 666 335
Trade and other receivables	13 629	-	13 629
Cash	305 647	3 056	305 647
	4 985 611	3 056	4 985 611
Liabilities			
Interest bearing borrowings	4 665 414	25 325	4 669 506
-Variable	2 528 432	25 325	2 532 524
-Fixed	2 136 982	-	2 136 982
Trade and other payables	21 014	-	21 014
	4 686 428	25 325	4 690 520

19.3 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 asset and liability committee (ALCO) of Bayport Financial Services 2010(Pty) Ltd. 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.

Bayport Management Limited’s Capital Markets (CM) 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 CM 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 funding covenants are maintained within acceptable risk tolerances and to produce financial projections to monitor the impact of business trends in order to notify the CM team of any changes to the business environment that may impact funding requirements.

19. Financial risk management (continued)

19.3 Liquidity risk management (continued)

As a function of the capital structure, the company has regular debt redemption needs that require access to the wholesale debt markets. There is currently uncertainty as to the available liquidity in the debt markets. The directors have considered this potential difficulty and for the following reasons believe that there is no going concern risk at present:

- The company has the willing support of its shareholder Bayport Management Limited, which has access to a far broader international spectrum of capital markets which was demonstrated by the injection of R550 million in equity in December 2014 together with a R600 million warehouse facility in April 2015;
- The company has access to a R500 million warehousing facility with the Standard Bank of South Africa that expires in June 2015 and is expected to be renewed. If it is not renewed the facility can be converted into a 3 year amortising senior note;
- Because of heightened scrutiny in the industry, management and the board tested the appetite of its current bondholders during March 2015 to roll their current bonds upon maturity and were met with verbal indications, with almost no exception, that they will do so. Since then 80% of the only bond that fell due on 31 March 2015 has already been rolled;
- The company can suspend origination and trade to February 2016 using the existing warehouse facility without rolling current long-term debt as it matures and without needing to raise debt capital from new sources. This would result in a breach of the the senior debt cashflow cover ratio. This breach can be resolved through consent of the bondholders to repay senior debt early. In extreme scenarios it may need to approach its shareholder for additional subordinated funding as a last resort;
- If the company reduces origination by 50% from current origination levels it can trade to February 2016 using the existing Standard Bank warehouse facility without rolling any long term debt as it matures and without the need to raise debt capital from new sources. Accessing the BML warehouse facility will allow the company to trade beyond March 2016. Covenant ratios are not breached at current already constrained origination levels, but reducing origination below these levels will cause breach of the senior debt cash flow covenant ratios from August 2015. In both scenarios the company is profitable and, before origination, cashflow positive and can settle all debt due over the next 12 months. The breaches can be remedied by responsibly increasing origination, improved collections, early settlement of senior notes or requesting bondholders to waive these breaches until the market appetite for higher responsible lending improves. Management and the Board is aware of this risk if origination drops further and is actively pursuing strategies to resolve this through operational improvements;
- The company estimates that it will need to raise R305 million of external debt funding over the next 12 months at current origination levels. The board is planning and confident that, on a conservative basis, they will be able to roll at least 50% (R100 million) of current bonds with bullet payments due in the next 12 months, and will be able to raise at least another R300 million of new bonds over the next 12 months, conservative if compared to the R900 million (with rolls of 83%) actually rolled and raised during the prior financial year. Strategically the group intends to responsibly increase origination by about 25% from current constrained levels and is confident that it can realistically raise R1.75 billion of new bonds over the next 12 months which may include accessing the R1.1 billion warehouse facilities;
- The company has recently received a rating upgrade to an “A+” rating and has successfully raised funds in the local market recently and reasonably expects to be able to do so again in the next 12 months; and
- The company has structured its assets and liabilites in such a fashion that in an extreme scenario, the assets of the business will release in advance of the liabilities meaning that the chances of the company not being able to pay its debts as they fall due are remote.

