Fox Street 3 (RF) Limited

(Registration Number : 2014/027637/06)

Annual Financial Statements
for the year ended 31 March 2019

In terms of S 29(1)(e)(ii) of the Companies Act 71 of 2008 as amended, we confirm that the preparation of the following financial statements is the responsibility of Fezeka Chikowero, CA (SA), Transaction Manager.

The following financial statements have been audited in compliance with the requirements of S30(2)(b) of the Companies Act 71 of 2008, as amended.

Fox Street 3 (RF) Limited
(Reg. No. 2014/027637/06)

Annual Financial Statements
for the year ended 31 March 2019

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Fox Street 3 (RF) Limited

Company information

for the year ended 31 March 2019

Directors	PBE Coombe DA Lorimer BW Smith HS Tradonsky
Date of incorporation	7 February 2014
Registration number	2014/027637/06
Nature of business and principal activities	To acquire the right, title and interest in and to residential home loan assets with funds raised directly or indirectly by issue of debt instruments, and to manage the assets so acquired.
Secretary	Investec Group Data Proprietary Limited (Reg. No. 1937/009329/07)
Independent Auditor	KPMG Inc.
Bankers	Investec Bank Limited
Registered Office	c/o Company Secretarial Investec Limited 100 Grayston Drive Sandown Sandton 2196
Postal address	c/o Company Secretarial Investec Limited PO Box 785700 Sandton 2146
Service providers	The servicer, administrator and interest rate swap counterparty is Investec Bank Limited. The subordinated loan provider is Investec Bank Limited.

Fox Street 3 (RF) Limited

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the annual financial statements of Fox Street 3 (RF) Limited, comprising the statement of financial position at 31 March 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the Directors' Report.

The directors are also responsible 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, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for the reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of annual financial statements

The annual financial statements of Fox Street 3 (RF) Limited, as identified in the first paragraph, were approved by the board of directors on 17 July 2019 and signed on their behalf by:

Director **Director**

Declaration by the Company Secretary

In terms of section 88(2)(e) of the South African Companies Act No 71 of 2008, as amended, I hereby certify that, to the best of my knowledge and belief, the Company has lodged with the Companies and Intellectual Property Commission, for the financial year ended 31 March 2019, all such returns as are required in terms of the Act and that all such returns are true, correct and up to date.

INVESTEC
GROUP DATA PROPRIETARY LIMITED
AS SECRETARIES

AUTHORISED SIGNATORIES

COMPANY SECRETARY
Date:

Fox Street 3 (RF) Limited

Directors' report

for the year ended 31 March 2019

The directors have pleasure in submitting their report on the activities of the company for the year ended 31 March 2019.

Nature of business

To acquire the rights, title and interest in and to residential home loans using a securitisation structure, with funds being raised via the issue of debt instruments which are listed and unlisted, and to manage the assets so acquired. These assets provide the security for the debt instruments.

Operating results and financial position

The results of the company's operations and cash flows for the year, and its financial position at 31 March 2019, are set out in the financial statements and require no further comment.

Authorised and issued share capital

Details of authorised and issued share capital are disclosed in note 6 to the financial statements.

Directorate

The directors of the Company at the date of this report are PBE Coombe, DA Lorimer, HS Tradonsky and BW Smith.

Interest of the directors and officers

None of the directors and officers have any interest in the issued share capital or any of the contracts entered into by the Company.

Dividends

No dividends were declared or paid during the year.

Controlled entities

In accordance with the requirements of IFRS 10, *Consolidated Financial Statements*, Investec Bank Limited consolidates Fox Street 3 (RF) Limited. This is because Investec Bank Limited is exposed to variability of returns from Fox Street 3 (RF) Limited.

Going concern

Fox Street 3 (RF) Limited has been set up as an insolvency-remote special purpose vehicle and its liabilities are enforced, among others, by certain subordination and non-petition clauses between secured creditors. Please refer to note 21 for further detail. The main component of the Company's subordinated claims are subordinated loan liabilities. Interest is accrued on the subordinated loan liability but limited in terms of:

* the transaction documents and the insolvency-remote legal set-up and
* the available cash in accordance with the Priority of Payments.

In the event that there is insufficient cash available for the payment of any unpaid claims/liabilities at maturity, the unpaid portions are forfeited by those secured creditors. Any losses do not therefore amount to an act of insolvency.

Furthermore, in accordance with the transaction documents, when all assets have been expunged, all secured creditors will waive their claims against the Company. Because of this legal set-up, the Company's outgoing cash flows are limited to both its assets and the yield on these assets and it therefore continues to operate as a going concern.

Events after the reporting date

No material events have occurred between 31 March 2019 and the date of this report.

Director **Director**

Fox Street 3 (RF) Limited

Audit Committee Report

for the year ended 31 March 2019

Members of the Audit Committee

The members of the Audit Committee were all independent non-executive directors and comprised:

PBE Coombe
BW Smith
DA Lorimer

The chairman of the Board serves on the Audit Committee, but another independent non-executive director acts as chairman thereof. Given that the Company is a special purpose vehicle incorporated as an Issuer in a securitisation scheme (as regulatory defined), the afore-going is considered acceptable and reasonable.

The committee is satisfied that the members thereof have the required knowledge and experience as set out in Section 94(5) of the Companies Act No. 71 of 2008 as amended and Regulation 42 of the Companies Regulation, 2011.

Meetings held by the Audit Committee

The Audit Committee performs the duties laid upon it by Section 94(7) of the Companies Act No. 71 of 2008 as amended, by holding meetings with the key role players on a regular basis and by the unrestricted access granted to the external auditor.

Expertise and experience of the finance function

The servicing, accounting and administration of the Company's assets are performed and prepared by Investec Bank Limited (jointly hereinafter Management). The Internal Audit function does not directly report to the Audit Committee, but highlights any matters relevant to the Company's annual financial statements via the Servicer and the Administrator to the Audit Committee.

The on-going secretarial administration of the Company's statutory records is done by Investec Group Data Proprietary Limited.

Independence of the external auditor

The Company's auditor is KPMG Inc.

The committee satisfied itself through enquiry that the external auditor is independent as defined by the Companies Act No. 71 of 2008, as amended, and as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided in terms of the Companies Act No. 71 of 2008, as amended, that internal governance processes within the firm support and demonstrate the claim to independence.

The Audit Committee, in consultation with the Servicer and the Administrator, agreed to the terms of the external auditor's engagement. The audit fee for the external audit has been considered and approved taking into consideration such factors as parallel interaction with the Servicer, timing of the audit, the extent of the work required and the scope.

Fees paid to the auditor are disclosed in Note 13 in the financial statements.

Fox Street 3 (RF) Limited

Audit Committee Report

for the year ended 31 March 2019 (continued)

Discharge of responsibilities

The committee is satisfied that, in respect of the financial year under review, it has discharged its duties and responsibilities in accordance with its terms of reference and in terms of the Companies Act No. 71 of 2008 as amended. The Board concurred with the assessment.

The committee performed the following activities during the year under review:

- Approved the the contents of the Audit Committee's terms of reference approval
- Approved the external auditor's fees for the 2019 audit;
- Approved any other services provided by the auditor and
- Considered the independence and objectivity of the external auditor.

Meetings

The Audit Committee met during the current financial year on the following dates:

Date	Attendees
6 June 2018	PBE Coombe BW Smith DA Lorimer
27 February 2019	PBE Coombe BW Smith DA Lorimer

Annual Financial Statements

Following the review by the committee of the annual financial statements of Fox Street 3 (RF) Limited for the year ended 31 March 2019 and based on the information provided to it, the committee considers that, in all material respects, the Company complies with the provisions of the Companies Act No. 71 of 2008, as amended, International Financial Reporting Standards, and that the accounting policies applied are appropriate.

The committee concurs with the Board of Directors and management that the adoption of the going-concern status in preparation of the annual financial statements is appropriate.

The committee recommended the Company's 2019 annual financial statements for approval by the Board on 17 July 2019.

On behalf of the Audit Committee:

BW Smith
Chairman: Audit Committee

Fox Street 2 (RF) Limited

King IV Report

for the year ended 31 March 2019

The Company is a ring-fenced entity and does not have employees of its own. All its functions have been outsourced to parties who strictly perform them in accordance with the transaction documents. The board is responsible to ensure that the parties perform its duties in accordance with its mandate. There is an established social and ethic committee that operates within its mandate and reports to the board.

