

# Harcourt Street 1 (RF) Limited

(Registration Number: 2015/047670/06)

Annual Financial Statements  
for the year ended 31 March 2022  
Audited

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 Bongani Ntuli  
CA(SA), Transaction Manager.

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

# Harcourt Street 1 (RF) Ltd

(Registration Number: 2015/047670/06)

## Annual Financial Statements

*for the year ended 31 March 2022*

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# Harcourt Street 1 (RF) Ltd

## Company information

*for the year ended 31 March 2022*

<b>Directors</b>	OA Ferreira (Independent non executive) R Thanthony (Independent non executive) KW Van Staden (Independent non executive) DP Towers (Alternate director) BL Dube (Independent non executive)
<b>Date of incorporation</b>	16 February 2015
<b>Period covered by financial statements</b>	1 April 2021 - 31 March 2022
<b>Registration number</b>	2015/047670/06
<b>Nature of business and principal activities</b>	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.
<b>Secretary</b>	Investec Group Data Proprietary Limited (Reg. No. 1937/009329/07)
<b>Independent Auditor</b>	KPMG Inc.
<b>Bankers</b>	Investec Bank Limited
<b>Registered Office</b>	c/o Company Secretarial Investec Bank Limited 100 Grayston Drive Sandown Sandton 2196
<b>Postal address</b>	c/o Company Secretarial Investec Bank Limited PO Box 785700 Sandton 2146
<b>Service provider</b>	The account bank, administrator, interest rate swap counterparty, credit default swap counterparty, and liquidity 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 financial statements of Harcourt Street 1 (RF) Limited, comprising the statement of financial position at 31 March 2022, 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 Limited.

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 financial statements are fairly presented in accordance with the applicable financial reporting framework.

### Approval of financial statements

The financial statements of Harcourt Street 1 (RF) Limited, as identified in the first paragraph, were approved by the board of directors on 7 July 2022 and signed on their behalf by:



\_\_\_\_\_  
**Director**

**Date:** 27 July 2022

DocuSigned by:



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\_\_\_\_\_  
**Director**

**Director**

**Date:** 27 July 2022

## 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 2022, all such returns as are required in terms of the Act and that all such returns are true, correct and up to date.



\_\_\_\_\_  
**COMPANY SECRETARY**

**Date:** 7 July 2022

# Harcourt Street 1 (RF) Ltd

## Directors' report

*for the period ended 31 March 2022*

The directors have pleasure in submitting their report on the activities of the company for the period ended 31 March 2022.

### 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 2022, 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 BL Dube, 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 R3,156,860 (2021: R5,729,005) was declared by the directors on 25 January 2022.

### Events after the reporting date

No material events have occurred between 31 March 2022 and the date of this report with the exception of the Covid-19 implications as stated in the Going Concern statement in Note 20.

# Harcourt Street 1 (RF) Ltd

## Directors' report

*for the period ended 31 March 2022*

### Going Concern

Harcourt Street 1 (RF) Limited has been set up as an insolvency remote special purpose vehicle by incorporating ring-fencing provisions into its memorandum of incorporation. In addition, secured creditors have agreed to certain subordination, non-petition, and limited recourse clauses. In respect of a transaction, if the net proceeds of the enforcement of the transaction security are not sufficient to make all payments, then due in respect of the Notes issued in the transaction, the obligations of the Issuer will be limited to such net proceeds and the other assets of the Issuer will not be available to meet any shortfall. Please refer to Note 20 for further detail

### Auditor

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



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Director

DocuSigned by:



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Director

# Harcourt Street 1 (RF) Ltd

## Audit committee report

*for the year ended 31 March 2022*

### 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  
BL Dube

The chairman of the Board of Directors (the Board), OA Ferreira, 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 meetings were held on 7 July 2021 and 8 March 2022 (moved to 5 April 2022).

Date	Attendees
7 July 2021	B Dube
8 March 2022 (moved to 5 Apr 2022)	R Thanthony OA Ferreira 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 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 2022

### 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:

- o The contents of the Audit Committee's ToR (Terms of Reference)
- o Approved the external auditor's fees for the 2022 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 Audit Committee of the annual financial statements of the Harcourt Street 1 (RF) Limited for the period ended 31 March 2022 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 2022 annual financial statements for approval by the Board on 7 July 2022.

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:

DocuSigned by:



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Rishendrie Thanthony

**Chairman: Audit Committee**

**Date: 7 July 2022**





KPMG Inc  
KPMG Crescent  
85 Empire Road, Parktown, 2193,  
Private Bag 9, Parkview, 2122, South Africa  
Telephone +27 (0)11 647 7111  
Fax +27 (0)11 647 8000  
Docex 472 Johannesburg  
Web <http://www.kpmg.co.za>

## **Independent Auditor's Report**

### **To the shareholder of Harcourt Street 1 (RF) Limited**

#### **Report on the audit of the financial statements**

We have audited the financial statements of Harcourt Street 1 (RF) Limited (the Company) set out on pages 12 to 51, which comprise the Statement of financial position as at 31 March 2022, 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 2022, 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 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 corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). 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 that there are no key audit matters to communicate in our report.

#### ***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 2022", 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 7 years

KPMG Inc.

