



Harcourt Street 1 (RF) Limited

(Registration Number : 2015/047670/06)

Annual Financial Statements
for the period ended 31 March 2018

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 requirements of 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 period ended 31 March 2018

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Harcourt Street 1 (RF) Ltd

Company information

for the period ended 31 March 2018

Directors	Jack E Trevena Bertus J Korb R Thanthony KW van Staden
Date of incorporation	16 February 2015
Period covered by financial statements	1 April 2017 - 31 March 2018
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 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 2018, 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 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.

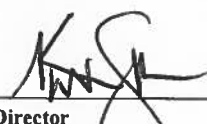
The auditor is responsible for the reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

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 7 June 2018 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 (the Act), 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 2018, all such returns as are required in terms of the Act and that all such returns are true, correct and up to date.


.....
AUTHORISED SIGNATORIES

COMPANY SECRETARY

Harcourt Street 1 (RF) Ltd

Directors' report

for the period ended 31 March 2018

The directors have pleasure in submitting their report on the activities of the company for the period ended 31 March 2018.

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 2018, 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 11 to the financial statements.

Directorate

The directors of the Company at the date of this report are Jack E Trevena, Bertus J Korb, R Thanthony and KW van Staden.

Interest of the director and officers

The director and officers have no interests in the company.

Dividends

Series 3: A preference dividend of R398,449 was declared by the directors on 31 March 2018.

Series 4: A preference dividend of R407,219 was declared by the directors on 31 March 2018.

Events after the reporting date

No events subsequent to reporting date noted.

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.

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 2018

Members of the Audit Committee

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

Jack E Trevena
Rishendrie Thanthony
Bertus J Korb
KW Van Staden

The chairman of 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

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 26 July 2017 and 27 February 2018.

Date	Attendees
26 July 2017	JE Trevena R Thanthony BJ Korb KW Van Staden
27 February 2018	JE Trevena R Thanthony BJ Korb KW Van Staden

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 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 2018*

Discharge of responsibilities

The committee is satisfied that, in respect of the financial year under review, it has discharged its duties and responsibilities in accordance with its terms of reference and in terms of the Companies Act 71 of 2008 as amended. The Board concurred with the assessment.

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

- o The contents of the Audit Committee's ToR (Terms of Reference)
- o Approved the external auditor's fees for the 2018 audit;
- o Other services provided by the auditor and
- o Considered the independence and objectivity of the external auditor.

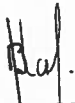
Annual Financial Statements

Following the review by the committee of the annual financial statements of the Harcourt Street 1 (RF) Limited for the period ended 31 March 2018 and based on the information provided to it, the committee considers that, in all material respects, the Company complies with the provisions of the Companies Act No 71 of 2008, as amended, International Financial Reporting Standards, and that the accounting policies applied are appropriate.

The committee recommended the Company's 2018 annual financial statements for approval by the Board on 6 June 2018.

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

On behalf of the Audit Committee:



Bertus J Korb

Chairman: Audit Committee

Date:

Harcourt Street 1 (RF) Ltd

King IV Report

for the year ended 31 March 2018

King IV Principle	Description	Applied by Company (Yes/No)	Compliance Status
Ethical Culture			
1	The board should lead ethically and effectively.	Yes	<p>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.</p> <p>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.</p> <p>Directors receive regular formal presentations on regulatory and governance matters as well as on the business and support functions.</p> <p>Following the Board and director's performance evaluation process, any training needs are communicated to the company secretaries who ensure these needs are addressed.</p>
2	The board should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	Yes	<p>The board ensures that:</p> <ul style="list-style-type: none"> - The direction is set for ethics - Whistle-blowing procedures have been put in place which ensures that all stakeholders are protected which disclose unlawful or irregular conduct by the company, its or stakeholders.
3	The board should ensure that the organisation is and is seen to be a responsible corporate citizen.	Yes	<p>The board provides strategic guidance to the Company and ensures that all decisions consider the immediate and long-term impact these have on the environment, the communities in which the Company operates as well as internal and external stakeholders.</p> <p>For the Company, being a good corporate citizen is about building our businesses to ensure we have a positive impact on the economy and social progress of communities and on the environment, while growing and preserving clients' and stakeholders' health based on strong relationships and trust.</p>