King IV Principle	Description	Applied by Company (Yes/No)	Compliance Status
Ethical Culture			
1	The board should lead ethically and effectively.	Yes	Our values require that directors behave with integrity and accountability, displaying consistent and uncompromising moral strength in order to promote and maintain trust. The Board sets the tone from the top in the manner in which it conducts itself and oversees the structures and the framework for corporate governance. Conflicts of interest are managed by the directors disclosing any potential conflicts at the opening of each Board meeting and should there be potential conflicts of interest, directors are prohibited from voting on the matter to be considered.
2	The board should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	Yes	The board ensures that: - The direction is set for ethics - Whistle-blowing procedures have been put in place which ensures that all stakeholders who disclose unlawful or irregular conduct by the company stakeholders are protected.
3	The board should ensure that the organisation is and is seen to be a responsible corporate citizen.	Yes	The board provides strategic guidance to the Company and ensures that all decisions consider the immediate and long-term impact these have on the environment, the communities in which the Company operates as well as internal and external stakeholders. For the Company, being a good corporate citizen is about building our businesses to ensure we have a positive impact on the economy.

King IV Report (continued)

for the year ended 31 March 2019

King IV Principle	Description	Applied by Company (Yes/No)	Compliance Status
Strategy, Performance and Reporting			
4	The board should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	Yes	The board charter emphasises the fact that they acknowledge that strategy, risk, performance and sustainability are inseparable. The board and its committees monitor key performance indicators for material issues, as well as a broader range of sustainability, risk and compliance indicators.
5	The board should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long term prospects.	Yes	The Board ensures that there are processes in place enabling complete, timely relevant, accurate and accessible risk disclosure to stakeholders and monitors Fox Street 2 (RF) Limited's communication with all stakeholders and disclosures made to ensure transparent and effective communication. The Audit Committee is tasked with the specific duty of considering whether the Annual Report taken as a whole was fair, balanced and understandable and provided the information necessary for stakeholders to assess the company's performance.
Governance Functional Areas			
6	The board should serve as the focal point and custodian of corporate governance in the organisation.	Yes	The board operates in accordance with a detailed charter that specifically deals with the roles, responsibilities and accountabilities of the directors. It meets at least three (3) times a year. Through its meetings and interaction with management the directors ensure that applicable principles are implemented and a high level of compliance is maintained.
7	The board should comprise the appropriate balance of knowledge, skills, experience, diversity, and independence for it to discharge its governance role and responsibilities objectively and effectively.	Yes	The non-executive directors are such that there is a clear division of responsibility to ensure a balance of power, such that no one individual or Company can dominate board processes or have unfettered powers of decision-making. The board consists of four (4) Non-Executive Directors, with one non-independent. The Chair is responsible for setting the Board agenda, ensuring that there is sufficient time available for discussion of all items, that information received is accurate, timely and clear to enable directors to perform their duties effectively.

King IV Report (continued)

for the year ended 31 March 2019

King IV Principle	Description	Applied by Company (Yes/No)	Compliance Status
Strategy, Performance and Reporting			
8	The board should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.	Yes	The board committees assist in executing its duties, powers and authorities. The required authority is delegated by the board to each committee to enable it to fulfil its respective functions through formally approved terms of reference. Delegating authority to board committees or management, other than the specific matters for which the audit committee carries ultimate accountability in terms of the Companies Act, does not mitigate or discharge the board and its directors of their duties and responsibilities and the board fully acknowledges this fact. Formal terms of reference have been adopted by each committee and are reviewed on an annual basis. Committee chairpersons report back to the board at each board meeting.
9	The board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.	Yes	The Board continues to be committed to regularly evaluating its own effectiveness and that of its committees. In this light, the Board undertakes an annual evaluation of its performance and that of its committees and individual directors.
10	The board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.	Yes	The Company Secretaries are professionally qualified and have experience gained over a number of years. Their services are evaluated by Board members during the annual Board evaluation process. They are responsible for the flow of information to the Board and its committees and for ensuring compliance with Board procedures.
11	The board should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.	Yes	The Board ensures appropriate resources to manage risk by having independent Risk Management, Compliance and Financial Control functions. The Internal Audit function does not directly report to the Audit Committee, but highlights any matters relevant to the Company's annual financial statements via the Servicer and the Administrator to the Audit Committee.

Fox Street 2 (RF) Limited

King IV Report (continued)

for the year ended 31 March 2019

King IV Principle	Description	Applied by Company (Yes/No)	Compliance Status
Strategy, Performance and Reporting			
12	The board should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.	Yes	The board has delegated the responsibility for IT governance, the establishment of an appropriate IT policy, framework and strategy to management. Multiple layers of assurance exist to oversee, independently assess and provide assurance over management activities. These include Internal Audit, External Audit and specialized consultants, all of which provide feedback to the Board.
13	The board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.	Yes	The board receives legislative and compliance updates from time to time and is responsible for ensuring that the Company complies with applicable laws, considers adhering to non-binding rules, codes and standards. The compliance officer monitors compliance with applicable laws and also considers non-binding codes, rules and standards, assesses the impact and recommends a suitable course of action to the board. The directors take responsibility for deciding whether to follow the recommendations of the compliance officer. The Company received no fines or penalties for non-compliance during 2018/19 financial year.
14	The board should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	N/A	The Company has no employees.
15	The board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.	Yes	The Annual Financial Statements are compiled by an internal team, approved by management with oversight from the Audit Committee and finally approved by the board prior to publication and circulation.

King IV Report (continued)

for the year ended 31 March 2019

King IV Principle	Description	Applied by Company (Yes/No)	Compliance Status
Stakeholders			
16	In the execution of its governance role and responsibilities, the board should adopt a stakeholder- inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.	Yes	The Company has identified its stakeholders and management from various functions are assigned to manage relationships with stakeholders. The board realises that there is a broad range of stakeholders who have a genuine stake in or are affected by the Company and its various activities.
Responsibilities of Institutional Investors			
17	The board of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests.	N/A	The company is not an institutional investor.

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Independent auditor's report

Report on the audit of the Financial Statements

To the Shareholders of Fox Street 3 (RF) Limited

Opinion

We have audited the financial statements of Fox Street 3 (RF) Limited (the Company) set out on pages 17 to 45, which comprise the statement of financial position as at 31 March 2019, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Fox Street 3 (RF) Limited as at 31 March 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Intercompany receivable (loans and advances)	
Refer to accounting policy note 1.3, 1.4.1, 1.12, note 2 and 18 in the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
On 1 April 2018 the company adopted IFRS 9 'Financial Instruments' which replaced IAS 39 and which requires impairment losses to be evaluated on an expected credit loss (ECL) basis as opposed to an incurred loss methodology under IAS 39. As Intercompany receivable comprise a large portion of the company's assets, and due to the significant judgments and assumptions used by management in the determination of the impairment provision, this is considered to be a key audit matter In addition, the company is required under IAS 8 to disclose the impact of IFRS 9 adoption for accounting periods beginning on or after 1 January 2018. This is a new and complex accounting standard which has required considerable judgment and interpretation in its implementation. We consider this transition and the required disclosure to be a key audit matter because new models have been developed by the company to calculate IFRS 9 impairment allowance and judgment is required in a number of significant areas, in particular around the calculation of expected credit losses ("ECL"). At year end the company reported total gross core loans and advances of R1bn (2018: R1.2bn); expected credit losses (impairment allowances) of R1.6m (2018: R747k) respectively. The key areas of significant judgement and assumptions by management within the ECL calculations include: • The measurement of modelled provisions, which is dependent upon key assumptions relating to probability of default ("PD"), loss given default ("LGD"), exposures at	Our procedures included: As IFRS 9 was implemented as at 1 April 2018 we performed audit procedures on the opening balances to gain assurance on the transition from IAS 39. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures made on transition. We also performed audit procedures on the closing balance as at 31 March 2019 and the movement in ECL over the period as follows: We tested the design, implementation and operating effectiveness of key controls focusing on: • assessment and approval of the movement of exposures between the various impairment stages, and the monitoring of asset levels in each stage (including performing peer benchmarking); • review and approval of expected credit loss models ; • periodic review and monitoring of macroeconomic data • approval of qualitative and quantitative staging criteria; • assessment and governance of manual overrides to staging outcomes; • data quality through performing data input testing to the models used. • generation and approval of the methodology and output of alternative scenarios, including the probability weights assigned; and • production and approval of models used to calculate the ECL impact of the scenarios. With the support of our internal modelling specialists we assessed the modelling techniques for appropriateness and assessed whether the assumptions in respect of PD, LGD and EAD met the requirements of IFRS 9. This included performing an assessment of: • estimated behavioural lifetime for assets in scope of the behavioural lifetime exception in IFRS 9; • the model design documentation; • the appropriateness of the methodology considering alternative techniques; and • the code to verify it was consistent with the design documentation.

