Harcourt Street 1 (RF) Limited

(Registration Number : 2015/047670/06)

Annual Financial Statements
for the year ended 31 March 2020

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 Sandile Tshabalala, Transaction Manager.

The following financial statements have been audited in compliance with the requirementsof s30(2)(b) of the Companies Act 71 of 2008, as amended.

Harcourt Street 1 (RF) Ltd
(Registration Number : 2015/047670/06)

Annual Financial Statements
for the year ended 31 March 2020

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Company information

for the year ended 31 March 2020

Directors	OA Ferreira R Thanthony KW Van Staden JE Trevena DP Towers (appointed as alternate director 21 June 2019)
Date of incorporation	16 February 2015
Period covered by financial statements	1 April 2019 - 31 March 2020
Registration number	2015/047670/06
Nature of business and principal activities	Pursuant to the Secured Note Programme: To issue debt instruments, and/or to use funds borrowed or raised from such debt instruments to acquire assets of any kind; and/or enter into hedging transactions to mitigate its credit, currency, interest and other risks; and/or collateralise its debt instruments in respect of each asset or hedging transaction.
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 Bank Limited 100 Grayston Drive Sandown Sandton 2196
Postal address	c/o Company Secretarial Investec Bank Limited PO Box 785700 Sandton 2146
Service provider	The account bank, administrator, interest rate swap counterparty, credit default swap counterparty, and committed facility provider is Investec Bank Limited.

Harcourt Street 1 (RF) Ltd

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the annual financial statements of Harcourt Street 1 (RF) Limited, comprising the statement of financial position at 31 March 2020, and the statement 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 Servicer and Administrator responsibilities for the company are executed by Investec Bank Ltd.

The directors have made an assessment of the ability of the company to continue as a going concern and has 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 annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of annual financial statements

The annual financial statements of Harcourt Street 1 (RF) Limited, as identified in the first paragraph, were approved by the board of directors on 27 July 2020 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 period ended 31 March 2020, 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: 27 July 2020

Harcourt Street 1 (RF) Ltd

Directors' report

for the period ended 31 March 2020

The directors have pleasure in submitting their report on the activities of the company for the period ended 31 March 2020.

Nature of business

Pursuant to the Secured Note Programme: To issue debt instruments, and/or to use funds borrowed or raised from such debt instruments to acquire assets of any kind; and/or enter into hedging transactions to mitigate its credit, currency, interest and other risks; and/or collateralise its debt instruments in respect of each asset or hedging transaction.

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 2020, are set out in the financial statements and require no further comment.

Share capital

Details of authorised and issued share capital are disclosed in note 13 to the financial statements.

Directorate

The directors of the Company at the date of this report are JE Trevena, OA Ferreira , R Thanthony, KW van Staden, and DP Towers (alternate).

Interest of the director 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

A preference dividend of R 1,702,815 (2019: R 426,924) was declared by the directors on 11 October 2019.

Events after the reporting date

No material events have occurred between 31 March 2020 and the date of this report with the exception of the Covid-19 implications as stated in the Going Concern statement in note 21.

Going Concern

Harcourt Street 1 (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 credit enhancement loan liabilities. Interest is accrued on the credit enhancement 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.

Harcourt Street 1 (RF) Ltd

Directors' report

for the period ended 31 March 2020

Auditor

KPMG Inc is the appointed auditor in accordance with section 90 of the Companies Act of South Africa

Director | **Director**

Harcourt Street 1 (RF) Ltd

Audit committee report
for the year ended 31 March 2020

Members of the Audit Committee

The members of the audit committee were all independent non-executive directors and comprised:

R Thanthony
OA Ferreira
KW Van Staden
JE Trevena

The chairman of the Board of Directors (the Board), Jack E Trevena, 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 under commercial paper regulations (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 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 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. During the financial year under review, the meeting was held on 16 July 2019 and 03 March 2020.

Date	Attendees
16 July 2019	JE Trevena R Thanthony OA Ferreira
03 March 2020	JE Trevena R Thanthony OA Ferreira

Expertise and experience of finance function

The administration of the Company's assets is performed and prepared by Investec Bank Limited (jointly hereinafter "Administrator"). 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 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 external auditor

The Company's auditor is KPMG Inc.

The Audit Committee satisfied itself through enquiry that the external auditor is independent as defined by the Companies Act 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 71 of 2008 as amended that internal governance processes within the firm support and demonstrate the claim to independence.

The Audit Committee, after consultation with 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 timing of the audit, the extent of the work required and the scope.

Harcourt Street 1 (RF) Ltd

Audit Committee Report (Continued)

for the year ended 31 March 2020

Discharge of responsibilities

The Audit 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 71 of 2008 as amended. The Board concurred with the assessment.

The Audit Committee, inter alia, performed the following activities during the year under review:

- The contents of the Audit Committee's ToR (Terms of Reference)
- Approved the external auditor's fees for the 2020 audit;
- Other services provided by the auditor and
- Considered the independence and objectivity of the external auditor.

Annual Financial Statements

Following the review by the Audit Committee of the annual financial statements of the Harcourt Street 1 (RF) Limited for the period ended 31 March 2020 and based on the information provided to it, the Audit 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 Audit Committee recommended the Company's 2020 annual financial statements for approval by the Board on 27 July 2020.

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

On behalf of the Audit Committee:

Rishendrie Thanthony
Chairman: Audit Committee
Date: 27 July 2020

Harcourt Street 1 (RF) Ltd

King IV report
for the year ended 31 March 2020

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 directors ensures that: - The direction is set for ethics - Whistle-blowing procedures have been put in place which ensures that all employees are protected which disclose unlawful or irregular conduct by the Company, its employees or stakeholders.
3	The board should ensure that the organisation is and is seen to be a responsible corporate citizen.	Yes	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 operate within its mandate and reports to the board.