King IV Report (continued)

for the year ended 31 March 2018

King IV Principle	Description	Applied by Company (Yes/No)	Compliance Status
Strategy, Performance and Reporting			
4	The board should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	Yes	The board charter emphasises the fact that they acknowledge that strategy, risk, performance and sustainability are inseparable. The board and its committees monitor key performance indicators for material issues, as well as a broader range of sustainability, risk and compliance indicators.
5	The board should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long term prospects.	Yes	<p>The Board ensures that there are processes in place enabling complete, timely relevant, accurate and accessible risk disclosure to stakeholders and monitors Investec's communication with all stakeholders and disclosures made to ensure transparent and effective communication.</p> <p>The Audit Committee is tasked with the specific duty of considering whether the Integrated Annual Report taken as a whole was fair, balanced and understandable and provided the information necessary for stakeholders to assess the company's performance.</p>
Governance Functional Areas			
6	The board should serve as the focal point and custodian of the corporate governance in the organisation.	Yes	The board operates in accordance with a detailed charter that specifically deals with the roles, responsibilities and accountabilities of the directors. It meets at least three (3) times a year. Through its meetings and interaction with management the directors ensure that applicable principles are implemented and a high level of compliance is maintained.
7	The board should comprise the appropriate balance of knowledge, skills, experience, diversity, and independence for it to discharge its governance role and responsibilities objectively and effectively.	Yes	<p>The balance of executive and non-executive directors is such that there is a clear division of responsibility to ensure a balance of power, such that no one individual or Company can dominate board processes or have unfettered powers of decision-making.</p> <p>The board consists of four (4) directors, three (3) Non-Executive Directors and one (1) Executive Director. All of the Non-Executive Directors are independent.</p> <p>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.</p>

King IV Report (continued)

for the year ended 31 March 2018

King IV Principle	Description	Applied by Company (Yes/No)	Compliance Status
Strategy, Performance and Reporting			
8	The board should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.	Yes	<p>The board committees assist in executing its duties, powers and authorities. The required authority is delegated by the board to each committee to enable it to fulfil its respective functions through formally approved terms of reference.</p> <p>Delegating authority to board committees or management, other than the specific matters for which the audit committee carries ultimate accountability in terms of the Companies Act, does not mitigate or discharge the board and its directors of their duties and responsibilities and the board fully acknowledges this fact.</p> <p>Formal terms of reference have been adopted by each committee and are reviewed on an annual basis. Committee chairpersons report back to the board at each board meeting and the minutes of all committee meetings are included in the board meeting pack.</p> <p>Refer to the committee reports in the 2018 Annual Financial Statements for further detail.</p>
9	The board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.	Yes	The Board continues to be committed to regularly evaluating its own effectiveness and that of its committees. In this light, the Board undertakes an annual evaluation of its performance and that of its committees and individual directors.
10	The board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.	Yes	The Company Secretaries are professionally qualified and have experience gained over a number of years. Their services are evaluated by Board members during the annual Board evaluation process. They are responsible for the flow of information to the Board and its committees and for ensuring compliance with Board procedures.
11	The board should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.	Yes	The Board ensures appropriate resources to manage risk in by having independent Risk Management, Compliance and Financial Control functions. This is supplemented by Internal Audit, who report independently to the Audit Committee Chair.

King IV Report (continued)

for the year ended 31 March 2018

King IV Principle	Description	Applied by Company (Yes/No)	Compliance Status
Strategy, Performance and Reporting			
12	The board should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.	Yes	<p>The board has delegated the responsibility for IT governance, the establishment of an appropriate IT policy, framework and strategy to management.</p> <p>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.</p>
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	<p>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.</p> <p>The compliance officer monitors compliance with applicable laws and also considers non-binding codes, rules and standards, assesses the impact and recommends a suitable course of action to the board. The directors take responsibility for deciding whether to follow the recommendations of the compliance officer.</p> <p>The Company received no fines or penalties for non-compliance during 2017/18 financial year.</p>
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	<p>Trustee fees are approved by the board. Full details are disclosed in the 2018 Annual Financial Statements.</p>
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	<p>The board, through the Audit Committee, has established a Company-wide risk-based internal audit function whose purpose, authority and responsibilities are defined in the Director's responsibility statement.</p> <p>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.</p>

King IV Report (continued)

for the year ended 31 March 2018

King IV Principle	Description	Applied by Company (Yes/No)	Compliance Status
Stakeholders			
16	In the execution of its governance role and responsibilities, the board should adopt a stakeholder- inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.	Yes	The Company has identified its stakeholder Company's 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.	Yes	The board delegates to management the responsibility to implement and execute its policy on responsible investment.



