Residual Debt Services Limited (in curatorship)

Unaudited Condensed Interim Financial Statements

31 March 2017

These financial statements were prepared under the supervision of the Chief Financial Officer of African Bank Limited, G Raubenheimer CA (SA)

Registration number: 1975/002526/06

NCR Registration number NCRCP5
An Authorised Financial Services and Registered Credit Provider

T Winterboer was appointed as curator of Residual Debt Services Limited ((the "Company") previously named African Bank Limited (the "Bank")) on 10 August 2014 by the then Minister of Finance of the Republic of South Africa and pursuant to the Banks Act No. 94 of 1990 (as amended) to manage the affairs of the Company subject to the supervision of the Registrar of Banks.

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Annexures to the condensed interim financial statements

These interim financial statements were approved by:

T Winterboer
Curator

Midrand
7 June 2017

STATEMENT OF RESPONSIBILITY BY THE CURATOR

The curator is responsible for the preparation and fair presentation of the condensed interim financial statements, comprising the condensed statement of financial position as at 31 March 2017, the condensed statement of profit or loss, the condensed statement of other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the period then ended, the selected notes to the condensed interim financial statements; which are prepared in accordance with the Framework as stipulated in the Accounting Policies of these Financial Statements and in the manner required by the Companies Act 71 of 2008 of South Africa.

The curator's responsibility includes:

- the management of the Company vested in the curator (subject to the supervision of the Registrar of Banks), and any other person vested with the management of the affairs of the Company was divested thereof from 10 August 2014; and
- the curator became obliged to recover and take possession of all the assets of the Company.

The curator shall:

- subject to the supervision of the Registrar of Banks, conduct the management of the Company in such a manner as the Registrar may deem to best promote the interests of the creditors of the Company and of the banking sector as a whole;
- comply with any direction of the Registrar;
- keep such accounting records and prepare such annual financial statements, interim reports and provisional annual financial statements as the Company or its directors would have been obliged to keep or prepare if the Company had not been placed under curatorship;
- convene the annual general meeting or any other meeting of the Company provided for in the Companies Act, and, in that regard, comply with all the requirements with which the directors of the Company would in terms of the Companies Act have been obliged to comply if the Company had not been placed under curatorship; and
- have the power to bring or defend in the name and on behalf of the Company any action or other legal proceedings of a civil nature and, subject to the provisions of any law relating to criminal proceedings, any criminal proceedings.

Due to the nature of the curatorship, the financial statements are not presented on a going concern basis; rather the financial statements have been presented using the **Framework** as stipulated in the notes to these Financial Statements. The purpose of the Company during curatorship is to collect all outstanding advances retained by the Company, build the required indemnity cash reserves as required by the SARB and where excess cash is collected to make payment to stub note holders.

Approval of the interim condensed financial statements

The interim condensed financial statements found on pages 4 to 14 were approved by the curator on 7 June 2017.

T Winterboer
Curator

Midrand

A signed copy of the interim condensed financial statements is available for inspection at the registered office.

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CONDENSED STATEMENT OF FINANCIAL POSITION
as at 31 March 2017

R million	% change	Unaudited March 2017	Audited September 2016
Assets			
Cash and cash equivalents	>100	**2 684**	697
Other assets	(>100)	**34**	791
Net advances	(39)	**1 769**	2 911
Total assets	2	**4 487**	4 399
Liabilities and equity			
Other liabilities	27	**201**	159
Stub instruments liability	6	**9 197**	8 701
Total liabilities	6	**9 398**	8 860
Ordinary share capital		**121**	121
Ordinary share premium		**14 283**	14 283
Reserves and accumulated losses	2	**(19 315)**	(18 865)
Total equity (capital and reserves)	10	**(4 911)**	(4 461)
Total liabilities and equity	2	**4 487**	4 399

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CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 March 2017

R million	% change	Unaudited 6 months ended 31 March 2017	Unaudited 6 months ended 31 March 2016
Interest income on advances	(>100)	**151**	3 362
Non-interest income	(>100)	**18**	822
Income from operations	(>100)	**169**	4 184
Credit impairment reversal/(charge)	>100	**225**	(1 482)
Risk-adjusted income from operations	(85)	**394**	2 702
Other interest income	(86)	**70**	520
Interest expense	(81)	**(501)**	(2 625)
Operating costs	(71)	**(390)**	(1 368)
Other losses	(100)	**-**	(172)
Indirect taxation: VAT	(47)	**(23)**	(44)
Loss from operations	(54)	**(450)**	(987)
Capital items	(100)	**-**	341
Loss before taxation	(30)	**(450)**	(646)
Direct taxation: current and deferred		**-**	-
Loss for the period	(30)	**(450)**	(646)
Other comprehensive income		**-**	-
Total comprehensive loss for the period	(30)	**(450)**	(646)