Harcourt Street 1 (RF) Ltd

King IV Report (Continued)

for the year ended 31 March 2020

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 directors charter emphasises the fact that they acknowledge that strategy, risk, performance and sustainability are inseparable. The directors 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 the administrator's communication with all stakeholders and disclosures made to ensure transparent and effective ccommunication. 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 the corporate governance in the organisation.	Yes	The directors operates in accordance with a detailed charter that specifically deals with the roles, responsibilities and accountabilities of the directors. It meets at least two (2) times a year. Through its meetings and interaction with management the directors ensures that applicable principles are implemented and a high level of compliance 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 board of directors consists of four (4) Non-Executive Directors. All of the Non-Executive Directors are independent. The members of the board have the requisite skill and experience. 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.

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 directors committees assist in executing its duties, powers and authorities. The required authority is delegated by the directors to each committee to enable it to fulfil its respective functions through formally approved terms of reference. Delegating authority to directors 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 directors and its directors of their duties and responsibilities and the directors 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 directors 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 evaluation every 2 years 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 2-yearly 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 in 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.

12	The board should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.	Yes	The directors has assumed the responsibility for IT governance but has delegated 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 board take responsibility for deciding whether to follow the recommendations of the compliance officer. The Company received no fines or penalties for non-compliance during 2020 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.	Yes	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.

Harcourt Street 1 (RF) Ltd

King IV Report (Continued)

for the year ended 31 March 2020

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 stakeholder groups 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

To the shareholder of Harcourt Street 1 (RF) Limited

Report on the financial statements

Opinion

We have audited the financial statements of Harcourt Street 1 (RF) Limited (the company) set out on pages 20 to 44, which comprise the statement of financial position as at 31 March 2020, 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 Harcourt Street 1 (RF) Limited as at 31 March 2020, 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.

KPMG

Impact of COVID-19 Refer to accounting policies notes 1.4 and 1.7; and notes 19, 20 and 22 to the financial statements.	
Key audit matter	How the matter was addressed in our audit
The COVID-19 pandemic is of an unprecedented scale and has severely impacted the global economy and businesses across all industries. There is a significant degree of uncertainty about the further spread of the virus and the state of the world economy. As a result of the pandemic there are significant judgements and assumptions that impact financial reporting that are required to be considered within the financial statements. The areas of our audit most impacted by COVID-19 include: **Significant judgement related to fair value of financial instruments** ***Level 2 instruments*** 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 default, determination of expected volatilities and correlations and selection of appropriate discount rates. **Significant judgements related to expected credit losses** The appropriateness of the allowance for expected credit losses (ECL) requires significant judgment and assumptions by management.	Our audit response to these areas is detailed below: **Significant judgement related to fair value of financial instruments** ***Level 2 instruments*** With the assistance of our valuation specialists, we performed a detailed examination of management's valuation methodologies and assessed the appropriateness and consistency of inputs, key assumptions and contractual obligations. **Significant judgements related to expected credit losses** We performed the following procedures in conjuction with our credit specialists:

ECL is determined using sophisticated modelling techniques, which consider both historical data and forward-looking information. The models used to determine credit impairments are complex, and certain inputs used are not fully observable. Credit risk is defined in terms of Investec Bank Limited's (Investec) credit policies and procedures manual. Investec management addressed the COVID-19 impact on the portfolio (Harcourt Street 1 is managed as part of this portfolio) as follows: • The ECL as at March 2020 was calculated using revised macroeconomic variable forecasts and scenario weightings (dated 13 April 2020). • Additional staging rule to assess impacted accounts which require COVID-19 relief measures (i.e. payment holidays, restructured credit exposures and loan modifications) - where the impact is not considered temporary – and migrate them to Stage 2.	• We reviewed the macroeconomic information and scenario framework applied by management. • We reperformed the application of the new macroeconomic variable forecasts and scenario weightings on the IFRS 9 PD and LGD models. • We recalculated both the baseline ECL (based on March 2020 exposures) and the ECL based on revised macroeconomic information.
Events after the balance sheet date The COVID-19 coronavirus outbreak has caused a significant deterioration in economic conditions worldwide. Management has concluded that there are no material uncertainties regarding the ability of Harcourt Street 1 (RF) Limited to operate as a going concern because the company has been set up as an insolvency remote special purpose vehicle. Secured creditors have agreed to certain subordination, non-petition and enforcement clauses.	**Events after the balance sheet date** We reviewed all available and relevant management information, key meeting minutes and held discussions with management. We evaluated the completeness and appropriateness of the financial statement disclosures as they pertain to events after the balance sheet date in relation to the impact of COVID-19.

<table>
<tr><td colspan="2">Accuracy of hedge accounting
Refer to accounting policy note 1.6 and note 5 of the financial statements</td></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The implementation of hedge accounting requires that the criteria of IAS 39 in relation to hedge documentation and hedge effectiveness be met. In addition to the required criteria, the accounting requirements under hedge accounting are considered to be complex.

Disclosure of the cash flow hedge accounting treatment in terms of IAS 39 Financial Instruments is likely to be subject to scrutiny from investors and regulators.

Due to the complex nature of the accounting treatment and requirements of IAS 39 for hedge accounting and the extent of the audit work required to address this matter, this has been identified as a key audit matter.</td><td>We performed the following procedures in conjunction with our valuation specialists:

• We evaluated whether the hedge documentation was in accordance with IAS 39 by reviewing the hedge documentation and inspecting that all IAS 39 requirements were documented.

• We assessed the hedge effectiveness of the cash flow hedge by comparing the cash flows of the hedge item to the cash flows of the hedging instrument.