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Docex 472 Johannesburg
Internet kpmg.co.za

Independent Auditor's Report

To the Shareholders of Harcourt Street 1 (RF) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Harcourt Street 1 (RF) Limited (the Company) set out on pages 16 to 35, which comprise the statement of financial position as at 31 March 2018, 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 2018, 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 Group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). 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. We have determined there are no such matters to report.

KPMG Inc. is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG Inc. is a Registered Auditor, in public practice, in terms of the Auditing Profession Act, 26 of 2005.

Registration number 1999/021543/21

Chief Executive: N Dlom
Directors: Full list on website

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.



Other Information

The directors are responsible for the other information. The other information comprises all the information included in the Declaration by the Company Secretary, Directors' report and the Audit committee report as required by the Companies Act of South Africa, the Company information, the Directors responsibility statement and the King IV report. 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.

KPMG Inc.

Per Tracy Middlemiss
Chartered Accountant (SA)
Registered Auditor
Director
26 July 2018

Harcourt Street 1 (RF) Ltd

Statement of financial position

as at 31 March 2018

Assets	Notes	2018 R	2017 R
Cash and cash equivalents	2	1,453,411	1,574,892
Loans and advances	3	-	641,760,969
Investment security	4	565,272,909	356,013,220
Trade and other receivables	6	(6,331,117)	1,516,383
Derivative financial instrument	5	(2,842,035)	12,027,987
Total assets		557,553,168	1,012,893,451
Equity and liabilities			
Equity		(1,640,067)	12,869,677
Ordinary share capital	12	100	100
Preference share capital	12	1	1
Cash flow hedge reserve		(2,842,035)	12,027,987
Retained earnings/ (accumulated loss)		1,201,867	841,589
Liabilities		559,193,235	1,000,023,774
Commercial paper issued	7	558,180,904	998,664,850
Other liabilities	8	1,012,331	1,272,882
Taxation payable		-	86,042
Total equity and liabilities		557,553,168	1,012,893,451

Harcourt Street 1 (RF) Ltd

Statement of Comprehensive Income

for the period ended 31 March 2018

	Notes	2018 R	2017 R
Interest income	10	83 987 432	54 900 125
Interest expense	11	<u>(79 878 335)</u>	<u>(52 972 796)</u>
Net interest income		4,109,097	1,927,329
Discount received on loan asset		82 133	985 870
Other operating expenses	9	<u>(2 574 004)</u>	<u>(1 638 457)</u>
Profit before taxation		1 617 226	1 274 742
Taxation	14	<u>(453,280)</u>	<u>(327,284)</u>
Profit for the year		1 163 946	947 458
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	(24 142 736)	21 195 601
Cash flow hedges – reclassified to profit or loss	10	<u>9 272 714</u>	<u>(9 167 614)</u>
		<u>(14 870 022)</u>	<u>12 027 987</u>
Total comprehensive loss for the year		<u>(13 706 076)</u>	<u>12 975 445</u>

Harcourt Street 1 (RF) Ltd

Statement of Changes in Equity for the period ended 31 March 2018

	Share capital	Retained earnings/ (loss)	Cash flow hedge reserve	Total
Balance at 1 April 2016	101	(105,869)	-	(105,768)
Total comprehensive income for the year				
- Profit for the year	-	947 458		947 458
- Other comprehensive income				
- Cash flow hedges – effective portion of changes in fair value			21 195 601	21 195 601
- Cash flow hedges – reclassified to profit or loss			(9 167 614)	(9 167 614)
Balance at 31 March 2017	<u>101</u>	<u>841,589</u>	<u>12,027,987</u>	<u>12,869,677</u>
Total comprehensive income for the year				
Profit for the year and other comprehensive income	-	1 163 946		1 163 946
- Other comprehensive income				
- Dividends Paid	-	(803,668)		(803 668)
- Cash flow hedges – movement in fair value	-	-	(24,142,736)	(24 142 736)
- Cash flow hedges – reclassified to profit or loss			9,272,714	9 272 714
Balance at 31 March 2018	<u>101</u>	<u>1,201,867</u>	<u>(2,842,035)</u>	<u>(1,640,067)</u>