*The company has no other comprehensive income for the period under review

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CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 March 2017

R million	Ordinary share capital	Ordinary share premium	Accumulated losses	Available- for-sale reserve	Total
Balance at 30 September 2015 (audited)	**121**	**14 283**	**(21 231)**	**(2)**	**(6 829)**
Total comprehensive loss for the period	-	-	(646)	(3)	(649)
Balance at 31 March 2016 (unaudited)	**121**	**14 283**	**(21 877)**	**(5)**	**(7 478)**
Total comprehensive income for the period	-	-	3 012	5	3 017
Balance at 30 September 2016 (audited)	**121**	**14 283**	**(18 865)**	**-**	**(4 461)**
Total comprehensive loss for the period	**-**	**-**	**(450)**	**-**	**(450)**
Balance at 31 March 2017 (unaudited)	**121**	**14 283**	**(19 315)**	**-**	**(4 911)**

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CONDENSED STATEMENT OF CASH FLOWS
for the six months ended 31 March 2017

R million	Unaudited 6 months to March 2017	Unaudited 6 months to March 2016
Cash generated from operations	**354**	3 550
Cash received from lending activities and cash reserves	**273**	4 709
Recoveries on advances previously written off	**361**	369
Cash paid to clients, suppliers of funding, employees and agents	**(280)**	(1 528)
Decrease/(Increase) in gross advances	**966**	(39)
Decrease/(Increase) in statutory assets	**-**	82
Increase/(Decrease) in customer deposits	**-**	12
Indirect and direct taxation paid	**(23)**	(44)
Cash inflow from operating activities	**1 297**	3 561
Cash inflow/(outflow) from investing activities	**-**	161
Acquisition of property and equipment (to maintain operations)	**-**	(11)
Acquisition of intangible assets (to maintain operations)	**-**	(5)
Net movement in other investing activities	**-**	177
Cash (outflow)/inflow from financing activities	**-**	(714)
Cash (outflow)/inflow from funding activities	**-**	(714)
Increase in cash and cash equivalents	**1 297**	3 008
Cash received from the sale of business	**690**	-
Cash and cash equivalents classified as held for sale	**-**	(11 376
Cash and cash equivalents at the beginning of the period	**697**	14 526
Cash and cash equivalents at the end of the period	**2 684**	6 158

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

General information

Residual Debt Services Limited (in curatorship) ("RDS") is a public company incorporated in the Republic of South Africa. The Company's shares are held by African Phoenix Investments Limited (a new registered name for African Bank Investments Limited "ABIL" i.e. the previous holding company).

RDS (then African Bank) was placed under curatorship on 10 August 2014 in terms of section 69 of the Banks Act by the SARB. The SARB decision followed a period of growing uncertainty surrounding the Company, after a series of financial losses were announced by the Company's then holding company, ABIL. Furthermore, Ellerine Furnishers Proprietary Limited and Ellerine Holdings Limited, were placed under business rescue on 7 August 2014 and 22 August 2014 respectively

The curator issued an Offering Information Memorandum ("OIM") to the affected parties detailing the intended restructure of the Company on 4 February 2016. On 4 April 2016 the resolution of the Company ("the Transaction") took place.

Subsequent to the Transaction on 4 April 2016, the Company no longer originates loans. The Company has continued to collect on the remaining loan book.

Basis of preparation

Due to the nature of the curatorship, the financial statements are not presented on a going concern basis; rather the financial statements have been presented using the **Framework** as stipulated in the Company's accounting policies disclosed in Addendum A to these financial statements. The purpose of the Company during curatorship is to collect all outstanding advances retained by the Company, repay the R3.3 billion transaction loan received from the SARB with interest, build the required indemnity cash reserves of R3 billion as required by the SARB and where excess cash is collected over and above the R3 billion referred to, and the additional float of R500 million, to make payment to stub note holders.

These condensed interim financial statements should be read in conjunction with the 2016 annual financial statements which were prepared on a "run-down" basis due to implementation of the restructuring transaction. Due to the run down business model, the Company as a legal entity is no longer regarded as a going concern.