• We evaluated the adequacy of the disclosures related to hedge accounting in accordance with the requirements of IAS 39 and IAS 1.</td></tr>
</table>

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Harcourt Street 1 (RF) Limited Annual Financial Statements for the year ended 31 March 2020", which includes the Directors' report, the Audit committee report and the Declaration by the Company Secretary 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 requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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. has been the auditor of Harcourt Street 1 (RF) Limited for 6 years.

KPMG Inc

Per TA Middlemiss
Chartered Accountant (SA)
Registered Auditor
Director

28 July 2020

Harcourt Street 1 (RF) Ltd

Statement of financial position

as at 31 March 2020

	Notes	2020	2019
Assets		**R**	R
Loans and advances	*3*	**737,874,223**	-
Investment in securities	*4*	**458,413,902**	572,798,895
Derivative financial instruments	*5*	**1,607,060**	(11,056,614)
Other receivable	*8*	**94,037**	-
Cash and cash equivalents	*2*	**9,922,246**	2,122,075
Total assets		**1,207,911,468**	563,864,356
Equity and liabilities			
Equity		**7,182,630**	5,465,743
Ordinary share capital	*13*	**100**	100
Preference share capital	*13*	**1**	1
Cash flow hedge reserve		**1,262,572**	3,138,137
Retained earnings/ (accumulated loss)		**5,919,957**	2,327,505
Liabilities		**1,200,728,838**	558,398,613
Deferred Tax Liability	*9*	**372,711**	**-**
Commercial paper issued	*6*	**1,199,785,791**	557,979,357
Derivative financial instruments	*5*	**82,362**	-
Taxation payable		**14,871**	130,633
Other liabilities	*7*	**473,103**	288,623
Total equity and liabilities		**1,207,911,468**	**563,864,356**

Harcourt Street 1 (RF) Ltd

Statement of comprehensive income

for the period ended 31 March 2020

	Notes	2020 R	2019 R
Interest income	11	101,351,765	57,282,227
Interest expense	12	(91,568,591)	(52,804,094)
Net interest income		**9,783,174**	**4,478,133**
Mark-to-market on credit default swaps		(67,260)	-
Premium income on credit default swaps		152,154	-
Other operating expenses	10	(2,185,416)	(2,176,310)
Total operating income before expected credit losses/ impairment losses		**7,682,652**	**2,301,823**
Expected credit loss impairment charge	19	(328,114)	(145,486)
Profit before taxation		**7,354,538**	**2,156,337**
Taxation	15	**(2,059,271)**	**(603,775)**
Profit for the year		**5,295,267**	**1,552,562**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedges – effective portion of changes in fair value	5	(7,244,044)	(8,882,209)
Cash flow hedges – reclassified to profit or loss	11	5,859,480	8,531,264
		(1,384,564)	(350,945)
Taxation relating to items that may be reclassified to profit or loss			
Cash flow hedge		(491,000)	-
Total comprehensive income / (loss) for the year		**3,419,702**	**1,201,617**

Harcourt Street 1 (RF) Ltd

Statement of changes in equity

for the period ended 31 March 2020

	Ordinary Share capital	Preference Share Capital	Retained earnings/ (loss)	Cash flow hedge reserve	Total
Balance at 31 March 2018	100	1	1,201,867	3,489,082	4,691,050
Total comprehensive income for the year					
- Profit for the year	-	-	1,552,562		1,552,562
- Other comprehensive income					
- Dividends Paid	-	-	(426,924)		(426,924)
- Cash flow hedges – effective portion of changes in fair value	-		-	(8,882,209)	(8,882,209)
- Cash flow hedges – reclassified to profit or loss				8,531,264	8,531,264
Balance at 31 March 2019	100	1	2,327,505	3,138,137	5,465,743
Total comprehensive income for the year					
Profit for the year and other comprehensive income	-	-	5,295,267		5,295,267
- Other comprehensive income					
- Dividends Paid	-	-	(1,702,815)		(1,702,815)
- Cash flow hedges – movement in fair value	-		-	(7,735,044)	(7,735,044)
- Cash flow hedges – reclassified to profit or loss				5,859,480	5,859,480
Balance at 31 March 2020	100	1	5,919,957	1,262,572	7,182,630

Harcourt Street 1 (RF) Ltd

Statement of cash flows

for the period ended 31 March 2020

	Notes	2020	2019
		R	R
Cash flows from operating activities			
Profit before taxation		7,354,538	2,156,337
adjusted for:			
Interest accrued		3,955,953	(9,385)
Changes in working capital:			
Increase in other liabilities		184,480	(723,708)
Increase in other receivables		(94,037)	
Non-cashflow item		-	-
Expected credit loss		328,114	145,486
MTM adjustment on credit default swap		67,260	-
		11,796,308	1,568,730
Taxation paid ^		(2,293,321)	(473,142)
Net cash utilised from operating activities		9,502,987	1,095,588
Cash flows from investing activities			
Investment securities		94,000,000	-
Loans and advances	3	(735,000,000)	-
Net cash flows from investing activities		(641,000,000)	-
Cash flows from financing activities			
Commercial paper		641,000,000	-
Dividends paid		(1,702,815)	(426,924)
Net cash flows from financing activities		639,297,185	(426,924)
Net increase in cash and cash equivalents for the year/ period		7,800,172	668,664
Cash and cash equivalents at the beginning of the year		2,122,075	1,453,411
Cash and cash equivalents at end of the year/ period	2	9,922,247	2,122,075

^ *Provisional cash tax payments*

1. Significant accounting policies

1.1 Reporting entity

Harcourt Street 1 (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 statement . The Company's primary business is to acquire the right, title and interest in and to financial 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), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council and the Companies Act No.71 of 2008, as amended, and incorporate the following principle accounting policies set out below.

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 relating to those measured at amortised cost and fair value. The financial statements are presented in South African Rand, which is the Company's functional currency.