Harcourt Street 1 (RF) Ltd

Statement of Cash Flows

for the period ended 31 March 2018

	Notes	2018	2017
		R	R
Cash flows from operating activities			
Profit before taxation		1 617 226	1 274 742
<i>adjusted for:</i>			
Taxation paid		(539 322)	(241,242)
<i>Changes in working capital:</i>			
Decrease in other receivables		7 847 500	1 516 383
Increase in other liabilities		(260 551)	1 228 132
Net cash utilised from operating activities		<u>8 664 853</u>	<u>3 778 015</u>
Cash flows from investing activities			
Investment securities acquired		(209 259 689)	(356 013 220)
Loans and advances	3	<u>641 760 969</u>	<u>(556 213 293)</u>
Net cash flows from investing activities		<u>432 501 280</u>	<u>(912 226 513)</u>
Cash flows from financing activities			
Commercial paper issued		(440 483 946)	912 801 460
Dividends paid		<u>(803 668)</u>	
Net cash flows from financing activities		<u>(441 287 614)</u>	<u>912 801 460</u>
Net increase in cash and cash equivalents for the year/ period		(121 481)	1 320 196
Cash and cash equivalents at the beginning of the year		1,574,892	254,696
Cash and cash equivalents at end of the year/ period	2	<u><u>1 453 411</u></u>	<u><u>1 574 892</u></u>

Harcourt Street 1 (RF) Ltd

Notes to the financial statements

for the period ended 31 March 2018

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) and the Companies Act 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, classified as instruments at amortised cost and instruments held at fair value. The financial statements are presented in South African Rand, which is the Company's functional currency.

1.3 Use of estimates and judgement

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

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

Key areas in which judgement is applied include:

The determination of impairments against assets that are carried at amortised cost involves the assessment of future cash flows which is judgmental in nature.

1.4 Financial instruments

1.4.1 Recognition

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

1.4.2 Measurement

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

Receivables

Interest accrual is measured at amortised cost using the effective interest method.

Commercial paper issued

The assets of the respective series are carried at fair value through profit or loss. To eliminate the mismatch between assets and liabilities, commercial paper issued for the series are designated as held at fair value through profit or loss.

Derivative instruments

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

Loans and advances

Loans and advances are initially measured at fair value plus incremental direct transaction costs.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term.

Subsequent measurement

Subsequent to initial measurement, financial instruments are measured at either fair value or amortised cost, depending on their classification.

Harcourt Street 1 (RF) Ltd

Notes to the financial statements

for the period ended 31 March 2018 (continued)

1.4 Financial instruments (continued)

1.4.3 Fair value measurement

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

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

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

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

1.4.4 Classification

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

- loans and receivables;
- held to maturity

1.4.5 Derecognition

Financial instruments qualify for derecognition if they meet the derecognition criteria set out in IAS 39 Financial Instruments: Recognition and Measurement.

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

- The contractual rights to the cash flows arising from the financial asset have expired or have been forfeited by the company; or
- It transfers the financial asset including substantially all of the risks and rewards of ownership of the asset; or
- It transfers the financial asset, neither retaining nor transferring substantially all of the risks and rewards of ownership of the asset, but no longer retains control of the asset.

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

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

1.4.5 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. The following disclosures should be provided:

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 in 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 in 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.

1.4.6 Investment securities

Investment securities are carried at fair value through profit or loss. Investments are listed on the JSE and thus fair value is determined with reference to the closing price at year-end.

1.4 Financial instruments (continued)

1.4.7 Identification and measurement of impairment

At each reporting date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic issuers in the group, or economic conditions that correlate with defaults in the group.

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

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

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and any subsequent decrease in the impairment loss is reversed through profit or loss.

1.5 Revenue recognition

Revenue is measured at the fair value of the consideration received and represents amounts receivable for interest income and fees earned.

Interest income

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

1.6 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 year, 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.

1.7 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes all cash in current accounts and deposits held on call. Cash and cash equivalents are carried at amortised cost in the statement of financial position, which approximates fair value.