default (EAD), significant increase in credit risk (SICR) and determining the ECL stage allocation ; • Interpretation of the requirements to determine the expected credit loss in terms of IFRS 9; • Assumptions used in the expected credit loss model such as the expected future cash flows and forward looking macroeconomics factors and; • The completeness and timing of recognition of write offs	• We tested a sample of exposures for control and substantive testing and inspected whether the staging of loans into stage 1, 2, 3 was allocated to the appropriate stage. • We tested a sample of exposures for control and substantive testing and performed procedures to evaluate whether the expected credit loss calculation for exposures assessed on an individual basis was reasonable. • We tested a sample of exposures using our sampling methodology for data reliability by inspecting that all exposures were included in the ECL model. With the support of our internal modelling specialist we evaluated the assumptions, inputs and formulas used in a sample of ECL models. • We tested all stage 3 loans and challenged management's assumptions about future cash flow projections and the valuation of and rights to collateral held, against legal contracts, our previous experience and available market information and other supporting documents. • We assessed the accuracy and adequacy of the disclosures in the financial statements in accordance with the requirements of IFRS 9 financial instruments.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled Fox Street 3 (RF) Limited Annual Financial Statements for the year ended 31 March 2019, which includes Declaration by the Company Secretary, Directors' Report, and Audit Committee Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Statements

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

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

Auditors Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. have been the auditors of Fox Street 3 (RF) Limited for 6 years.

KPMG Inc.

Per Tracy Middlemiss
Chartered Accountant (SA)
Registered Auditor
Director
30 July 2019

Fox Street 3 (RF) Limited

Statement of financial position
at 31 March 2019

	Notes	2019	2018
Assets		**R**	**R**
Intercompany receivables	2	**1,051,109,800**	1,250,950,857
Deferred tax asset	5	**451,606**	150,296
Current tax asset		**-**	1,205,045
Derivative financial instruments	3	**7,005,439**	-
Accrued interest receivable		**744,975**	1,191,630
Cash and cash equivalents	4	**159,011,578**	152,503,121
Total assets		**1,218,323,398**	1,406,000,949
Equity and liabilities			
Equity		**6,685,561**	(5,027,851)
Share capital	6	**101**	101
Accumulated loss		**(319,979)**	(295,755)
Cash flow hedge reserve		**7,005,439**	(4,732,197)
Liabilities		**1,211,637,837**	1,411,028,800
Residential mortgaged backed securities	7	**1,009,935,985**	1,204,525,946
Derivative financial instruments	3	**-**	4,732,197
Subordinated loan	8	**173,787,320**	173,787,320
Accrued interest payable	9	**26,724,233**	26,396,472
Deferred income		**362,592**	387,301
Current tax payable		**291,889**	-
Trade and other payables	10	**535,818**	1,199,564
Total equity and liabilities		**1,218,323,398**	1,406,000,949

Fox Street 3 (RF) Limited

Statement of Comprehensive Income

for the year ended 31 March 2019

	Notes	2019 R	2018 R
Interest income calculated using the effective interest method	11	**113 441 073**	133,718,266
Interest expense	12	**(109 775 092)**	(131,039,841)
Net interest income		**3,665,981**	2,678,425
Other income		**218,092**	218,674
Total operating income before expected credit losses/ impairment losses		3,884,073	2,897,099
Expected credit loss impairment charge *		(465,729)	-
Impairment charges ^		-	120,576
Other operating expenses	13	**(3,033,295)**	(3,070,931)
Profit /(Loss) before taxation		**385,049**	(53,256)
Taxation	14	**(107,814)**	14,912
Profit / (Loss) for the year		**277,235**	(38,344)
Other comprehensive income			
Cash flow hedges – effective portion of changes in fair value	3	12,562,460	4,905,239
Realised Interest on swap	11	(824,824)	31,669
		11,737,636	4,936,908
Total comprehensive income for the year		**12,014,871**	**4,898,564**

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

^ *As permitted by IFRS 9, the group has elected not to restate comparative annual financial statements.*

Fox Street 3 (RF) Limited

Statement of Changes in Equity

for the year ended 31 March 2018

	Notes	Ordinary share capital	Preference share capital	Accumulated loss	Cash flow hedge reserve	Total
		R		R		R
Balance at 31 March 2017		**100**	**1**	**(257 411)**	**(9 669 105)**	**(9 926 415)**
Total comprehensive income for the year						
- Loss for the year		-	-	**(38,344)**		**(38 344)**
Other comprehensive income						
Cash flow hedges – movement in fair value	3	-	-	-	**4 905 239**	**4 905 239**
Realised Interest on swap	11				**31 669**	**31 669**
Balance at 31 March 2018		**100**	**1**	**(295 755)**	**(4 732 197)**	**(5 027 851)**
Total comprehensive income for the year						
- Profit for the year		-	-	**277,235**		**277 235**
- IFRS 9 transition adjustment				**(301,459)**		**(301 459)**
Other comprehensive income						
Cash flow hedges – movement in fair value	3	-	-	-	**12 562 460**	**12 562 460**
Realised Interest on swap	11				**(824 824)**	**(824 824)**
Balance at 31 March 2019		**100**	**1**	**(319 979)**	**7,005,439**	**6 685 561**

** IFRS 9 transition adjustment is net of taxation.*

Fox Street 3 (RF) Limited

Statement of Cash Flows

for the year ended 31 March 2019

	Notes	2019	2018
		R	R
Cash flows from operating activities			
Profit /(Loss) before taxation		**385,049**	(53,256)
Adjusted for:			
Expected credit loss impairment charge		**465,729**	(120,576)
Changes in working capital:			
Decrease / (Increase) in trade and other receivables		**446,655**	(155,876)
Decrease in trade and other payables		**(663,746)**	(7,656)
(Decrease) /Increase in deferred income		**(24,709)**	54,902
Increase in current tax payable		**291,889**	-
Decrease / (Increase) in accrued interest		**327,761**	(1,143,633)
Cash utilised in operations		**1,228,628**	(1,426,095)
Taxation refund/ (paid)		**913,156**	(55,177)
Net cash utilised in operating activities		**2,141,784**	(1,481,272)
Cash flows from investing activities			
Repayment of intercompany receivables		**198,956,635**	215,218,845
Net cash flows from investing activities		**198,956,635**	**215,218,845**
Cash flows from financing activities			
Capital redemption of residential mortgage backed securities	7	**(194,589,961)**	(228,158,632)
Net cash flows from financing activities		**(194,589,961)**	(228,158,632)
Net decrease in cash and cash equivalents for the year		**6,508,458**	(14 421 059)
Cash and cash equivalents at beginning of the year		**152,503,120**	166,924,179
Cash and cash equivalents at end of the year	4	**159,011,578**	152 503 120

** Provisional cash tax payments*

1. Significant accounting policies

1.1 Reporting entity

Fox Street 3 (RF) Limited is domiciled in South Africa. The Company's registered office is at 100 Grayston Drive, Sandton, Sandown, 2196. These financial statements comprise the company's annual financial statmement . The company's primary business is to acquire the right, title and interest in and to residential home loan assets with funds raised directly or indirectly by issue of debt instruments, and to manage the assets so acquired.

1.2 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act No. 71 of 2008 as amended, and incorporate the following principle accounting policies set out below, which have been consistently applied.

The financial statements have been prepared in accordance with the going concern principle under the historical cost basis, except for the revaluation of financial instruments, classified as instruments at amortised cost and instruments held at fair value. The financial statements are presented in South African Rand, which is the Company's functional currency.

Change in accounting policy

On 1 April 2018 the company adopted IFRS 9 Financial Instruments which replaced IAS 39 Financial Instruments: Recognition and Measurement and sets out the new requirements for the recognition and measurement of financial instruments. These requirements focus primarily on the classification and measurement of financial instruments and measurement of impairment losses based on an expected credit loss (ECL) model as opposed to an incurred loss methodology under IAS 39. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the company has exercised.

Comparative periods have not generally been restated. Differences in the carrying amount of the financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 April 2018. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9, but rather those of IAS39.

The accounting policies related to financial instruments have changed significantly and the disclosure of the impact of IFRS 9 is included in note 1.4.1.

Additionally, on 1 April 2018 the company adopted IFRS 15 Revenue from Contracts with Customers which replaced IAS 18 Revenue. IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for obligations as they are satisfied. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The company's measurement and recognition principles were aligned to the new standard and hence there has been no material impact on measurement and recognition principles or on disclosure requirements from the adoption of IFRS 15.