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 are obtained from the administrator's Model Development team. 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.

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. Further information in relation to this can be found in Note 20. 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 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 Financial Instruments

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 FVPL.

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 Company assesses whether the assets' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the compay 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.

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 the debt securities, are measured at amortised cost. This includes loans and advances, cash and cash equivalents, and investment in securities. In addition, most financial liabilities are measured at amortised cost.

The carrying value of these financial assets at initial recognition includes any directly attributable transaction costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan is credit impaired.

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.

1.4 Financial Instruments

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.

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 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.

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 trade and other 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:

1.6 Hedge accounting (continued)

● 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 hedge is applied to recognised assets (bonds) 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.

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.

Derivative financial instruments are measured at fair value. 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.

● Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

1.8 Offsetting

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a currently enforceable legal right to offset exists. 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 bonds 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.

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 the same tax authority 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.

1.11 Standards and interpretations issued but not yet effective

IFRS 17 (Insurance contracts) is a standard which has been issued but is not yet effective and is not expected to have a material impact on the Company. The standard will be effective for annual reporting periods beginning on or after 1 January 2023.

	2020 R	2019 R

2. Cash and cash equivalents

	2020 R	2019 R
Series 2 - Current account at Investec Bank Limited	2,353,174	664,780
Series 5 - Current account at Investec Bank Limited	1,130,204	1,457,194
Series 6 - Current account at Investec Bank Limited	609,975	-
Series 7 - Current account at Investec Bank Limited	5,312,065	-
Series 8 - Current account at Investec Bank Limited	482,231	-
Series 9 - Current account at Investec Bank Limited	-	-
Series 10 - Current account at Investec Bank Limited	19,127	-
Surplus account - Current account at Investec Bank Limited	15,369	-
Petty cash	101	101
	9,922,246	**2,122,075**

3. Loans and advances

Loans and advances comprise corporate loans originated by various lenders and purchased by Harcourt Street 1 (RF) Limited. All loans and advances are expected to be recovered more than 1 year after the reporting date.

	2020 R	2019 R
Series 6 - Curro Series		
Loans originated	150,000,000	-
Accrued interest	1,097,296	-
Discount on loan asset	-	-
Loans and advances repaid	-	-
Expected credit loss	(53,757)	-
	151,043,539	-
Series 7 - RCL Series		
Loans originated	235,000,000	-
Accrued interest	53,438	-
Loans and advances repaid	-	-
Expected credit loss	(59,301)	-
	234,994,137	-
Series 8 - Foschini Series		
Loans originated	200,000,000	-
Accrued interest	638,148	-
Loans and advances repaid	-	-
Expected credit loss	(50,130)	-
	200,588,018	-
Series 9 - Lucky Star Series		
Loans originated	150,000,000	-
Accrued interest	1,409,000	-
Loans and advances repaid	-	-
Expected credit loss	(160,471)	-
	151,248,529	-
Total Loans and advances		
Loans originated	735,000,000	-
Accrued interest	3,197,882	-
Loans and advances repaid	-	-
Expected credit loss	(323,659)	-
	737,874,223	-

4. Investment in Securities

Series 2 - Telkom Bond

This security comprises a Telkom "TL20" fixed rate bond purchased by Harcourt Street 1 (RF) Limited, Series 2. This bond matured on 24 February 2020.

	2020 R	2019 R
Telkom "TL20" bond purchased	-	350,000,000
Accrued interest	-	2,286,904
Discount ammortised	-	19,094,737
	-	371,381,641
Expected credit loss	-	(51,886)
	-	**371,329,755**

The current period movement in the Telkom bond investment is due to the unwinding of the discount on the purchase of the bond.

Series 5 - Liberty Bond

This security comprises a Liberty "LGL08" floating rate bond purchased by Harcourt Street 1 (RF) Limited, Series 5. This bond, which has a maturity date of 23 February 2023, has a face value of R200m, and is a listed instrument on the JSE.

	2020 R	2019 R
Liberty "LGL08" bond purchased	200,000,000	200,000,000
Accrued interest	1,518,115	1,562,740
	201,518,115	201,562,740
Expected credit loss	(86,142)	(93,600)
	201,431,973	**201,469,140**

Series 10 Subseries 1 - Mercedes Benz Bond

This security comprises a Mercedes Benz "MBP040" floating rate bond purchased by Harcourt Street 1 (RF) Limited, Series 10. This bond, which has a maturity date of 23 February 2023, has a face value of R 138,065,529.19, and is a listed instrument on the JSE.

	2020 R	2019 R
Mercedes Benz "MBP040" bond purchased	139,000,000	-
Accrued interest	1,097,542	-
Premium amortised	(24,908)	-
	140,072,634	-
Expected credit loss	(34,603)	-
	140,038,031	-

Series 10 Subseries 2 - Mercedes Benz Bond

This security comprises a Mercedes Benz "MBF065" floating rate bond purchased by Harcourt Street 1 (RF) Limited, Series 10. This bond, which has a maturity date of 30 September 2022, has a face value of R 115,259,501.32, and is a listed instrument on the JSE.

	2020 R	2019 R
Mercedes Benz "MBP040" bond purchased	117,000,000	-
Accrued interest	24,883	-
Premium amortised	(51,790)	
	116,973,093	-
Expected credit loss	(29,195)	-
	116,943,898	-

	2020 R	2019 R
Total Investment in securities		
Investments in securities originated	**456,000,000**	**550,000,000**
Accrued interest	**2,640,540**	**3,849,644**
Premium amortised	**(76,697)**	**19,094,737**
Expected credit loss	**(149,940)**	**(145,486)**
	458,413,902	**572,798,895**

5. Derivative financial instruments

Series 2

Harcourt Street 1 (RF) Limited has entered into a JIBAR for fixed rate swap with Investec Bank Limited to mitigate the interest rate risk resulting from the mismatch of the fixed interest rate bond and the JIBAR linked notes payable. The swap was effective in the current year. The fair value of derivatives can change significantly from year to year due to changes in economic conditions. The swap matured on 24 February 2020.