Harcourt Street 1 (RF) Ltd

Notes to the financial statements

for the period ended 31 March 2018 (continued)

1.8 Hedge accounting

The company applies cash flow hedge accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the company ensures that all of the following conditions are met:

- At inception of the hedge, the company formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also, at the inception of the hedged relationship, a formal assessment is undertaken to ensure 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 hedge is expected to be highly effective if the changes in cash flows attributable to the hedged risk during the year for which the hedge is designated are expected to offset in a range of 80% to 125%.
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- 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 year 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 year 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 forecasted transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

1.9 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term.

Loans and advances comprise corporate loans and include accrued interest receivable.

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

Harcourt Street 1 (RF) Ltd
Notes to the financial statements
for the period ended 31 March 2018 (continued)

	2018 R	2017 R
2. Cash and cash equivalents		
Series 1 - Current account at Investec Bank Limited	443,074	510,442
Series 2 - Current account at Investec Bank Limited	673,409	452,486
Series 3 - Current account at Investec Bank Limited	6,843	372,669
Series 4 - Current account at Investec Bank Limited	24,191	239,194
Series 5 - Current account at Investec Bank Limited	305,793	-
Petty cash	101	101
	<u>1,453,411</u>	<u>1,574,892</u>
3. Loans and advances		
Loans and advances comprise corporate loans originated by various lenders and purchased by Harcourt Street 1 (RF) Limited.		
<u>Series 1 - Mercantile Series</u>		
Loans originated	267,000,000	267,000,000
Accrued interest	-	24,862,310
Discount on loan asset	-	(125,039)
Loans and advances repaid	(267,000,000)	-
	<u>-</u>	<u>291,737,271</u>
<u>Series 3 - KAP Series Transaction 1</u>		
Loans originated	220 000 000	220,000,000
	0	266,533
Loans and advances repaid	(220 000 000)	(20,952,380)
	<u>-</u>	<u>199,314,153</u>
<u>Series 4 - KAP Series Transaction 2</u>		
Loans originated	150 000 000	150,000,000
Accrued interest	0	709,545
Loans and advances repaid	(150 000 000)	-
	<u>-</u>	<u>150,709,545</u>
<u>Total Loans and advances</u>		
Loans originated	637 000 000	637,000,000
Accrued interest	0	25,838,388
Loans and advances repaid	(637 000 000)	(20,952,380)
Discount on loan asset	0	(125,039)
	<u>-</u>	<u>641,760,969</u>
4. Investment Securities		
<u>Series 2 - Telkom Bond</u>		
This security comprises a Telkom "TL20" fixed rate bond purchased by Harcourt Street 1 (RF) Limited, Series 2. This bond has a face value of R376m, was purchased at a discount and is a listed instrument on the JSE.		
Telkom "TL20" bond purchased	350 000 000	350,000,000
Accrued interest	2 286 904	2,286,904
Discount amortised	11 410 526	3,726,316
	<u>363,697,430</u>	<u>356,013,220</u>
<u>Series 5 - Liberty Bond</u>		
This security comprises a Liberty "LGL08" floating rate bond purchased by Harcourt Street 1 (RF) Limited, Series 5. This bond has a face value of R200m, and is a listed instrument on the JSE.		
Liberty "LGL08" bond purchased	200 000 000	-
Accrued interest	1 575 479	-
	<u>201 575 479</u>	<u>-</u>
Total Investment Securities	<u>565 272 909</u>	<u>356 013 220</u>
5. Derivative financial instruments		
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 notional value of the swap as at 31 March 2018 is R 363 697 430. The swap is effective in the current year.		
<u>Statement of financial position</u>		
Fair value of swap	(2,842,035)	12,027,987
<u>Statement of other comprehensive income</u>		
Cash flow hedges – effective portion of changes in fair value	(24,142,736)	21,195,601
Cash flow hedges – reclassified to profit or loss	9,272,714	(9,167,614)
Net other comprehensive income	<u>(14,870,022)</u>	<u>12,027,987</u>
6. Trade and other receivables		
Accrual on Swap	(6 331 117)	1,516,383
	<u>(6,331,117)</u>	<u>13,544,370</u>

Harcourt Street 1 (RF) Ltd

Notes to the financial statements

for the period ended 31 March 2018 (continued)