The condensed statement of financial position is presented in order of liquidity with the exception of certain long term liabilities; which reflect the original timeframe and intention of the instrument entered into for the prior period.

Significant accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, management are required to make judgements, estimates and assumptions about income, expenses and the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates, judgements and assumptions.

In preparing these condensed interim financial statements, the significant judgements made by the Curator in applying the company's accounting policies and key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 30 September 2016.

The Company is a single segment collection entity operating within the South African economic environment. The business is widely distributed with no reliance on any major customers. The Company's primary business is to collect the remaining loan book and there are no clients that account for more than 10% of revenue. For this reason, the Company did not prepare a segmental report.

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Advances and credit quality

The impairment provisions for gross advances are classified into three categories i.e. specific impairment, portfolio specific impairment, and incurred but not reported (IBNR) provisions. The specific impairment provision of R 3 065 million (September 2016: R3 907 million) is in respect of the non-performing (on balance sheet) loan book. The portfolio specific impairment provision of R 56 million (September 2016: R101 million) and the IBNR provision of R 178 million (September 2016: R128 million) is in respect of the performing loan book.

	March 2017 Rm		
	Loan	**Credit card**	**Total**
Financial assets that are neither past due nor specifically impaired			
CD 0	**627**	**1**	**628**
Financial assets that are past due subject to collective impairment	**4 172**	**268**	**4 440**
CD 1 to 3	**160**	**5**	**165**
CD 4 and higher	**4 012**	**263**	**4 275**
Total credit exposure	**4 799**	**269**	**5 068**
Total impairments	**(3 155)**	**(144)**	**(3 299)**
Incurred but not yet reported (IBNR)	**(178)**	**-**	**(178)**
Portfolio specific impairment	**(54)**	**(2)**	**(56)**
Specific impairment	**(2 923)**	**(142)**	**(3 065)**
Deferred administration fees	**-**	**-**	**-**
Net advances	**1 644**	**125**	**1 769**
Fair value			**3 041**

The gross value of the written off book at 31 March 2017 was R18.8 billion (September 2016: R21.7 billion). The recoverable value of the written off book as at 31 March 2017 was estimated at R805 million (September 2016: R1.3 billion).

	September 2016 Rm		
	Loan	**Credit card**	**Total**
Financial assets that are neither past due nor specifically impaired			
CD 0	981	3	984
Financial assets that are past due subject to collective impairment	5 649	378	6 027
CD 1 to 3	312	9	321
CD 4 and higher	5 337	369	5 706
Total credit exposure	6 630	381	7 011
Total impairments	(3 935)	(201)	(4 136)
Incurred but not yet reported (IBNR)	(128)	-	(128)
Portfolio specific impairment	(99)	(2)	(101)
Specific impairment	(3 708)	(199)	(3 907)
Deferred administration fees	36	-	36
Net advances	2 731	180	2 911
Fair value			5 243

The gross value of the written off book at 30 September 2016 was R21.7 billion (2015: R35 billion). The recoverable value of the written off book as at 30 September 2016 was estimated at R1.3 billion (2015: R831 million).

Fair value of stub instruments

In estimating the fair value of liabilities, the Company made a number of assumptions that gave rise to a range of projected outcomes in respect of the SARB Indemnity.

As part of the Transaction, the Company has provided a R3 billion indemnity to the new African Bank Limited in respect of assets transferred, with such indemnity expiring on the 8th anniversary of the Transaction, effectively 4 April 2024. The SARB provided to the Company a matching supporting guarantee for this indemnity, so that the indemnity could be honoured even where the Company did not have sufficient funds to cover any claim arising.

Any claim arising to the SARB from these indemnity guarantee arrangements has a priority ranking claim on the assets of the Company, after operational costs arising in the ordinary course of the curatorship but before the stub claims.

Accordingly, having settled the SARB Loan, the Company has started to accumulate an indemnity reserve fund. Once this fund balance totals R3 billion, any further funds being available will be utilised to provide payment to the senior stub instruments.

Two scenarios together with the associated interest rate sensitivities are presented, under the first scenario there is a full claim on the indemnity guarantee reserve, while under the second scenario there is no claim on the indemnity reserve. The curator has not received any claims as at the date of reporting, 7 June 2017. In practice, it is possible that a combination of outcomes would materialise and that these potential outcomes may fall anywhere within the ranges projected.