	2020 R	2019 R
Statement of financial position		
Fair value of swap	-	(11,056,614)
Statement of other comprehensive income		
Cash flow hedges – effective portion of changes in fair value	(10,842,055)	(8,882,209)
Cash flow hedges – reclassified to profit or loss	7,703,919	8,531,264
Net other comprehensive income	**(3,138,136)**	**(350,945)**

Series 10 Sub-series 1

Harcourt Street 1 (RF) Limited has entered into a JIBAR-linked rate swap with Investec Bank Limited to mitigate the interest rate risk resulting from the mismatch between the base rate of interest earned on the Bond and that payable on the Notes. The notional value of the swap as at 31 March 2020 is R 139 000 000. The swap is effective in the current year. The fair value of derivatives can change significantly from year to year due to changes in economic conditions.

	2020 R	2019 R
Statement of financial position		
Fair value of swap	(15,102)	-
Statement of other comprehensive income		
Cash flow hedges – effective portion of changes in fair value	420,838	-
Cash flow hedges – reclassified to profit or loss	(230,424)	-
Net other comprehensive income	**190,414**	-

Series 10 Sub-series 2

Harcourt Street 1 (RF) Limited has entered into a JIBAR-linked rate swap with Investec Bank Limited to mitigate the interest rate risk resulting from the mismatch between the base rate of interest earned on the Bond and that payable on the Notes. The notional value of the swap as at 31 March 2020 is R 117 000 000. The swap is effective in the current year. The fair value of derivatives can change significantly from year to year due to changes in economic conditions.

	2020 R	2019 R
Statement of financial position		
Fair value of swap	1,607,060	-
Statement of other comprehensive income		
Cash flow hedges – effective portion of changes in fair value	3,177,173	-
Cash flow hedges – reclassified to profit or loss	(1,614,015)	-
Net other comprehensive income	**1,563,158**	-

	2020 R	2019 R
Total Statement of other comprehensive income		
Cash flow hedges – effective portion of changes in fair value		
- Series 2	(10,842,055)	(8,882,209)
- Series 10 subseries 1	420,838	-
- Series 10 subseries 2	3,177,173	-
	(7,244,044)	**(8,882,209)**
Cash flow hedges – reclassified to profit or loss		
- Series 2	7,703,919	8,531,264
- Series 10 subseries 1	(230,424)	-
- Series 10 subseries 2	(1,614,015)	-
	5,859,480	**8,531,264**
Net other comprehensive income	**(1,384,564)**	**(350,945)**

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
2020			
Interest rate swap	MBP040 Bond	(15,102)	Three months
Interest rate swap	MBF065 Bond	1,607,060	Three months
2019			
Interest rate swap	TL20 Bond	(11,056,614)	Three months

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 (R5.9 million) (2019: R8.5 million) are included in net interest income.

The amounts relating to items designated as the hedged items as at 31 March 2020 are as follows:

	Carrying amount	Change in value used for hedge ineffectiveness	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
2020				
Investments in securities	256 981 929	-	-	-
2019				
Investments in securities	371 329 755	-	-	-

Credit Default Swaps

Series 10 Sub-series 1

Harcourt Street 1 (RF) Limited has entered into a credit default swap transaction with Investec Bank Limited. Investec Bank Limited buys Nedbank Group Limited (Subordinated Tier 2) protection from Harcourt Street. The notional value of the credit default swap as at 31 March 2020 is R 139 000 000. The fair value of derivatives can change significantly from year to year due to changes in economic conditions.

	2020 R	2019 R
Fair value of obligation	(9,534)	-
	(9,534)	-

Series 10 Sub-series 2

Harcourt Street 1 (RF) Limited has entered into a credit default swap transaction with Investec Bank Limited. Investec Bank Limited buys Standard Bank Group Limited (Subordinated Tier 2) protection from Harcourt Street. The notional value of the credit default swap as at 31 March 2020 is R 117 000 000. The fair value of derivatives can change significantly from year to year due to changes in economic conditions.

Fair value of obligation	(57,726)	-
	(57,726)	-

Total Derivative Financial Instruments

		2020	2019
Interest rate swap	MBP040 Bond	(15 102)	-
Interest rate swap	MBF065 Bond	1 607 060	-
Interest rate swap	TL20 Bond	-	(11 056 614)
Fair value of Credit Default Swap obligation		(9 534)	-
Fair value of Credit Default Swap obligation		(57 726)	-
		1,524,698	**(11,056,614)**

		2020 R	2019 R
6.	**Commercial paper issued**		
	Commercial paper issued are listed instruments on the JSE and are not rated.		
	Series 2		
	Commercial paper issued	350,000,000	350,000,000
	Accrued interest (Jibar plus 188bps)	-	6,566,097
	Redemption of notes	(350,000,000)	
		-	**356,566,097**
	Series 5		
	Commercial paper issued (maturity date: 29 May 2020)	200,000,000	200,000,000
	Accrued interest (Jibar plus 117bps)	1,220,066	1,413,260
		201,220,066	**201,413,260**
	Series 6		
	Commercial paper issued (maturity date: 02 June 2020)	150,000,000	-
	Accrued interest (Jibar plus 66bps)	824,811	-
		150,824,811	-
	Series 7		
	Commercial paper issued (maturity date: 02 Apr 2020)	235,000,000	-
	Accrued interest (Tranche 2 Jibar plus 125bps, Tranche 5 Jibar plus 65bps)	4,277,471	-
		239,277,471	-
	Series 8		
	Commercial paper issued (maturity date: 20 June 2020)	200,000,000	-
	Accrued interest (Jibar plus 80bps)	431,633	-
		200,431,633	-
	Series 9		
	Commercial paper issued (maturity date: 26 June 2020)	150,000,000	-
	Accrued interest (Jibar plus 72bps)	1,146,279	-
		151,146,279	-
	Series 10 Subseries 1		
	Commercial paper issued (maturity date: 26 February 2024)	139,000,000	-
	Accrued interest (Jibar plus 180bps)	862,211	-
		139,862,211	-
	Series 10 Subseries 2		
	Commercial paper issued (maturity date: 30 September 2023)	117,000,000	-
	Accrued interest (Jibar plus 165bps)	23,320	-
		117,023,320	-