	2018 R	2017 R
7. Commercial paper issued		
Commercial paper issued are listed instruments on the JSE and are not rated.		
<u>Series 1 - Mercantile Series</u>		
Commercial paper issued	267,000,000	267,000,000
Accrued interest	-	24,792,115
Redemption of notes	(267,000,000)	-
Commercial paper outstanding	<u>-</u>	<u>291,792,115</u>
<u>Series 2 - Telkom Series</u>		
Commercial paper issued	350,000,000	350,000,000
Accrued interest	6,804,192	7,097,616
	<u>356,804,192</u>	<u>357,097,616</u>
<u>Series 3 - KAP Series Transaction 1</u>		
Commercial paper issued	220 000 000	220,000,000
Accrued interest	0	149,417
Redemption of notes	(220 000 000)	(20,952,380)
	<u>-</u>	<u>199,197,037</u>
<u>Series 4 - KAP Series Transaction 2</u>		
Commercial paper issued	150 000 000	150,000,000
Accrued interest	0	578,082
Redemption of notes	(150 000 000)	-
	<u>-</u>	<u>150,578,082</u>
<u>Series 5 - Liberty Series</u>		
Commercial paper issued	200,000,000	-
Accrued interest	1,376,712	-
	<u>201,376,712</u>	<u>-</u>
<u>Total commercial paper issued</u>		
Commercial paper issued	1187 000 000	987,000,000
Accrued interest	8 180 904	32,617,230
Redemption of notes	(637 000 000)	(20,952,380)
Total commercial paper outstanding	<u>558,180,904</u>	<u>998,664,850</u>
8. Other liabilities		
Audit fee accrual	138,011	127,281
Accounts payable	149,952	349,865
Committed facility accrual	724,368	795,736
	<u>1,012,331</u>	<u>1,272,882</u>
9. Other operating expenses		
Other operating expenses include the following:		
Administrator fee	86,062	83,600
Auditor's remuneration	141,830	206,753
Agency fee	116,268	74,100
Committed facility fee	1,710,609	795,736
Regulatory costs	90,178	174,099
Trustee fee	277,092	211,305
Sundry expenses	151,965	92,864
	<u>2,574,004</u>	<u>1,638,457</u>
10. Interest income		
Loan and advances - Series 1	21,850,863	23,968,422
Investment security - Series 2	30,346,298	28,580,462
Cash flow hedges: reclassified to Profit & Loss	9,272,714	(9,167,614)
Loan and advances - Series 3	4,708,623	6,937,572
Loan and advances - Series 4	10,090,208	4,581,283
Investment security - Series 5	7,718,726	-
	<u>83,987,432</u>	<u>54,900,125</u>

Harcourt Street 1 (RF) Ltd

Notes to the financial statements for the period ended 31 March 2018 (continued)

	2018 R	2017 R
11. Interest expense		
Commercial paper issued		
- Series 1	21,858,806	23,928,725
- Series 2	37,390,638	18,506,058
- Series 3	4,432,692	6,385,648
- Series 4	9,233,186	4,152,365
- Series 5	6,963,013	-
	<u>79,878,335</u>	<u>52,972,796</u>
12. Ordinary share capital		
Ordinary share capital		
<i>Authorised</i>		
1 000 ordinary shares	<u>1,000</u>	<u>1,000</u>
<i>Issued</i>		
100 ordinary shares at no par value	<u>100</u>	<u>100</u>
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		
<i>Authorised</i>		
100 cumulative redeemable preference shares		
<i>Issued</i>		
1 Preference share at no par value	<u>1</u>	<u>1</u>
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.		
13. 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. Should the company in the ordinary course of business enter into various transactions with related parties, these transactions would occur under terms and conditions that are no more favourable than those entered into with third parties.		
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.		
No related party transactions occurred during the current financial period.		
14. Taxation		
South African normal tax		
-current (28%)	453,280	327,284
-deferred tax	-	-
Net taxation charge	<u>453,280</u>	<u>327,284</u>

Harcourt Street 1 (RF) Ltd

Notes to the financial statements

for the period ended 31 March 2018 (continued)

15. 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 its administrative services under the administration agreement to the extent permitted by and in accordance with the Priority of Payments. The administration fee 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.

16. 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) and Harcourt Street Security SPV 5 Trust (Security SPV 5) 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.

17. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Company, in the ordinary course of business, enters into various transactions with related parties. These transactions occur under terms and conditions that are no more favourable than those entered into with third 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:

	2018 R	2017 R
TMF Corporate Services (South Africa) Proprietary Limited (including directors fees)	176 202	157 700
Quadridge Trust Services Proprietary Limited (including directors fees)	100 890	53 605

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.