The expected future cash flows have been modelled based on the two scenarios. A discounted cash flow valuation technique has been applied to estimate the projected outcome under each of these outcomes.

Given that there is no active or directly observable market for the stub instruments on which a fair value, using level 1 or level 2 inputs could be derived, the fair value of the new stub instruments as at 31 March 2017 requires a level 3 input valuation technique to be performed in order to arrive at an appropriate fair value at the reporting date. An appropriate valuation technique includes a discounted cash flow valuation using expected future cash flows.

Scenario 1: Full claim on indemnity reserve

The key assumptions the Company has taken in deriving the expected cash flows in this scenario are as follows:
- The expected cash flows derived from the remaining advances for a 60 month period;
- Using the expected cash flows derived from the remaining advances, application of the Distribution Waterfall requirements are applied to the free cash flows;
- The indemnity reserve would be built up, and it is assumed that 100%, i.e. R3 billion will be called upon by the entity currently trading as African Bank Limited and hence paid out over a three year period;
- Once sufficient cash of R3 billion has built up to satisfy any potential indemnity reserve claim as detailed above, it is assumed that all surplus cash in excess of the R500 million operational float (to the nearest R50 million) is then paid to Senior funders (every 6 months). The first payment to senior stub holders is forecast to take place in January 2018 and then July 2018 again and so on until the end of the 60 months period mentioned above;
- The model assumes that subordinated unsecured stub instrument holders will not receive any cash as the senior stub holders are not satisfied in full;
- An additional cash outflow totalling R200 million has been incorporated for potential future closure and associated costs in the 31 March 2017 analysis. This was not included as at 30 September 2016;
- The discount rate used to present value the expected future cash flows is 14.0%; which represents a modified weighted average cost of capital (WACC) for the Company.

Sensitivity re scenario 1 - change in WACC
In determining the fair value of the stub instruments, if the WACC discount rate was increased by 1% the fair value would change as detailed below:

	31 March 2017			30 September 2016		
	Fair value – using 14.0% Rm	**Fair value – using 15.0% Rm**	**Difference Rm**	Fair value – using 14.0% Rm	Fair value – using 15.0% Rm	Difference Rm
Senior stub instruments	**2 341**	**2 288**	**(53)**	2 725	2 642	(83)
Subordinated stub instruments	**Nil**	**Nil**	**Nil**	Nil	Nil	Nil

Scenario 2: No claim on indemnity reserve

An additional sensitivity scenario has been presented where it is assumed that no amount is claimed from the indemnity reserve for the duration of the indemnity period and thus the full R3 billion is paid to senior stub holders at the end of the indemnity period, together with the operating float of R500 million, being April 2024.

The key assumptions the Company has taken in deriving the expected cash flows in this scenario are as follows:
- The expected cash flows derived from the remaining advances for a 60 month period;
- Using the expected cash flows derived from the remaining advances, application of the Distribution Waterfall requirements are applied to the free cash flows;
- Once sufficient cash of R3 billion has built up to satisfy any potential indemnity reserve claim, it is assumed that all surplus cash in excess of the R500 million operational float (to the nearest R50 million) is then paid to senior stub holders (every 6 months). The first payment to senior stub holders is forecast to take place in January 2018 and then July 2018 again and so on until the end of the indemnity period, being April 2024;
- The model assumes that subordinated unsecured stub instrument holders will not receive any cash as the senior stub holders are not satisfied in full;
- An additional cash outflow totalling R200 million has been incorporated for potential future closure and associated costs in the 31 March 2017 analysis. This was not included as at 30 September 2016;
- The discount rate used to present value the expected future cash flows is 14.0% (which represents a modified weighted average cost of capital (WACC) for the Company). However, the R3.5 billion cashflow mentioned above is not discounted using the WACC of 14.0%, but is discounted using the 7 year risk free rate as at 31 March 2017 of 8.0%. This is considered more appropriate as substantially all of the R3.5 billion has been collected to date and held on deposit with the major South African banks. This additional assumption was not applied as at 30 September 2016 as only a portion of the cash had been collected at that point in time.

The table below illustrates the stub instruments' fair values under this *scenario 2* as at 31 March 2017, together with the sensitivity if the discount rate increases by 1%.