The commercial papers bear interest at the 3 Month JIBAR rate plus the spread as determined in the Applicable Pricing Supplement. For as long as the commercial paper are in issue, interest on the floating rate notes is payable quarterly in arrears

		2020 R	2019 R
	Total commercial paper issued		
	Commercial paper issued	1,541,000,000	550,000,000
	Accrued interest	8,785,791	7,979,357
	Redemption of notes	(350,000,000)	-
	Total commercial paper outstanding	**1,199,785,791**	**557,979,357**
7.	**Other liabilities**		
	Audit fee accrual	305,651	146,183
	Accounts payable	98,677	13,026
	Committed facility accrual	68,775	129,415
		473,103	**288,623**
8.	**Other receivable**		
	Credit default swap premium	94,037	-
		94,037	-

9. Deferred tax

The deferred tax balance comprises of:

Movement recognised in profit or loss:		
Expected credit loss	99,456	-
MTM adjustments	18,833	-
Movement recognised in Other Comprehensive Income:		
Swap Fair Value adjustments	(491,000)	-
Closing Balance	**(372,711)**	-

		2020	2019
		R	R
10.	**Other operating expenses**		
	Other operating expenses include the following:		
	Administrator fee	113,425	45,651
	Auditor's remuneration	462,028	174,428
	Agency fee	192,224	103,462
	Facility fee	899,925	1,524,063
	Regulatory costs	19,902	15,516
	Trustee fee	323,521	221,141
	Sundry expenses	174,392	92,049
		2,185,416	**2,176,310**
11.	**Interest income**		
	Current account - Series 1	-	5,579
	Current account - Series 2	182,902	58,091
	Current account - Series 3	-	189
	Current account - Series 4	-	1,383
	Current account - Series 5	53,108	60,020
	Current account - Series 6	29,859	-
	Current account - Series 7	30,201	-
	Current account - Series 8	17,926	-
	Current account - Surplus	80,022	
	Loan and advances - Series 6	10,753,262	-
	Loan and advances - Series 7	19,331,255	-
	Loan and advances - Series 8	13,061,315	-
	Loan and advances - Series 9	1,417,019	-
	Investment security - Series 2	27,178,359	30,244,211
	Investment security - Series 5	18,202,499	18,381,490
	Investment security - Series 10 sub-series 1	1,072,634	-
	Investment security - Series 10 sub-series 2	2,237,485	-
	Total Interest Income calculated using the effective interest rate method	93,647,846	48,750,963
	Realised interest on the swap (note 11.1)	7,703,919	8,531,264
		101,351,765	**57,282,227**
11.1	Realised interest on the swap		
	<u>Series 2</u>		
	Interest income on the swap	27,977,015	23,904,374
	Accrued interest income on the swap	-	7,186,890
	Interest expense on the swap	(20,273,096)	(22,560,000)
		7,703,919	**8,531,264**
	<u>Series 10 sub-series 1</u>		
	Interest income on the swap	837,454	-
	Interest expense on the swap	(1,067,878)	-
		(230,424)	-
	<u>Series 10 sub-series 2</u>		
	Interest income on the swap	675,260	-
	Interest expense on the swap	(2,289,275)	-
		(1,614,015)	-
	Total	**5,859,480**	**8,531,264**

	2020 R	2019 R
12. Interest expense		
Commercial paper issued		
- Series 2	31,762,378	36,207,446
- Series 5	16,181,359	16,596,648
- Series 6	9,435,123	-
- Series 7	17,720,865	-
- Series 8	11,972,060	-
- Series 9	1,146,279	-
- Series 10 sub-series 1	837,304	-
- Series 10 sub-series 2	668,784	
		-
Realised interest on the swap (note 11.1)		-
- Series 10 sub-series 1	230,424	-
- Series 10 sub-series 2	1,614,015	-
	91,568,591	**52,804,094**

13. Ordinary share capital

Ordinary share capital

	2020 R	2019 R
Authorised		
1 000 ordinary shares	**1,000**	**1,000**
Issued		
100 ordinary shares at no par value	**100**	**100**
The consideration received for these shares was R100		

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

Preference share capital

	2020 R	2019 R
Authorised		
100 cumulative redeemable preference shares		
Issued		
1 Preference share at no par value	**1**	**1**
The consideration received for these shares was R1		

All of 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**

14. Related parties

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 has a related party relationship with its directors, holding Company (The Harcourt Street Issuer Owner Trust), and the security SPV, Harcourt Street Security SPV 1 (RF) Pty Ltd, Harcourt Street Security SPV 2 Trust (Security SPV 2), Harcourt Street Security SPV 3 Trust (Security SPV 3), Harcourt Street Security SPV 4 Trust (Security SPV 4), Harcourt Street Security SPV 5 Trust (Security SPV 5), Harcourt Street Security SPV 6 Trust (Security SPV 6), and Harcourt Street Security SPV 7 Trust (Security SPV 7).