1.3 Use of estimates and judgement

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the classification of financial instruments. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

1. Significant accounting policies (continued)

1.3 Use of estimates and judgement (continued)

Key areas in which judgement is applied include:

In accordance with IFRS 13 Fair Value Measurement, the company categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. The valuation techniques for level 3 financial instruments involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information.

The determination of ECL against assets that are carried at amortised cost and ECL relating to debt instruments at farir value through other comprehensive income (FVOCI) involves a high degree of uncertainty as it involves using assumptions that are highly subjective and sensitive to risk factors. The most significant judgments relate to defining what is considered to be a significant increase in credit risk; determining the probability of default (PD), exposure at default (EAD) and loss given default (LGD) and future cash flows; incorporating information about forecast economic conditions and the weightings to be applied to economic scenarios. More detail relating to the methodology and results of the company's assessment of ECLs can be found in note 1.4.1.

The company's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the South Africa Revenue Services (SARS). The company has recognised in its current tax provision certain amounts in respect of taxation that involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by SARS. The carrying amount of this provision is often dependent on the timetable and progress of discussions and negotiations with SARS. Issues can take many years to resolve and assumptions on the likely outcome would therefore have to be made by the company.

The nature of any assumptions made, when calculating carrying amounts relating to any estimated tax which could be payable as a result of decisions by tax authorities in respect of any such transactions and events whose treatment for tax purposes is uncertain.

In making any estimates, management's judgement would be based on various factors, including any such transactions and events whose treatment for tax purposes is uncertain. In making any estimates, management's judgement has been based on various factors, including:

– the current status of tax audits and enquiries;
– the current status of discussions and negotiations with the relevant tax authorities;
– the results of any previous claims and
– any changes to the relevant tax environments.

Where appropriate the company has utilised expert external advice as well as experience of similar situations elsewhere in making any such provisions.

1.4.1 Business model

For financial assets, IFRS 9 requires that a business model assessment is carried out which reflects how the company manages the assets in order to generate cash flows. The assessment is at a portfolio level, being the level at which the portfolio is managed. Factors considered by the company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported and how risks are assessed and managed.

The standard sets out three types of business models:
• Hold to collect: it is intended to hold the asset to maturity to earn interest; collecting repayments of principal and interest from the customer. These assets are accounted for at amortised cost.
• Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change. These assets are accounted for at FVOCI.
• Hold to sell/managed on a fair value basis: the entity originates or purchases an asset with the intention of disposing of it in the short- or medium-term to benefit from capital appreciation or the portfolio is managed on a fair value basis. These assets are accounted for at fair value through profit and loss (FVPL).

1. Significant accounting policies (continued)

1.4.1 Business model (continued)

Solely payments of principal and interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the group assesses whether the assets' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related asset is classified and measured at FVPL. Financial assets with embedded derivatives considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Designation at fair value

The adoption of IFRS 9 also necessitates a review of the designation of financial instruments at fair value. IFRS 9 requires that the designation is revoked where there is no longer an accounting mismatch at 1 April 2018 and permits designations to be revoked or additional designations created at 1 April 2018 if there are accounting mismatches at that date.

As a result:

• Fair value designations for financial liabilities have been created where there is an accounting mismatch, as permitted IFRS 9; and

• Fair value designations have been revoked for certain assets where accounting mismatches no longer exist as a result of the adoption of the classification rules of IFRS 9.

1.4.2 Amortised cost measurement

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise to cash flows that are solely payments of principal and interest, such as most loans and advances to customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost.

The Company may commit to provide a loan which has not yet been drawn. When the loan that arises from the lending commitment is expected to meet the criteria to be measured at amortised cost the undrawn commitment is also considered to be and is included in the impairment calculation.

The carrying value of these financial assets at initial recognition includes any directly attributable transaction costs.

Financial assets where 12-month ECL is recognised are considered to be 'stage 1', financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2', and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'.

The Company calculates the effective interest rate on stage 3 assets which is calculated based on the amortised cost of the financial assets (i.e. gross carrying amount less ECL) instead of gross carrying amount and incorporates the impact of ECLs in estimated future cash flows.

1. Significant accounting policies (continued)

1.4.3 Identification and measurement of ECL (Expected credit loss)

At each balance sheet date each financial asset or portfolio of advances categorised at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is measured for ECL impairment. Loss allowances are forward-looking, based on 12-month expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected credit losses.

Expected credit losses are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. On a significant increase in credit risk, credit losses are rebased from 12-month to lifetime expectations. A change in credit risk is typically but not necessarily associated with a change in the expected cash flows.

The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement. Allowances in respect of financial guarantees and loan commitments are presented as other liabilities and charges recorded within income statement impairments. Financial assets held at amortised cost are presented net of allowances except where the asset has been wholly or partially written off.

The Company considers evidence of impairment for loans and receivables at both a specific and a collective level. Loans and receivables are first assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment, the Company uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount 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 any subsequent decrease in the impairment loss is reversed through profit or loss.

The determination of ECL against assets that are carried at amortised cost and ECL relating to debt instruments at fair value through other comprehensive income (FVOCI) involves a high degree of uncertainty as it involves using assumptions that are highly subjective and sensitive to risk factors. The most significant judgments relate to defining what is considered to be a significant increase in credit risk; determining the probability of default (PD), exposure at default (EAD) and loss given default (LGD) and future cash flows; incorporating information about forecast economic conditions and the weightings to be applied to economic scenarios.

1.4.4 Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the company's rights to cash flows have expired or when the company's has transferred its rights to cash flows relating to the financial assets and either (a) the company has transferred substantially all the risks and rewards associated with the financial assets, or (b) the company has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the assets.

The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depends upon whether the modification is done for commercial reasons, in which case if they are significant the old asset is derecognised and a new asset recognised, or because of financial difficulties of the borrower.

A financial liability is derecognised when it is extinguished, i.e.when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Fox Street 3 (RF) Limited

Notes to the financial statements

for the year ended 31 March 2019

1. Significant accounting policies (continued)

1.5 Non-derivative financial liabilities

All financial liabilities, other than those at fair value through profit or loss, are classified as non-trading financial liabilities. Non-trading financial liabilities, which include residential mortgage backed securities, trade and other payables and accrued interest payables are measured at amortised cost using the effective interest method.

1.6 Hedge accounting

The Company has elected to use the IAS 39 rules and applies cash flow hedge accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the company ensures that all of the following conditions are met:

- At inception of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also, at the inception of the hedged relationship, a formal assessment is undertaken to ensure that the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.
- Cash flow hedges, are applied to recognised assets (mortgages) and liabilities (notes)
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting period for which the hedge was designated.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value of the hedging instrument, which represents an effective hedge, is initially recognised in other comprehensive income in the cash flow hedge reserve and is released to profit or loss in the same period during which the relevant financial asset or liability affects profit or loss. Any ineffective portion of the hedge is immediately recognised in profit or loss. There was no ineffective portion during the current year.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires, or is sold, terminated or exercised; when the hedged item matures or is sold or repaid; when a forecast transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

1.7 Fair value measurement

IFRS 13 Fair value measurement defines fair value as being a market-based measurement and sets out in a single IFRS a framework for the measurement of fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

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

Fair value measurements for financial assets and liabilities are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used. The different levels are identified as follows:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

1. Significant accounting policies (continued)

1.7 Fair value measurement (continued)

• Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect instruments for which significant unobservable adjustments.

1.8 Offsetting

Where offsetting has been applied or the entity has instruments that are subject to offsetting, the following disclosures should be provided:
(a) the gross amounts of those recognised financial assets and recognised financial liabilities;
(b) the amounts that are set off in accordance with the criteria of IAS 32 when determining the net amounts presented in the statement of financial position;
(c) the net amounts presented in the statement of financial position;
(d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in, including:
(i) amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria of IAS 32; and.
(ii) amounts related to financial collateral (including cash collateral); and
(e) the net amount after deducting the amounts in (d) from the amounts in (c) above.

1.9 Revenue recognition

Revenue consists of interest income and other fee income earned from providing financial services.

Revenue from contracts with customers is recognised in accordance with five steps to: identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; and recognise revenue when the performance obligations are satisfied.

The effective interest rate method is based on the estimated life of the underlying instrument and where this estimate is not readily available, the contractual life. Interest on instruments at FVPL is recognised based on the contractual rates.

Interest income

Interest income from loans and receivables is recognised on a time proportion basis, which takes into account the effective yield on the asset.

Other fee income

Fee income is recognised on the accrual basis when the service is rendered.

1.10 Taxation

Taxation expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

1. Significant accounting policies (continued)

1.10 Taxation (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by SARS on the same taxable entity or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

1.12 Intercompany receivables

Intercompany receivables consists of residential mortgage advances and loans and advances that are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term.