If there is an assumption that there will be no claim on the indemnity reserve:

	31 March 2017			30 September 2016		
	Fair value – using 14.0%* Rm	**Fair value – using 15.0%* Rm**	**Difference Rm**	Fair value – using 14.0% Rm	Fair value – using 15.0% Rm	Difference Rm
Senior stub instruments	**4 730**	**4 663**	**(67)**	4 376	4 188	(188)
Subordinated stub instruments	**Nil**	**Nil**	**Nil**	Nil	Nil	Nil

Note * - All cash flows discounted at a WACC of 14% or 15% as indicated, except for the R3.5 billion indemnity reserve and operational float balance which is assumed to be paid in April 2024 and is discounted at the risk free rate at 31 March 2017 of 8.0%.

Financial results

The table below demonstrates changes in the financial performance of the Company for the current reporting period and for comparative reporting periods:

Rmillion	**Unaudited Six months ended 31 March 2017**	Unaudited Six months ended 30 September 2016	Unaudited Six months ended 31 March 2016	Audited Year ended 30 September 2016
Interest income on advances	**151**	219	3 362	3 581
Non-interest income	**18**	114	822	936
Income from operations	**169**	333	4 184	4 517
Credit impairment reversal / (charge)	**225**	657	(1 482)	(825)
Income from operations	**394**	990	2 702	3 692
Other interest income	**70**	37	520	557
Interest expense and similar charges	**(501)**	(540)	(2 625)	(3 165)
Operating costs	**(390)**	(408)	(1 368)	(1 776)
Other losses	**-**	(5)	(172)	(177)
Indirect taxation: VAT	**(23)**	(32)	(44)	(76)
Loss from operations	**(450)**	42	(987)	(945)
Capital items	**-**	2 970*	341	3 311
Profit/(Loss) before taxation	**(450)**	3 012	(646)	2 366
Direct taxation: current and deferred	**-**	-	-	-
Profit/(Loss) for the year	**(450)**	3 012	(646)	2 366

*The Transaction completed in the past year gave rise to the transfer of assets for a value in excess of their carrying value, resulting in a gain on disposal of R2 654 million. During that year the Company also recovered R657 million on the previously impaired loans to affiliated companies.

Events after the reporting period

The curator is not aware of any material events occurring between the reporting date and the date of authorisation of these condensed interim financial statements.

Fair value disclosures

Valuation models

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

The Company measures fair value using the following fair value hierarchy; which reflects the significance of the inputs used in making the measurements.

- Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, credit spreads and other factors used in estimating discounting rates, foreign currency exchange rates, bond and equity prices, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Company uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives such as swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Company uses its own valuation models; which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include advances and certain loans and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and selection of appropriate discount rate.

Fair value estimates obtained from models reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counterparty where appropriate.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions and experiences. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair values, and management judgement is required to select the most appropriate point in the range.

Valuation framework

The Company has an established control framework with respect to the measurement of fair values. This framework includes formalised policies and the approval and review process.

When third party information is used to measure fair value the following procedures are performed in order to ensure that valuations meet the requirements of the framework:

- verifying that the third party is approved for use in pricing the relevant type of financial instrument; and
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions.

Fair value measurements recognised in the statement of financial position

The company did not measure any of its assets and liabilities, in the statement of financial position, at fair value at the end of the period 31 March 2017.

Other matters

Current Tax Asset
The Company has open tax matters with the South African Revenue Services (SARS) relating to the deductibility of impairment provisions on the Company's advances book and the application of SARS's directive regarding the treatment of doubtful debts by banks.

During the current interim financial period as with the previous financial year, the Company reassessed the recognition of a current tax asset. The Company is of the view that a current tax asset cannot be recognised because of the uncertainty around the resolution of this matter as negotiations with SARS remain ongoing. The Company continues to pursue this matter, however the ultimate conclusion of this matter could vary from the amounts recognised and is dependent upon the outcome of negotiations with SARS. At this stage the Company has no certainty regarding the outcome of this matter and the Company cannot provide the amount expected to be recovered/(paid) from/(to) the taxation authorities.

SARB Indemnity Guarantee
The Company continues to accumulate an indemnity reserve fund. When the fund totals R3 billion, the further funds being available (in addition to the R500 million operational float) will be utilised to provide payment to the senior stub instrument holders. As at 31 March 2017, this indemnity reserve totalled R2.1 billion in addition to the operational float of R500 million.

Current projections indicate that this indemnity could be fully funded by December 2017. There are no current claims against the indemnity.

NCR and Legal Proceedings
The NCR had announced an investigation into certain activities of the Company prior to curatorship, focussed on reckless lending allegations. The Company is co-operating fully with the NCR, whose review is ongoing. No liability arising has been identified at this time.