15. Taxation

	2020 R	2019 R
South African normal tax		
-current	2,177,559	603,775
-deferred tax	(118,289)	-
Net taxation charge	**2,059,271**	**603,775**

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

Reconciliation of effective tax rate

2020

	%	R
Income before taxation		**7 354 538**
Tax using the corporation tax rate	28.0%	**2,059,271**
Temporary differences	1.6%	**118 289**
- Expected credit loss	1.3%	99,456
- MTM adjustment	0.3%	18,833
Total income tax expense	**29.6%**	**2,177,559**

2019

	%	R
Income before taxation		**2 156 337**
Tax using the corporation tax rate	28.0%	**603,775**
Temporary differences	0.0%	**-**
- Expected credit loss	0.0%	-
Total income tax expense	**28.0%**	**603,775**

16. Administration fees - Investec Bank Limited

Investec Bank Limited has been appointed under the terms of an administration agreement as administrator to Harcourt Street 1 (RF) Limited.

Investec Bank Limited charges fees for it administrative services under the administration agreement to the extent permitted by and in accordance with the Priority of Payments. The administration fee of R20,000 is charged per Series (exclusive of VAT) per annum.

In the event that insufficient cash is available for payment for all or part of any administration fee, Harcourt Street 1 (RF) Limited incurs no obligation to pay that portion of the fee in respect of which no cash is available.

17. Contingencies and commitments

Harcourt Street 1 (RF) Limited has indemnified Harcourt Street Security SPV 1 (RF) Proprietary Limited (Security SPV 1), Harcourt Street Security SPV 2 Trust (Security SPV 2), Harcourt Street Security SPV 3 Trust (Security SPV 3), Harcourt Street Security SPV 4 Trust (Security SPV 4), Harcourt Street Security SPV 5 Trust (Security SPV 5), Harcourt Street Security SPV 6 Trust (Security SPV 6) and Harcourt Street Security SPV 7 Trust (Security SPV 7) in respect of any claims made against the Security SPVs arising out of a limited guarantee provided by the Security SPVs to the secured creditors of Harcourt Street 1 (RF) Limited.

Cession and pledge
Harcourt Street 1 (RF) Limited has ceded and pledged its right, title and interest in and to its assets held to the respective Security SPVs as security for the guarantees provided by the Security SPVs.

18. 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.

TMF Corporate Services (South Africa) Proprietary Limited and Quadridge Trust Services Proprietary Limited

Trust and fiduciary fees were paid to TMF Corporate Services (South Africa) Proprietary Limited (an external service provider), the trustees of Harcourt Street 1 Owner Trust, Harcourt Street 1 Security SPV Owner Trust and Quadridge Trust Services Proprietary Limited as trustees of the respective Security SPVs, as follows:

	2020 **R**	**2019** **R**
TMF Corporate Services (South Africa) Proprietary Limited (including directors fees)	**194,145**	148,691
Quadridge Trust Services Proprietary Limited (including directors fees)	**129,375**	72,450

Harcourt Street 1 Owner Trust

The trust was established solely to be a beneficial shareholder of all of the ordinary shares in Harcourt Street 1 (RF) Limited. The trust is managed by TMF Corporate Services (South Africa) Proprietary Limited. No payments were made to Harcourt Street 1 Owner Trust during the year.

Harcourt Street Security SPV Owner Trust

Harcourt Street Security SPV Owner Trust is the sole beneficial shareholder of all the ordinary shares of Harcourt Street Security SPV 1 (RF) (Pty)Ltd.

19. 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.

The collectability of amounts due is subject to credit, liquidity and interest rate risks and will generally fluctuate in response to, among 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

	Current	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
2020						
Commercial paper and notes	-	791,753,981	151,146,279	256,885,531	-	**1,199,785,791**
Derivative financial instruments	-	-	-	82,362	-	**82,362**
Other Liabilities	473,103	-	-	-	-	**473,103**
	473,103	**791,753,981**	**151,146,279**	**256,967,893**	**-**	**1,200,341,256**

	Current	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						
Commercial paper and notes	-	-	357,979,357	200,000,000	-	557,979,357
Derivative financial instruments	-	-	-	-	-	-
Other Liabilities	288,623	-	-	-	-	288,623
	288,623	**-**	**357,979,357**	**200,000,000**	**-**	**558,267,981**

The maturity analysis for financial liabilities represents the basis for effective management of exposure to structural liquidity risk.

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.

19. Risk management (continued)
Maturities of financial liabilities (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 mismatch in the base rates of interest earned on the Company's Series 10 investments in the Mercedes Benz MBP040 and MBF065 bonds and that payable on the notes issued, the Company is exposed to interest rate risk. This exposure is mitigated through the interest rate swaps 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 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.

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 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 counterparty to comply with its obligations to service the outstanding debt. Credit risk is assessed by the administrator and directors, which establishes and ensures sound credit risk management policies and processes are in place.

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, 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. A loss allowance equivalent to a lifetime ECL is 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.

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

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.

19. Risk management (continued)

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. 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.

Investec management addressed the COVID-19 impact on the portfolio as follows:

•The ECL as at March 2020 was calculated using revised macroeconomic variable forecasts and scenario weightings (dated 13 April 2020).

• Additional staging rule to assess impacted accounts which require COVID-19 relief measures (i.e. payment holidays, restructured credit exposures and loan modifications) where the impact is not considered temporary – and migrate them to Stage 2

Write-offs

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. 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 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;
- the introduction of a range of forward-looking probability weighted macro-economic scenarios; and
- estimations of probabilities of default, loss given default and exposures at default using models.

In addition to these drivers, some initial judgements and assumptions were required in the design and build of the bank'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 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.

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, determined by the Administrator, 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.

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

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. The maturity dates, effective interest and carrying amounts of the assets are sent to the Administrator who will then calculate the ECL.