Intercompany receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Policies applicable to 2018 balances

1.13 Financial assets and financial liabilities

1.13.1 Recognition

Financial assets and financial liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

1.13.2 Measurement

Financial instruments are initially measured at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Subsequent to initial recognition, these instruments are measured as set out below:

Receivables
Loans and advances are measured at amortised cost using the effective interest method.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and petty cash. Cash and cash equivalents are carried at amortised cost in the statement of financial position, which approximates fair value.

Derivative financial instruments
Derivative financial instruments are recognised on the statement of financial position at fair value. Fair value movements are subsequently recognised in profit or loss unless hedge accounting is being applied.

Residential mortgage backed securities
These financial liabilities are carried at amortised cost.

1.13.3 Classification

The Company classifies its financial assets into one of the following categories:

- loans and receivables;
- at fair value through profit or loss

The Company classifies its financial liabilities as measured at amortised cost or fair value through profit or loss.

1. Significant accounting policies (continued)

1.13.4 Derecognition

Financial instruments qualify for derecognition if they meet the derecognition criteria set out in IAS 39.
Fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

The company derecognises a financial asset when, and only when:

- The contractual rights to the cash flows arising from the financial asset have expired or have been forfeited by the company; or

- It transfers the financial asset including substantially all of the risks and rewards of ownership of the asset; or

- It transfers the financial asset, neither retaining nor transferring substantially all of the risks and rewards of ownership of the asset, and no longer retains control of the asset.

A financial liability is de-recognised when, and only when, the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired.

The difference between the carrying amount of a financial liability or financial asset (or part there-of) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit and loss.

2. Intercompany receivables

During the prefunding period of 20 February 2015 to 20 May 2015, Investec Bank Limited (IBL) legally sold, and will continue to sell, a portion of its residential mortgage assets to Fox Street 3 (RF) Limited (Fox Street 3). However, since IBL is also the provider of the subordinated loan, the substance of the transaction is such that the accounting derecognition criteria to transfer the significant risks and rewards of ownership were not met. Thus an intercompany receivables is recognised for the consideration paid for these assets to IBL. The cash flows arising from this asset are directly attributable to the residential mortgages and thus the following disclosure is appropriate and useful to the users of these financial statements as the carrying amount of the receivable will fluctuate in line with the residential mortgage balances.

	2019 R	2018 R
Loans and receivables ceded to Fox Street 3		
Gross amount outstanding	**1,052,741,584**	1,251,698,219
Impairment allowance	**-**	(747,362)
Expected credit loss	**(1,631,784)**	-
	1,051,109,800	1,250,950,857
Allowances for impairment		
Expected credit loss	(1 631 784)	-
General allowance for impairment	**-**	747,362
	(1,631,784)	747,362
Maturity analysis		
One month to three months	**44,293,547**	48,590,295
Three months to six months	**42,429,925**	46,704,044
Six months to one year	**79,579,311**	88,039,387
One year to five years	**440,827,016**	501,344,082
Greater than five years	**443,980,001**	566,273,049
	1,051,109,800	1,250,950,857
Reconciliation of allowances for expected credit loss		
Opening balance	**747,362**	867,938
IFRS 9 transition adjustment	**418,693**	-
Released to the statement of comprehensive income	**465,729**	(120,576)
	1,631,784	747,362

3. Derivative financial instruments

Fox Street 3 (RF) Limited has entered into a JIBAR for prime swap with IBL to mitigate the interest rate risk resulting from the mismatch of interest rates on the prime rate linked loans and advances and the JIBAR linked notes payable. The notional value of the interest rate swap (i.e. fully performing loans) is R1 098 973 448 as at the latest reset date prior to year end. The swap is effective in the current year. The fair value of derivatives can change significantly from year to year to due changes in economic conditions. Both the Prime and JIBAR rates have moved in the current year . This change in rates and consequently the change in the interest rate outlook (i.e. change in the prime curve and interbank JIBAR curve) combined with the long dated stream of cash flows that are present valued has resulted in a significant move in the fair value of the derivative.

	2019	2018
Statement of financial position		
Fair value of swap	**7,005,439**	(4,732,197)
Statement of comprehensive income		
Cash flow hedges – effective portion of changes in fair value	12 562 460	4 905 239
Realised Interest on swap	(824,824)	31,669
Net other comprehensive income	11 737 636	4 936 908

3. Derivative financial instruments (continued)

Cash flow hedges

The company is exposed to variability in cash flows on future liabilities arising from changes in base interest rates. The aggregate expected cash flows are hedged based on cash flow forecasts with reference to terms and conditions present in the affected contractual arrangements. Changes in fair value are initially recognised in other comprehensive income and reclassified to the income statement when the cash flow affects the income statement.

At 31 March R	Description of financial instrument being hedged	Fair value of hedging instrument	Period cash flows are expected to occur and affect income statement
2019			
Interest rate swap	Intercompany receivables	7 005 439	Three months
2018			
Interest rate swap	Intercompany receivables	(4 732 197)	Three months

There are cash flow hedges during the year to mitigate interest rate. A reconciliation of the cash flow hedge reserve can be found in the statement of changes in equity. There was no ineffective portion recognised in the income statement.

Realisations to the income statement for cash flow hedges of (R0.824 million) (2018: R0.31 million) are included in net interest income.

Fox Street 3 (RF) Limited

Notes to the financial statements

for the year ended 31 March 2019 (continued)

	2019 R	2018 R
4. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Current account - Investec Bank Limited	**159 011 478**	152 503 021
Petty cash	**100**	100
	159,011,578	152,503,121

Interest on the current account is earned at the 3 Month JIBAR rate which is reset every quarter.

5. Deferred tax asset

The deferred tax balance comprises of:

	2019	2018
IFRS 9 transition adjustment	**117,234**	
Expected credit loss	**232,846**	-
General impairment	**-**	41,852
Deferred income	**101,526**	108,444
Deferred tax asset	**451,606**	150,296

Reconciliation of deferred tax balance

	2019	2018
Opening balance	**150,296**	**141,677**
IFRS 9 transition adjustment	**117,234**	**-**
Expected credit loss	**232,846**	**-**
General provision	**(41,852)**	**(6,753)**
Deferred income	**(6,918)**	**15,372**
Closing balance	**451,606**	**150,296**

6. Share capital

Ordinary share capital

	2019	2018
Authorised		
1 000 ordinary shares at R1 each	**1 000**	1 000
Issued		
100 ordinary share at R1	**100**	100

All of the issued shares are fully paid up and held by Fox Street 3 Owner Trust. The unissued shares are under the control of the directors until the next annual general meeting.

Preference share capital

	2019	2018
Authorised		
100 cumulative redeemable preference shares (no par value)		
Issued		
1 preference share at no par value	**1**	1

The issued shares are fully paid up.The unissued shares are under the control of the directors until the next annual general meeting.

	101	**101**

Fox Street 3 (RF) Limited

Notes to the financial statements
for the year ended 31 March 2019 (continued)

7. Residential mortgage backed securities

	Class A Notes R	Class B Notes R	Class C Notes R	Class D Notes R	Total R
2019					
Balance at the beginning of the period	**919,525,946**	**155,000,000**	**40,000,000**	**90,000,000**	**1,204,525,946**
Redemption of notes	**(194,589,961)**	**-**	**-**	**-**	**(194,589,961)**
Balance of notes outstanding at end of the year	**724,935,985**	**155,000,000**	**40,000,000**	**90,000,000**	**1,009,935,985**
2018					
Balance at the beginning of the period	1,147,684,578	155,000,000	40,000,000	90,000,000	1,432,684,578
Redemption of notes	(228,158,632)	-	-	-	(228,158,632)
Balance of notes outstanding at end of the year	919,525,946	155,000,000	40,000,000	90,000,000	1,204,525,946

The residential mortgage backed securities are measured at amortised cost. The notes bear interest at the 3 Month JIBAR rate plus the spread as determined in the Applicable Pricing Supplement for each class and tranche of notes. For as long as the notes are in issue, interest on the floating rate notes is payable quarterly in arrears on the 20th of February, May, August and November. The interest rate, charge and accrued balance per tranche of notes was as follows:

2019	Spread over 3 Month Jibar	Interest expense R	Accrued interest R
Class A5	117 bps	**67,642,002**	**6,611,128**
Class B1	145 bps	**13,137,796**	**1,471,332**
Class C1	170 bps	**3,490,399**	**390,658**
Class D1	280 bps	**8,843,398**	**983,651**
		93,113,595	**9,456,769**

7. Residential mortgage backed securities (continued)

2018	Spread over 3 Month Jibar	Interest expense	Accrued interest
		R	R
Class A3	80 bps	43,931,884	-
Class A4	95 bps	5,855,456	-
Class A5	117 bps	36,064,948	8,360,169
Class B1	145 bps	13,372,589	1,456,575
Class C1	170 bps	3,550,991	386,849
Class D1	280 bps	8,975,907	975,082
		111,751,775	11,178,675

	2019	2018
	R	R
8. Subordinated loan	**173,787,320**	**173,787,320**

Fox Street 3 (RF) Limited entered into an agreement with Investec Bank Limited, whereby IBL would provide the subordinated loan to the residential mortgage backed security notes issues.