Addendum A

Significant accounting policies

Financial instruments

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

The Company has financial assets classified into the following categories:
- loans and receivables

The Company has financial liabilities classified into the following categories:
- 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 measurement

All financial instruments are measured initially at fair value plus transaction costs, except for stub instruments. Financial liabilities arising from the issue of stub instruments are recognised at their face value upon initial recognition.

Subsequent measurement

Subsequent to initial measurement, financial instruments are measured at amortised cost.

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
  The Company's advances are included in the loans and receivable category.

  These advances arise when the Company provides money, goods or services directly to a debtor with no intention to trade the receivable. Loans and advances originated by the Company are in the form of personal unsecured loans and are either paid back in fixed equal instalments or, in the case of credit cards, are revolving credit facilities.

  Advances are classified as loans and receivables and are measured at amortised cost using the effective interest rate method, less any impairment losses through the use of an allowance account whereby the amount of the losses are recognised in profit or loss. 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 profit or loss over the contractual life of the loan using the effective interest rate method.

- Financial liabilities at amortised cost

  All financial liabilities are measured at amortised cost.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees that form an integral part of the effective interest rate) through the expected life of the financial asset/liability or, where appropriate, a shorter period. Where a change in estimation of expected future cash flows occurs on fixed rate instruments, the change in estimate calculated is recognised as part of interest income/expense.

Impairment of financial instruments

Assets carried at amortised cost

The Company assesses at each reporting date whether there is objective evidence that an asset or group of assets is impaired.

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 or receivable 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 issuer or 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 becoming 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 group, including:
  - adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying less than the minimum monthly amount); 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).

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial assets' carrying amount and the recoverable amount.

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. The effective interest method is a method of calculating the amortised cost and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including loan origination fees and monthly service fees) through the expected life of the loan, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The carrying amount of the financial asset due to the impairment calculated is reduced through the use of an allowance account and the amount of the loss is recognised in the credit impairment charge line of the statement of total comprehensive income.

Where an 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 profit or loss.

Currently, all advances are assessed for impairment on a portfolio basis due to the large number of insignificant balances within the portfolio.

The Company estimates the recoverable amount on a portfolio basis using portfolio statistics derived from past performance of similar financial assets, taking into account any changes to collection procedures and projected future market conditions.

For portfolio (collective) assessment of impairment, financial assets are grouped on the basis of similar credit characteristics which indicate the borrower's ability to pay in accordance with the contractually agreed terms. For the purposes of portfolio impairment assessment, the impairment provisioning is divided into the following categories:

- Provision for IBNR (incurred but not yet reported)
- Portfolio specific impairments;
- Specific impairments; and
- Written off portfolio.

Provision for IBNR

In order to provide for the latent losses in a group of loans that have not yet been identified as specifically impaired, an impairment for incurred but not yet reported ("IBNR") losses is recognised on historical loss patterns and estimated emergence periods. Loans and receivables that are neither past due nor impaired are collectively assessed for the IBNR impairment provision. Neither past due nor impaired is defined by the Company as loans and receivables that are contractually up to date with all payments due.

Portfolio specific impairments

Loans and receivables that have missed up to 3 payments contractually are assessed collectively for portfolio specific impairment provisioning. These loans are still considered to be part of the performing loan portfolio.

Specific impairments

Loans and receivables that have missed 4 or more instalments are assessed for specific impairments. These loans form the non-performing loan portfolio.

Written off portfolio

A write off is effected against the allowance account (effectively derecognised) when the debtor is deemed to be impaired and not recoverable. Any cash subsequently recovered from the debtor is recorded as bad debt recovered and included in the credit impairment charge in the statement of total comprehensive income.

Derecognition of financial instruments

Financial assets

The Company derecognises a financial asset (or group of financial assets) or a part of a financial asset (or part of a group of financial assets) when the contractual rights to the cash flows arising from the financial asset have expired or the Company transfers the financial asset and the transfer qualifies for de-recognition.

A transfer of the financial assets requires that the Company either transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a corresponding contractual obligation to pay the cash flows to one or more recipients, and consequently transfers substantially all the risks and benefits associated with the asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

The Company derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification to the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

Where the Company purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in gains or losses on bond buy backs in the statement of total comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount reported only when a legally enforceable right to set off the recognised amount exists and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

Cash and cash equivalents

Short-term deposits and cash comprise fixed and notice deposits as well as call and current accounts with financial institutions that have a maturity of less than three months from date of acquisition.