19. Risk management (continued)

Overall asset quality

2020

	Loans and advances that are neither past due nor impaired R	Loans and advances that are past due but not impaired R	Loans and advances that are impaired R	Total loans and advances R	Amount in arrears R
Current	737,874,223	-	-	737,874,223	-
Special mention	-	-	-	-	-
Sub-standard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**737,874,223**	**-**	**-**	**737,874,223**	**-**

2019

	Loans and advances that are neither past due nor impaired R	Loans and advances that are past due but not impaired R	Loans and advances that are impaired R	Total loans and advances R	Amount in arrears R
Current	-	-	-	-	-
Special mention	-	-	-	-	-
Sub-standard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

The maximum exposure of the loans and advances is the carrying value at year-end.

2020

	Investments in Securities that are neither past due nor impaired	Investments in Securities that are past due but not impaired	Investments in Securities that are impaired	Total Investments in Securities	Amount in arrears
Current	458,413,902	-	-	458,413,902	-
Special mention	-	-	-	-	-
Sub-standard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**458,413,902**	-	-	**458,413,902**	-

2019

	Investments in Securities that are neither past due nor impaired	Investments in Securities that are past due but not impaired	Investments in Securities that are impaired	Total Investments in Securities	Amount in arrears
Current	572,798,895	-	-	572,798,895	-
Special mention	-	-	-	-	-
Sub-standard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	**572,798,895**	-	-	**572,798,895**	-

Credit quality analysis

2020	**Stage 1 ECL**	**Stage 2 ECL**	**Stage 3 ECL**	**ECL**
Loans and advances	323,660	**-**	**-**	**323,660**
Investments in securities	149,940	**-**	**-**	**149,940**

2019	**Stage 1 ECL**	**Stage 2 ECL**	**Stage 3 ECL**	**ECL**
Investments in securities	145,486	**-**	**-**	**145,486**

Notes to the financial statements
for the period ended 31 March 2020 (continued)

20. Financial assets and liabilities

Analysis of assets and liabilities by measurement basis

2020	Notes	Amortised Cost	Mandatorily at fair value through profit or loss	Liabilities at amortised cost	Non-financial instruments/financial instrument excluded from IFRS9	Total
Assets						
Cash and cash equivalents*		9,922,246	-	-	-	9,922,246
Derivative financial instruments		-	1,607,060	-	-	1,607,060
Loans and advances		737,874,223	-	-	-	737,874,223
Investment security		458,413,902	-	-	-	458,413,902
Other receivables		94,037	-	-	-	94,037
Taxation receivable		-	-	-	-	-
		1,206,304,409	**1,607,060**	**-**	**-**	**1,207,911,468**
Liabilities						
Commercial paper and notes*		-	-	1,199,785,791	-	1,199,785,791
Derivative financial instruments		-	82,362	-	-	82,362
Taxation payable*		-	-	-	14,871	14,871
Other liabilities*		-	-	473,103	-	473,103
Deferred tax liability		-	-	-	372,711	372,711
		-	**82,362**	**1,200,258,894**	**387,582**	**1,200,728,838**

* 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 demand deposits, savings accounts without a specific maturity, fixed and variable rate financial instruments.

The valuation method applied is as follows:
- Level 1 for the Cash on hand
- Level 2 for the loans and receivables

There were no transfers between level 1 and level 2 of the fair value hierarchy for the financial assets and liabilities which are recorded at fair value.

The fair value of investments in securties held at amortised costs are:	Level 1	Level 2	Level 3
MBP040 bond	139,408,492.33	-	-
MBF065 bond	115,031,881.32	-	-
LGL08 bond	206,629,991.31	-	-

2019	Amortised Cost	Mandatorily at fair value through profit or loss	Liabilities at amortised cost	Non-financial instruments/financial instrument excluded from IFRS9	Total
Assets					
Cash and cash equivalents*	2,122,075	-	-	-	2,122,075
Derivative financial instruments	-	(11,056,614)	-	-	(11,056,614)
Loans and advances	-	-	-	-	-
Investment security	572,798,895	-	-	-	572,798,895
	574,920,970	**(11,056,614)**	**-**	**-**	**563,864,356**
Liabilities					
Commercial paper and notes*	-	-	557,979,357	-	557,979,357
Tax Payable*	-	-	-	130,633	130,633
Trade and other payables*	-	-	288,623	-	288,623
	-	**-**	**558,267,981**	**130,633**	**558,398,613**

* 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 demand deposits, savings accounts without a specific maturity, fixed and variable rate financial instruments.

The valuation method applied is as follows:
- Level 1 for the Cash on hand

There were no transfers between level 1 and level 2 of the fair value hierarchy for the financial assets and liabilities which are recorded at fair value.

20. Financial assets and liabilities (continued)

The fair value of investments in securties held at amortised costs are:

	Level 1	**Level 2**	**Level 3**
TL20 bond	371,660,245.60	-	-
LGL08 bond	206,116,766.18	-	-

Fair values of financial
Valuation models

For more complex instruments, the Company uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. 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.

Valuation framework

The Company has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management; and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. 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
	2020
Cash flow hedge	**1,591,958**
Credit default swap	**(67,260)**
	R
	2019
Cash flow hedge	(11,056,614)

21. Going Concern

The COVID-19 coronavirus outbreak has caused a significant deterioration in economic conditions worldwide. Management has concluded that there are no material uncertainties regarding the ability of Harcourt Street 1 (RF) Limited to operate as a going concern because the Company 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.

The Noteholders will not, until 2 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. Events subsequent to period end

No material events have occurred between 31 March 2020 and the date of this report with the exception of the Covid-19 implications as stated in the Going Concern section above.

23. Approval of annual financial statements

The annual financial statements were approved by the board of directors on 27 July 2020.