The principal amount of R173 787 320 subordinated loan was advanced by IBL on 20 February 2015. Interest payable on the subordinated loan is payable on the quarterly payment dates in accordance with the Priority of Payments.

9. Accrued interest payable	**2019**	**2018**
	R	R
Subordinated loan	**17 267 464**	15 217 797
Residential mortgage backed securities	**9 456 769**	11 178 675
	26,724,233	26,396,472

Fox Street 3 (RF) Limited

Notes to the financial statements
for the year ended 31 March 2019 (continued)

		2019 R	2018 R
10.	**Trade and other payables**		
	Accrued expenses	**444 081**	1 105 807
	Vat Payable	**91 737**	93,757
		535,818	1,199,564
11.	**Interest income**		
	Mortgage advances	**101,078,104**	120,897,828
	Current account - Investec Bank Limited	**11,538,145**	12,852,107
	Realised Interest on swap	**824,824**	(31,669)
		113,441,073	133,718,266
12.	**Interest expense**		
	Residential mortgage backed securities		
	- Class A	**67,642,002**	85,852,288
	- Class B	**13,137,796**	13,372,589
	- Class C	**3,490,399**	3,550,991
	- Class D	**8,843,398**	8,975,907
	Subordinated loan	**16,661,497**	19,288,066
		109,775,092	131,039,841
13.	**Other operating expenses**		
	Other operating expenses include the following:		
	Servicing fee - Investec Bank Limited	**1,903,415**	1,860,904
	Administration fee - Investec Bank Limited	**402,500**	399,000
	Auditor's remuneration	**301,920**	258,837
	Sundry expenses	**425,460**	552,190
		3,033,295	3,070,931
14.	**Taxation**		
	South African normal tax		
	-current tax	**291,889**	6,291
	-deferred tax	**(184,075)**	8,621
	Net taxation	**107,814**	14,912

The current tax charge equates to the statutory rate of 28%

15. Servicing and administration fees - Investec Bank Limited

Investec Bank Limited has been appointed under the terms of a servicing agreement and an administration agreement as servicer and administrator respectively for Fox Street 3 (RF) Limited.

Investec Bank Limited charges fees for its services under the servicing agreement to the extent permitted by and in accordance with the Priority of Payments. Such fees are charged at 0.12% (exclusive of VAT) of the outstanding principal balance of the assets as at each monthly determination date.

Investec Bank Limited charges fees for its administrative services under the administration agreement to the extent permitted by and in accordance with the Priority of Payments. The administation fee is charged at R350 000 (exclusive of VAT) per annum.

In the event that insufficient cash is available for payment for all or part of any servicer or administration fee, Fox Street 3 (RF) Limited incurs no obligation to pay that portion of the fee in respect of which no cash is available.

16. Contingencies and commitments

Fox Street 3 (RF) Limited has indemnified Fox Street 3 Security SPV (RF) Proprietary Limited (Security SPV) in respect of any claims made against the Security SPV arising out of a guarantee provided by the Security SPV to the secured creditors of Fox Street 3 (RF) Limited.

Cession and pledge

Fox Street 3 (RF) Limited has ceded and pledged its right, title and interest in and to the residential home loan assets held to the Security SPV as security for the guarantee provided by the Security SPV.

17. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Company, in the ordinary course of business, enters into various transactions with related parties.

17.1 Investec Bank Limited

Investec Bank Limited is a related party as Fox Street 3 (RF) Limited is a Special Purpose Entity, established to issue limited recourse, secured, registered notes under a residential mortgage backed securities programme sponsored by A+(zaf)/F1(zaf) rated Investec Bank Limited.

The following transactions took place between Investec Bank Limited and Fox Street 3 (RF) Limited:

Servicing and administration fees

Investec Bank Limited is the appointed servicing and administration agent to Fox Street 3 (RF) Limited, details of which are set out in Note 15 above. Fees payable to Investec Bank Limited under these agreements during the year amounted to:

	2019	**2018**
	R	**R**
Servicing fee	**1 903 415**	1 860 904
Administration fee	**402 500**	399 000

At year-end the following assets were invested with Investec Bank Limited (see Note 4 above):

Current account

Investec Bank Limited (through its ICIB division) is the designated banker for Fox Street 3 (RF) Limited.

- Petty cash	**101**	101
- Bank current account	**159 248 763**	152 503 021

17. Related party transactions (continued)

Subordinated Loan

Investec Bank Limited (through its ICIB division) has provided the subordinated loan to Fox Street 3 (RF) Limited (refer to Note 8) which serves as a subordinated loan to the notes. Interest is payable on a quaterly pament dates, in accordance with the Priority of Payments. Interest for the year amounted to R16 661 497 (2018: R19 288 066) (refer to Note 12).

Investment in notes

On 20 February 2015, Fox Street 3 (RF) Limited issued and listed R1.95bn of notes on the Interest Rate Market of the JSE. All these notes were listed on the 20th August 217 by Investec Bank Limited. The following balances relating to the investment in the notes were applicable at the end of the year:

- Residential mortgage backed securities	**1,009,935,985**	1,204,525,946
- Accrued interest on notes	**9 456 769**	11 178 675

17.2 Other related party transactions

Maitland Group South Africa Limited and TMF Corporate Services (South Africa) Proprietary Limited

Maitland Group South Africa Limited and TMF Corporate Services (South Africa) Proprietary Limited are external service providers that provide, trust and fiduciary services. Trust and fiduciary fees were charged by Maitland Group South Africa Limited and TMF Corporate Services (South Africa) Proprietary Limited, the trustees of Fox Street 3 Owner Trust and Fox Street 3 Security SPV Owner Trust respectively, as follows:

	2019	**2018**
	R	**R**
Maitland Group South Africa Limited (including directors fees)	**90 000**	90 000
TMF Corporate Services (South Africa) Proprietary Limited	**83 596**	80 000

Fox Street 3 Owner Trust

The trust was established solely to be a beneficial shareholder of all of the ordinary shares in Fox Street 3 (RF) Limited. The trust is managed by Maitland Group South Africa Limited. No payments were made to Fox Street 3 Owner Trust during the current or prior year.

Fox Street 3 Security SPV

In terms of IFRS 10, Fox Street 3 Security SPV is a controlled entity of Fox Street 3 (RF) Limited. No payments were made to the Security SPV during the current or prior year.

Fox Street 3 Security SPV Owner Trust

Fox Street 3 Security SPV Owner Trust is the sole beneficial shareholder of all the ordinary shares of Fox Street 3 Security SPV. No payments were made to Fox Street 3 Owner Trust during the current or prior year.

18. Risk management

In common with all other businesses, the Company is exposed to financial risks. These risks are managed as part of the normal operations of the Company and the Board of Directors oversees the effectiveness of the risk management processes carried out by Investec Bank Limited.

The collectability of amounts due is subject to credit, liquidity and interest rate risks and will generally fluctuate in response to, amongst other things, market interest rates, general economic conditions and the financial standing of borrowers.

The more important financial risks to which the Company is exposed are described below:

Liquidity risk

Liquidity risk is the risk that the Company may have insufficient cash to meet its financial obligations, specifically in the short-term.

Cash flows are monitored regularly to ensure that cash resources are adequate to meet the Company's requirements.