19. Financial risk management (continued)

19.3 Liquidity risk management (continued)

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

2014	0 – 3 months R'000	4 – 12 months R'000	> 12 months R'000	Total R'000
Assets				
Cash and cash equivalents	148 760	-	-	148 760
Trade and other receivables	20 225	-	-	20 225
Loans and advances	500 009	1 084 855	4 565 349	6 150 213
Cash flows from financial assets	668 994	1 084 855	4 565 349	6 319 189
Liabilities				
Trade and other payables	(15 758)	-	-	(15 758)
Interest bearing liabilities	(319 794)	(918 533)	(4 417 837)	(5 656 164)
Cash flows from financial liabilities	(335 552)	(918 533)	(4 417 837)	(5 671 922)
Net liquidity gap	333 442	166 322	147 512	647 276

2013	0 – 3 months R'000	4 – 12 months R'000	> 12 months R'000	Total R'000
Assets				
Cash and cash equivalents	305 647	-	-	305 647
Trade and other receivables	13 629	-	-	13 629
Loans and advances	635 225	1 304 450	5 153 090	7 092 765
Cash flows from financial assets	954 501	1 304 450	5 153 090	7 412 041
Liabilities				
Trade and other payables	(21 014)	-	-	(21 014)
Interest bearing liabilities	(258 006)	(1 141 702)	(4 238 239)	(5 637 947)
Cash flows from financial liabilities	(279 002)	(1 141 702)	(4 238 239)	(5 658 961)
Net liquidity gap	675 481	162 748	914 851	1 753 080

19. Financial risk management (continued)

19.4 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 loans from Bayport Financial Services 2010 (Pty) Ltd.

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.

19. Financial risk management (continued)

19.5 Categorisation – statement of financial position

31 December 2014

	Financial liabilities carried at amortised cost R'000	Loans and receivables R'000	Non-financial liabilities and assets / Equity R'000	Total R'000
Assets				
Cash	-	148 760	-	148 760
Loans and advances	-	3 665 596	-	3 665 596
Trade and other receivables	-	20 225	-	20 225
Deferred tax assets	-	-	217 261	217 261
	-	3 834 581	217 261	4 051 842
Equity and liabilities				
Trade and other payables	15 758	-	-	15 758
Interest bearing liabilities	4 811 287	-	-	4 811 287
Tax liabilities	-	-	1 357	1 357
Shareholder's equity	-	-	(776 560)	(776 560)
	4 827 045	-	(775 204)	4 051 842

30 September 2013

	Financial liabilities carried at amortised cost R'000	Loans and receivables R'000	Non-financial liabilities and assets / Equity R'000	Total R'000
Assets				
Cash	-	305 647	-	305 647
Loans and advances	-	4 666 335	-	4 666 335
Trade and other receivables	-	13 629	-	13 629
Tax assets	-	-	27 138	27 138
	-	4 985 611	27 138	5 012 749
Equity and liabilities				
Trade and other payables	21 014	-	-	21 014
Interest bearing liabilities	4 669 506	-	-	4 669 506
Deferred tax liabilities	-	-	37 846	37 846
Shareholder's equity	-	-	284 383	284 383
	4 690 520	-	322 229	5 012 749

19. Financial risk management (continued)

19.6 Categorisation – statement of comprehensive income

31 December 2014

	Financial liabilities carried at amortised cost R'000	Loans and receivables R'000	Non-financial liabilities and assets / Equity R'000	Total R'000
Interest income	-	1 784 377	-	1 784 377
Interest expense	(594 588)	-	-	(594 588)
Loan fee income	-	135 992		135 992
Loan fee expense	-	-	(3 581)	(3 581)
Net impairment	-	(2 102 554)	-	(2 102 554)
Profit for the year	(594 588)	(182 185)	(3 581)	(780 354)

30 September 2013

	Financial liabilities carried at amortised cost R'000	Loans and receivables R'000	Non-financial liabilities and assets / Equity R'000	Total R'000
Interest income	-	1 457 797	-	1 457 797
Interest expense	(416 854)	-	-	(416 854)
Loan fee income	-	134 464	-	134 464
Loan fee expense	-	-	(1 721)	(1 721)
Dividend paid	-	-	(40 000)	(40 000)
Net impairment	-	(754 385)	-	(754 385)
Profit for the year	(416 854)	837 876	(41 721)	379 301

20. Subsequent events

No subsequent events that require adjustment have occurred between 31 December 2014 and the date of the approval of the annual financial statements by the board of directors.