Harcourt Street 1 (RF) Ltd

Notes to the financial statements

for the period ended 31 March 2018 (continued)

18. Risk management

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

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
2018						
Commercial paper and notes	-	-	558,180,904	-	-	558,180,904
Other Liabilities	1,012,331	-	-	-	-	1,012,331
	<u>1,012,331</u>	<u>-</u>	<u>558,180,904</u>	<u>-</u>	<u>-</u>	<u>559,193,235</u>

Harcourt Street 1 (RF) Ltd

Notes to the financial statements

for the period ended 31 March 2018 (continued)

18. Risk management (continued)

Maturities of financial liabilities (continued)

	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
2017						
Commercial paper and notes	-	-	291,792,115	706,872,735	-	998,664,850
Taxation Payable	86,042	-	-	-	-	86,042
Trade and other payables	1,272,882	-	-	-	-	1,272,882
	<u>1,358,924</u>	<u>-</u>	<u>291,792,115</u>	<u>706,872,735</u>	<u>-</u>	<u>1,000,023,774</u>

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

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

Interest rate risk

Interest rate risk arises when potential changes in relevant interest paid to investors and the rates earned on loans to borrowers and investments, occur at different times, at different rates and with varying degrees of uncertainty. Due to the Company's Series 2 assets being linked to a fixed rate, and the notes linked to the 3 Month JIBAR rate, the Company is exposed to interest rate risk. This exposure is mitigated through the interest rate swap entered into with Investec Bank Limited, as derivative counterparty.

The interest rate swap is a level 2 financial instrument as the swap is not listed in an active market, however the fair value is calculated on directly observable market inputs. There were no transfers between the fair value hierarchy levels during the current year.

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.

Harcourt Street 1 (RF) Ltd

Notes to the financial statements for the period ended 31 March 2018 (continued)

19. Financial assets and liabilities

Analysis of assets and liabilities by measurement basis

2018	Loans and receivables	Held for Trading	Designated at fair value	Liabilities at amortised cost	Non-financial instruments/financial instrument excluded from IAS39	Total
<i>Assets</i>						
Cash and cash equivalents*	1,453,411	-	-	-	-	1,453,411
Derivative financial instruments	-	(2,842,035)	-	-	-	(2,842,035)
Loans and advances	-	-	-	-	-	-
Investment security	-	-	565,272,909	-	-	565,272,909
Trade and other receivables*	-	(6,331,117)	-	-	-	(6,331,117)
	1,453,411	(9,173,152)	565,272,909	-	-	557,553,168
<i>Liabilities</i>						
Commercial paper and notes*	-	-	-	558,180,904	-	558,180,904
Taxation payable*	-	-	-	-	-	-
Trade and other payables*	-	-	-	1,012,331	-	1,012,331
	-	-	-	559,193,235	-	559,193,235

* 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 and variable rate financial instruments.

Harcourt Street 1 (RF) Ltd

Notes to the financial statements for the period ended 31 March 2018 (continued)

19. Financial assets and liabilities (continued)

Analysis of assets and liabilities by measurement basis (continued)

2017	Loans and receivables	Held for Trading	Designated at fair value	Liabilities at amortised cost	Non-financial instruments/financial instrument excluded from IAS39	Total
<i>Assets</i>						
Cash and cash equivalents*	1,574,892	-	-	-	-	1,574,892
Derivative financial instruments		12,027,987				12,027,987
Loans and advances	641,760,969	-	-	-	-	641,760,969
Investment security			356,013,220			356,013,220
Trade and other receivables*		1,516,383				1,516,383
	643,335,861	13,544,370	356,013,220	-	-	1,012,893,451
<i>Liabilities</i>						
Commercial paper and notes*	-	-	-	998,664,850	-	998,664,850
Tax Payable*					86,042	86,042
Trade and other payables*	-	-	-	1,272,882	-	1,272,882
	-	-	-	999,937,732	86,042	1,000,023,774

* 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 and variable rate financial instruments.

Harcourt Street 1 (RF) Ltd

Notes to the financial statements

for the period ended 31 March 2018 (continued)

Fair values of financial instruments

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. For measuring derivatives that might change classification from being an asset to a liability or vice versa such as interest rate swaps, fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (OVA) when market participants take this into consideration in pricing the derivatives.