Maturities of financial liabilities

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
	R	R	R	R	R	R
2019						
Residential mortgage backed securities	-	**37,063,679**	**89,299,689**	**10,575,038**	**872,997,579**	**1,009,935,985**
Subordinated loan	-	-	-	-	**173,787,320**	**173,787,320**
Current tax & Vat payable		**383,626**				**383,626**
Accrued interest payable	-	**9,456,769**	**17,267,464**	-	-	**26,724,233**
Deferred income payable	-	-	-	-	**362,592**	**362,592**
Trade and other payables	-	**444,081**	-	-	-	**444,081**
	-	**47,348,155**	**106,567,153**	**10,575,038**	**1,047,147,491**	**1,211,637,837**
2018						
Residential mortgage backed securities	-	-	-	-	1,204,525,946	1,204,525,946
Subordinated loan	-	-	-	-	173,787,320	173,787,320
Derivative financial instruments		-	-	-	4,732,197	4,732,197
Vat payable		93,757				93,757
Accrued interest payable	-	11,178,675	15,217,797	-	-	26,396,472
Deferred income payable	-	-	-	-	387,301	387,301
Trade and other payables	-	1,105,807	-	-	-	1,105,807
	-	12,378,239	15,217,797	-	1,383,432,764	1,411,028,800

The maturity analysis for financial liabilities represents the basis for effective management of exposure to structural liquidity risk. The table above shows the undiscounted cash flows (including interest) for all financial liabilities on a contractual basis on the earliest date on which the Company can be required to pay.

Cash flows are monitored on a monthly basis through the Priority of Payments to ensure that cash resources are adequate to meet the necessary requirements.

18. Risk management (continued)

Interest rate risk

Interest rate risk arises when potential changes in relevant interest paid to investors and the rates earned on loans to borrowers and investments, occur at different times, at different rates and with varying degrees of uncertainty. Due to the Company's assets being linked to the prime rate, and the notes linked to the 3 Month Jibar rate, the Company is exposed to interest rate risk. This exposure is mitigated through the interest rate swap entered into with Investec Bank Limited, as derivative counterparty.

The interest rate swap is a Level 2 financial instrument as the swap is not listed in an active market, however the fair value is calculated on directly observable market inputs.

There were no transfers between any of the fair value hierarchy levels during the current year.

As the instrument is classified as a cash flow hedge, any movements in fair value are recognised in other comprehensive income, as far as hedge effectiveness is met. As at year end the hedge was effective.

Operational risk

Operational risk is the risk of direct or indirect losses arising from inadequate or failed internal processes, personnel, technology and other external causes.

Prime responsibility for managing this risk is outsourced in terms of the Servicing Agreement and the Administration Agreement to Investec Bank Limited. The Directors of the Company and the trustees are responsible for monitoring the performance of Investec Bank Limited in this regard.

Credit risk

Credit risk represents the financial risk to the Company as a result of a default by the counterparty, that is, failure of the counterparty to comply with its obligations to service the outstanding debt. Credit risk is defined in terms of Investec Bank Limited's credit policies and procedures manual, which establishes sound credit risk management processes. These procedures and processes are monitored by the Credit Committee of Investec Bank Limited.

The obligations of each borrower to Fox Street 3 (RF) Limited in respect of repayment of a loan are secured by mortgage bonds registered in favour of Fox Street 3 (RF) Limited over the property of such borrowers. The collateral of the loans is represented by these properties. As at 31 March 2019, the value of the collateral held was R 2 501 892 588 (2018: R3 499 132 772), subject to per loan collateral value.

IFRS 9 requirements have been embedded into our company credit risk classification and provisioning policy. A framework has been established to incorporate both quantitative and qualitative measures. Policies for financial assets at amortised cost and at fair value through other comprehensive income (FVOCI), in accordance with IFRS 9, have been developed as described below:

Definition of default

The company has aligned the IFRS 9 and regulatory definitions of default, credit impaired and non-performing exposure. Assets that are more than 90 days past due, or considered by management as unlikely to pay their obligations in full without realisation of collateral are considered as exposures in default.

Stage 1

All assets that are considered performing and have not had a significant increase in credit risk will be reported as Stage 1 assets. Under IFRS 9 these Stage 1 financial assets have loss allowances measured at an amount equal to a 12-month ECL.

Stage 2

Financial assets are considered to be in Stage 2 when their credit risk has increased significantly since initial recognition. The group was not required to hold specific impairments against these assets under IAS 39, however, a loss allowance equivalent to a lifetime ECL is now required to be held under IFRS 9.

The company's primary indicator for Stage 2 assets are distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision from Watchlist committees and are under management review. This comprises exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements or idiosyncratic financial distress, or private clients who have undergone a significant deterioration in financial circumstances.

18. Risk management (continued)

Credit risk (continued)

Assets that have been subject to forbearance are considered to be, at a minimum, Stage 2. Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulties. These exposures are assessed on a case by case basis to determine whether the proposed modifications will be considered as forbearance. Where the credit committee considers it likely that the client will be able to return to perform against the original contractual obligations within a reasonable timeframe these assets will be considered performing and in Stage 2. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice.

In addition to loans under management review, an asset may also move from Stage 1 to Stage 2 if the model calculated probability of default (PD) has significantly increased since origination. This is tested as both a relative and absolute measure, to further inform whether a significant deterioration in lifetime risk of default has occurred.

As a backstop, the group does not rebut the presumption in IFRS 9 that all financial assets that are more than 30 days past due have experienced a significant increase in credit risk.

Exposures move back to Stage 1 once they no longer meet the criteria above for a significant increase in credit risk and as cure periods (specifically relating to forborne exposure) are met.

Stage 3

Financial assets will be included in Stage 3 when there is objective evidence of credit impairment. Under IFRS 9, the group assesses a loan as Stage 3 when contractual payments of either principal or interest are past due for more than 90 days, the debtor is assessed as unlikely to pay and credit impaired, or the loan is otherwise considered to be in default, for example due to the appointment of an administrator or in receivership. The company's policy is not to rebut the presumption in IFRS 9 that loans which are more than 90 days past due are in default.

ECL

The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39, and resulting impairment charge may be more volatile. IFRS 9 will result in an increase in the total level of impairment allowances, since all financial assets if not measured at fair value through profit and loss (FVPL) will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Write-offs

The company's policy on when financial assets are written off has not significantly changed on adoption of IFRS 9. A loan or advance is normally written off, in full, against the related allowance when the proceeds from realising any available security have been received or there is a reasonable amount of certainty that the exposure will not be recovered. Similarly the treatment and recognition of recoveries is unaffected by the implementation of IFRS 9. Any recoveries of amounts previously written off decrease the amount of impairment losses.

Internal credit rating models and ECL methodology

Internal credit rating models cover all material asset classes. These internal credit rating models are also used for IFRS 9 modelling after adjusting for appropriate differences. Internal credit models calculate through the economic cycle losses whereas IFRS 9 requires 12-month or lifetime point-in-time losses based on conditions at the reporting date and multiple economic scenario forecasts of the future conditions over the expected lives.

Key drivers of measurement uncertainty – subjective elements and inputs

The measurement of ECL under IFRS 9 has a continued reliance on expert credit judgement. Key judgemental areas under the implementation of IFRS 9 are highlighted in this document and are subject to robust governance processes. Key drivers of measurement uncertainty include:

- the assessment of a significant increase in credit risk;

In addition to these drivers, some initial judgements and assumptions were required in the design and build of IBL's ECL methodology, which are not considered to have a material impact. This includes the use of income recognition effective interest rates (EIRs) that are calculated under IAS 39 and used as the discount factor in the ECL calculation as well as the use of contractual maturity to assess behavioural lives. In addition where we have experienced limitations on the availability of probability of default origination data for the historic book, a portfolio average has been used in some instances.

18. Risk management (continued)

Credit risk (continued)

Key drivers of measurement uncertainty – subjective elements and inputs (continued)

ECLs are calculated using three main components:
• a probability of default (PD);
• a loss given default (LGD); and
• the exposure at default (EAD).

Under IFRS 9, the 12-month and lifetime PDs represent the probability of a default occurring over the next 12 months or the lifetime of the financial exposures, respectively, based on conditions existing at the balance sheet date and future forecast macro-economic conditions that affect credit risk.

The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money. The forecast value for the collateral is also affected by the range of forward-looking probability weighted macro-economic scenarios.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a committed facility.

The calculation of the 12-month ECL is based on the 12-month PD and LGD along with the EAD and effective interest rate (EIR) for the asset. Lifetime ECL is calculated using the lifetime PD curve, and the appropriate LGDs and EADs and discount rates derived from the EIR based on the remaining life of the financial asset.

Expert judgement models have also been utilised for certain portfolios where the ECL is found to be minimal, either due to the portfolio's small relative size or the low default nature of these portfolios, such as cash and balances held at central banks.

Management adjustments are made to modelled output to account for situations where additional information and known or expected risk factors have not been captured in the modelling process.

Forward-looking macro-economic scenarios

The measurement of ECL also requires the use of multiple economic scenarios to calculate a probability weighted forward-looking estimate. These scenarios are updated at least twice a year, or more frequently if there is a macro-economic shock or significant shift in expectations. The weighting of these scenarios for IFRS 9 as well as the scenarios themselves are discussed and approved by Investec Bank Limited's capital committee, which forms part of the principal governance framework for macro-economic scenarios.