For the purposes of the statement of cash flows, cash and cash equivalents comprise short-term deposits and cash, net of bank overdrafts.

Provisions

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligation.

Provisions are recognised when the Company has a present legal or constructive obligation, as a result of past events, for which 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 for the amount of the obligation.

Onerous contracts

The present obligations arising under any onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits that are expected to be derived by the Company under such contract.

Equity

Equity is the residual interest in the assets of the Company after deducting all liabilities of the Company.

All transactions relating to the acquisition and sale or issue of shares in the Company, together with their associated costs, are accounted for in equity.

Share capital and share premium

Shares issued by the Company are recorded at the value of the proceeds received less the external costs directly attributable to the issue of the shares.

Dividends

Dividends to equity holders are recognised as a liability in the period in which they are declared and are accounted for as a movement in reserves in the statement of changes in equity. Dividends declared after the statement of financial position date are not recognised.

Revenue

Revenue comprises income from interest income and non-interest income.

Interest income

Interest income is accrued on a yield to maturity basis by reference to the principal outstanding and the interest rate applicable.

- Origination fees on loans granted

Origination fees on loans granted are charged upfront and capitalised into the loan. These fees are primarily based on the cost of granting the loan to the individual. These origination fees are considered an integral part of the loan agreement and are therefore recognised as an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan using the effective interest rate method. The deferred portion of the fees is recorded in the statement of financial position as a provision for deferred administration fees.

- Monthly service fee

Monthly service fees are the fees which form an integral part of the effective interest rate and are charged to the customers on a monthly basis. These fees are recognised as part of the effective interest rate over the shorter of the original contractual term and the actual term of the loans and receivables. Beyond the original contractual term of the loan, the fee is recognised in profit or loss as it is charged to the customer on a monthly basis.

Whilst both these components are regarded as an integral part of the effective interest rate, they are not disclosed as interest income, but as non-interest income.

Rendering of services

When the transaction involves the rendering of services and the outcome can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Non-interest income

Non-interest income consists primarily of administration fees on loans and advances, commission charged as well as any other sundry income.

Taxation

Indirect taxation

Indirect taxation in the form of non-claimable value-added tax (VAT) on expenses is disclosed as indirect taxation in profit or loss and not as part of the taxation charge. 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 profit or loss. 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.

Direct taxation

Direct taxation in profit or loss consists of South African jurisdiction corporate income tax, inclusive of capital gains tax (CGT) (currently payable, prior year adjustments and deferred).

Current taxation

Current taxation is the expected taxation payable based on the taxable income, inclusive of capital gains tax, for the year, using taxation rates enacted or substantially enacted at the statement of financial position date, and any adjustment to taxation payable in respect of previous years. Taxable income is determined by adjusting the profit before taxation for items which are non-taxable or disallowed in terms of tax legislation.

Current tax is charged or credited to profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity.

Deferred taxation

Deferred taxation is provided on temporary differences using the balance sheet liability method. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation base. However, deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or loss nor taxable income. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation is charged or credited in profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the deferred taxation is also dealt with in equity.

The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

The deferred taxation related to the fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited to other comprehensive income, and accumulated in equity is also credited or charged to other comprehensive income and is subsequently recognised in profit or loss together with the deferred gain or loss.

Deferred tax assets are recognised on the tax effects of income tax losses available for carry-forward, if the Company considers it probable that future taxable income will be available against which the unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred income 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 income taxes relate to the same taxable entity and the same taxation authority.

Borrowing costs

The Company does not have qualifying assets against which borrowing costs are to be capitalised against. All borrowing costs are therefore recognised in profit or loss in the period in which they are incurred.

Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in South African rand (the functional currency); by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each statement of financial position date, foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the reporting period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in the functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

Contingent liabilities and commitments

Contingent liabilities

A contingent liability is disclosed when:

- a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the Company; or
- the Company has a present obligation that arises from past events but it is not recognised because it is not probable that an outflow of resources will be required to settle such obligation or the amount of the obligation cannot be measured with sufficient reliability.

Commitments

Items are classified as commitments where the Company has committed itself at the reporting date to future significant transactions or the acquisition of assets for material amounts.

Comparative figures

Where necessary, comparative figures within notes have been reclassified to conform to changes in presentation in the current year and to enhance disclosure of certain items.