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

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

Valuation framework

The Company has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Financial Director; 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; and

Financial instruments measured at fair value - Fair value hierarchy

	Level 2
	R
	2018
Asset-backed securities	<u>(2,842,035)</u>
	R
	2017
Asset-backed securities	<u>12,027,987</u>

Harcourt Street 1 (RF) Ltd

Notes to the financial statements

for the period ended 31 March 2018 (continued)

20. New standards and interpretations not yet effective and relevant to the Company

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 April 2016, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. These will be adopted in the period that they become mandatory unless otherwise indicated:

IFRS 9	Financial Instruments	Annual periods beginning 1 January 2018*
IFRS 15	Revenue from Contracts with	Annual periods beginning 1 January 2018*

* - The Company has chosen not to early adopt any of the applicable Standards and Interpretations and, as such, all applicable standards and interpretations will be adopted at their effective dates. The Company has not yet determined the impact of these standards on future disclosures.

IFRS 9 - Financial Instruments

IFRS 9: Financial Instruments (IFRS 9) was issued in July 2014 and will replace IAS 39: Financial Instruments: Recognition and Measurement. The standard is effective for financial years commencing on or after 1 January 2018. The final version of this standard incorporates amendments to the classification and measurement, hedge accounting guidance, as well as the accounting requirements for the impairment of financial assets measured at amortised cost and fair value through other comprehensive income (FVTOCI). These elements of the final standard, and a description of the main requirements, are discussed below:

☐ Classification and measurement:

Financial assets are to be classified based on (i) the business model within which the financial assets are managed and (ii) the contractual cashflow characteristics of the financial assets (whether the cashflows represent 'solely payment of principal and interest'). Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold those assets for the purpose of collecting contractual cashflows and those cashflows comprise solely payments of principal and interest ('hold to collect'). A financial asset that would otherwise be at amortised cost may only be designated as at fair value through profit or loss if such a designation reduces an accounting mismatch.

Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets, and those contractual cashflows comprise solely payments of principal and interest ('hold to collect and sell'). Movements in the carrying amount of these financial assets should be taken through OCI, except for impairment gains or losses, interest revenue and foreign exchange gains or losses, which are recognised in profit or loss. Where the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Other financial assets are measured at FVTPL.

The accounting for financial liabilities is largely unchanged, except for financial liabilities designated at FVTPL. Changes in the fair value of these financial liabilities that are attributable to the company's own credit risk are recognised in OCI. Where the financial liability is derecognised, the cumulative gain or loss previously recognised in OCI is not reclassified from equity to profit or loss. However, it may be reclassified within equity.

For financial liabilities designated as at fair value through profit or loss a further requirement is that all changes in the fair value of financial liabilities attributable to credit risk be transferred to 'Other Comprehensive Income' with no recycling through profit or loss on disposal.

Harcourt Street 1 (RF) Ltd

Notes to the financial statements

for the period ended 31 March 2018 (continued)

□ Hedge Accounting:

The requirements for hedge accounting align hedging to the entities business model and risk management activities while reducing other aspects of complexity presently contained in the IAS 39 Hedge Accounting requirements.

□ Impairments: IFRS 9's expected credit loss model:

Impairments in terms of IFRS 9 will be determined based on an expected credit loss (ECL) model rather than the current incurred loss model required by IAS 39. The company will be required to recognise an allowance for either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition. The measurement of ECLs reflects a probability-weighted outcome, the time value of money and the company's best available forward-looking information. The aforementioned probability-weighted outcome must consider the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is low.

The ECL model applies to financial assets measured at amortised cost and FVTOCI, lease receivables and certain loan commitments as well as financial guarantee contracts. The company initiated an IFRS 9 Implementation Programme, which includes a number of workstreams with the following objectives:

- Develop a technical definitions framework.
- Develop, build and test the new credit models.
- Draft new accounting policies and target operating model.
- Draft the disclosure and reporting framework

All Harcourt Street loans and advances have been fully recovered, and hence there is no IFRS 9 impact on Retained Earnings for the current year.

IFRS 15 - Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised.

Harcourt Street 1 (RF) Ltd

Notes to the financial statements

for the period ended 31 March 2018 (continued)

21. Going Concern

Harcourt Street 1 (RF) Limited has been set up as an insolvency remote special purpose vehicle. Secured creditors have agreed to certain subordination, non-petition, and enforcement clauses.

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

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

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

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

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 events subsequent to period end noted.