A number of forecast economic scenarios are considered for capital planning, stress testing (including IBL specific stress scenarios) and IFRS 9.

For the company, five macro-economic scenarios are used in the measurement of ECL under IFRS 9. These scenarios incorporate a base case, two upside cases and a two downside cases. The aim of this economic scenario generation process is to provide a view of the current and projected state of the South African economy and the different economic scenarios that could occur in various stressed or improved environments over the next five years for a number of identified variables/risk drivers.

Fox Street 3 (RF) Limited

Notes to the financial statements

for the year ended 31 March 2019 (continued)

18. Risk management (continued)

Credit risk (continued)

Overall asset quality

2019

	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances	Amount in arrears
	R	R	R	R	R
Current	1,243,413,908	1,587,062	-	1,245,000,970	8,870
Special mention	4,647,596	-	-	4,647,596	-
Sub-standard	-	2,049,654	-	2,049,654	108,190
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**1,248,061,504**	**3,636,716**	-	**1,251,698,220**	117,060

2018

	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances	Amount in arrears
	R	R	R	R	R
Current	1,461,647,191	1,995,198	-	1,463,642,389	25,643
Special mention	-	3,274,675	-	3,274,675	-
Sub-standard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**1,461,647,191**	**5,269,873**	-	**1,466,917,064**	25,643

The maximum exposure of the mortgage advances is the carrying value at year-end, before the deduction of collateral held.

Credit quality analysis

2019	Stage 1 ECL	Stage 2 ECL	Stage 3 ECL	Total ECL
Intercompany receivables	615,134	483,875	532,774	1,631,783

19. Financial assets and liabilities

Analysis of assets and liabilities by measurement basis

2019	Amortised cost R	Designated at fair value R	Liabilities at amortised cost R	Non-financial instruments/financial instrument excluded from IFRS 9 R	Total R
Assets					
Loans and advances	1,051,109,800	-	-	-	1,051,109,800
Cash and cash equivalents*	159,011,578	-	-	-	159,011,578
Deferred tax asset	-	-	-	-	-
Current tax asset	-	-	-	451.606	451,606
Accrued interest receivable*	744,975	-	-	-	744,975
Derivative financial instruments		7,005,439			7,005,439
	1,210,866,353	**7,005,439**	**-**	**451,606**	**1,218,323,398**
Liabilities					
Residential mortgage backed securities	-	-	**1,009,935,985**	-	**1,009,935,985**
Subordinated loan	-	-	**173,787,320**	-	**173,787,320**
Derivative financial instruments	-	-	-	-	-
Accrued interest payable*	-	-	**26,724,233**	-	**26,724,233**
Deferred income payable*	-	-	**362,592**	-	**362,592**
Trade and other payables*	-	-	**444,081**	-	**444,081**
Current tax	-	-	-	291.889	**291,889**
Vat payable				91.737	**91,737**
	-	-	**1,211,254,211**	**383,626**	**1,211,637,837**

* For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption also applies to dermand deposits, savings accounts without a specific maturity and variable rate financial instruments.

19. Financial assets and liabilities (continued)

Analysis of assets and liabilities by measurement basis (continued)

2018	Amortised cost R	Designated at fair value R	Liabilities at amortised cost R	Non-financial instruments/financial instrument excluded from IFRS 9 R	Total R
Assets					
Loans and advances	1,250,950,857	-	-	-	1,250,950.857
Cash and cash equivalents*	152,503,121	-	-	-	152,503,121
Deferred tax asset	-	-	-	1,205,045	1,205,045
Current tax asset	-	-	-	150,296	150,296
Accrued interest receivable*	1,191.630	-	-	-	1,191,630
	1,404,645,608	**-**	**-**	**1,355,341**	**1,406,000,949**
Liabilities					
Residential mortgage backed securities	-	-	1,204,525,946	-	1,204,525,946
Subordinated loan	-	-	173,787,320	-	173,787,320
Derivative financial instruments	-	4,732,197	-	-	4,732,197
Accrued interest payable*	-	-	26,396,472	-	26,396,472
Deferred income payable*	-	-	387,301	-	387,301
Trade and other payables*	-	-	1,105,807	-	1,105,807
Vat payable	-	-	93,757	-	93,757
	-	**4,732,197**	**1,406,202,846**	**-**	**1,411,028,800**

* For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption also applies to dermand deposits, savings accounts without a specific maturity and variable rate financial instruments.

20. Fair values of financial instruments

Valuation models

For more complex instruments, the company uses proprietary 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. 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 the 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 prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the company believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the company entity and the counterparty where appropriate. For measuring derivatives that might change classification from being an asset to a liability or vice versa such as interest rate swaps, fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (OVA) when market participants take this into consideration in pricing the derivatives.

During the current year, low trading volumes continued and there has not been sufficient trading volume to establish an active market for certain asset-backed securities and so the company has determined the fair value for these asset-backed securities using other valuation techniques. These securities are backed primarily by static pools of residential mortgages and enjoy a senior claim on cash flows.

The company's methodology for valuing these asset-backed securities uses a discounted cash flow technique that takes into account the probability of default and loss severity by considering the original underwriting criteria, vintage borrower attributes, LTV ratios, expected house price movements and expected prepayment rates. These features are used to estimate expected cash flows, which are then allocated using the 'waterfall' applicable to the security and discounted at a risk-adjusted rate. The discounted cash flow technique is often used by market participants to price asset-backed securities. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

Valuation framework

The company has an established control framework with respect to the measurement of fair values. Specific controls include:

- re-performance of model valuations;
- analysis and investigation of significant daily valuation movements.

Financial instruments measured at fair value - Fair value hierarchy

	Level 2
	R
	2019
Cash flow hedge	**(4,732,197)**
	R
	2018
Cash flow hedge	(9,669,105)

The interest rate swap is a Level 2 financial instrument as the swap is not listed in an active market, however the fair value is calculated on directly observable market inputs.

There were no transfers between any of the fair value hierarchy levels during the current year.

As the instrument is classified as a cash flow hedge, any movements in fair value are recognised in other comprehensive income, as far as hedge effectiveness is met. No amounts were recognised in profit or loss in the year under review.

21. Going Concern

Fox Street 3 (RF) Limited has been set up as an insolvency remote special purpose vehicle. Secured creditors have agreed to certain subordination, non-petition, and enforcement clauses.

Each Noteholder agrees that its claims against the Issuer and the Security SPV are subordinated for the benefit of other Secured Creditors in accordance with the Priority of Payments.

Once all the assets of the Issuer have been extinguished, each Noteholder abandons all claims it may have against the Issuer in respect of amounts still owing to it but unpaid, and the Issuer's liability to the Noteholders shall be completely discharged.

Each Noteholder agrees that only the Security SPV may enforce the security created in favour of the Security SPV by the Security Agreements in accordance with the provisions of the Security Agreements and the Transaction Documents.

The rights of Noteholders against the Issuer will be limited to the extent that the Noteholders will not be entitled to take any action or proceedings against the Issuer.

Furthermore, in accordance with the transaction documents, when all assets have been expunged, all secured creditors will waive their claims against the Company. Because of this legal set-up, the Company's outgoing cash flows are limited to both its assets and the yield on these assets and it therefore continues to operate as a going concern.

The Noteholders will not, until 2 (two) years following payment of all amounts outstanding and all the other Transaction Documents, institute, or join with any person in instituting or vote in favour of, any steps or legal proceedings for the winding-up, liquidation, de-registration, supervision by a business rescue practitioner, or any compromise or scheme of arrangement or related relief.

22. Transition disclosures - Overview of the company's IFRS 9 transition impact

Overview of the company's IFRS 9 transition impact

The adoption of IFRS 9 has resulted in the following day one impact for the company.

Balance sheet impairment allowance and provisions

The company's IFRS 9 transition impact amounts to R.418 million with an increase in ECL.

Classification and measurement overview

From 1 April 2018 the company classifies all of its financial assets which fall within the scope of IFRS 9 in the following measurement categories:
- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL).

Reconciliation of movements and revaluations

The table below reflects the impact of IFRS 9 implementation on the balance sheet lines and shows movements between amortised cost and fair value:

Only assets and liabilities which have changes are shown.

	IAS 39 carrying amount At 31 March 2018	ECL	IFRS 9 carrying amount At 1 April 2018
Intercompany receivables	1,250,950,857	(418,693)	1,250,532,164

23. Events after the reporting date

No material events have occurred between 31 March 2019 and the date of this report.

24. Approval of annual financial statements

The annual financial statements were approved by the board of directors on 17 July 2019.