A handwritten signature in black ink that reads 'TA Middlemiss'. The signature is written in a cursive, flowing style.

Per TA Middlemiss  
Chartered Accountant (SA)  
Registered Auditor  
Director

28 July 2022

## Harcourt Street 1 (RF) Ltd

### Statement of financial position

as at 31 March 2022

	Notes	2022	2021
Assets		R	R
Loans and advances	3	888,664,809	825,641,725
Investment in securities	4	1,165,139,072	1,105,708,573
Derivative financial instruments	5	-	13,449,881
Other receivable	8	450,126	-
Taxation receivable		-	1,021,262
Cash and cash equivalents	2	9,917,741	7,740,678
<b>Total assets</b>		<b>2,064,171,748</b>	<b>1,953,562,119</b>
<b>Equity and liabilities</b>			
<b>Equity</b>		<b>9,373,239</b>	<b>10,701,631</b>
Ordinary share capital	13	100	100
Preference share capital	13	1	1
Cash flow hedge reserve		2,779,761	2,411,502
Retained earnings		6,593,377	8,290,028
<b>Liabilities</b>		<b>2,054,798,509</b>	<b>1,942,860,488</b>
Deferred Tax Liability	9	1,327,786	2,689,834
Commercial paper issued	6	2,049,675,368	1,939,849,814
Derivative financial instruments	5	1,430,192	-
Other liabilities	7	368,513	320,840
Taxation payable		1,996,650	-
<b>Total equity and liabilities</b>		<b>2,064,171,748</b>	<b>1,953,562,119</b>

## Harcourt Street 1 (RF) Ltd

### Statement of comprehensive income

for the period ended 31 March 2022

	Notes	2022 R	2021 R
Interest income calculated using the effective interest rate method	11	102,527,622	90,169,426
Other income	11	117,448	9,290
Interest expense	12	(100,135,179)	(88,358,823)
<b>Net interest income</b>		<b>2,509,891</b>	<b>1,819,893</b>
Fair value (losses)/gains on credit default swaps		(4,211,030)	7,448,835
Premium income on credit default swaps		6,775,812	4,550,396
Other operating expenses	10	(1,813,516)	(1,532,040)
<b>Total operating income before expected credit losses/ impairment losses</b>		<b>3,261,157</b>	<b>12,287,084</b>
Expected credit losses/ impairment losses	18	(1,248,503)	(1,025,509)
<b>Profit before taxation</b>		<b>2,012,654</b>	<b>11,261,575</b>
Taxation	14	(552,445)	(3,162,499)
<b>Profit for the year</b>		<b>1,460,209</b>	<b>8,099,076</b>
<b>Other comprehensive income</b>			
<b>Items that are or may be reclassified subsequently to profit or loss</b>			
Cash flow hedges – effective portion of changes in fair value	5	7,144,446	5,659,093
Cash flow hedges – reclassified to profit or loss	11	(6,685,863)	(4,063,357)
		458,583	1,595,736
<b>Taxation relating to items that may be reclassified to profit or loss</b>			
Cash flow hedges		(90,324)	(446,806)
<b>Total comprehensive income for the year</b>		<b>1,828,468</b>	<b>9,248,006</b>

## Harcourt Street 1 (RF) Ltd

### Statement of changes in equity

for the period ended 31 March 2022

R	Ordinary Share capital	Preference Share capital	Retained earnings	Cash flow hedge reserve	Total
<b>Balance at 31 March 2020</b>	100	1	5,919,957	1,262,572	7,182,630
<b>Total comprehensive income for the year</b>					
- Profit for the year	-	-	8,099,076	-	8,099,076
<b>Other comprehensive income</b>					
- Cash flow hedges – effective portion of changes in fair value	-	-	-	5,212,287	5,212,287
- Cash flow hedges – reclassified to profit or loss	-	-	-	(4,063,357)	(4,063,357)
Dividends paid	-	-	(5,729,005)	-	(5,729,005)
<b>Balance at 31 March 2021</b>	<b>100</b>	<b>1</b>	<b>8,290,028</b>	<b>2,411,502</b>	<b>10,701,631</b>
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	1,460,209	-	1,460,209
<b>Other comprehensive income</b>					
- Cash flow hedges – effective portion of changes in fair value	-	-	-	7,054,122	7,054,122
- Cash flow hedges – reclassified to profit or loss	-	-	-	(6,685,863)	(6,685,863)
Dividends paid	-	-	(3,156,860)	-	(3,156,860)
<b>Balance at 31 March 2022</b>	<b>100</b>	<b>1</b>	<b>6,593,377</b>	<b>2,779,761</b>	<b>9,373,239</b>

## Harcourt Street 1 (RF) Ltd

### Statement of cash flows

for the period ended 31 March 2022

	<i>Notes</i>	<b>2022</b>	2021
		<b>R</b>	R
<b>Cash flows from operating activities</b>			
Profit before taxation		2,012,654	11,261,575
<i>adjusted for:</i>			
<i>Changes in working capital:</i>			
(Increase)/Decrease Accrued Interest in Loans and Advances and Investment in Securities		(2,850,884)	283,087
(Decrease)/Increase Accrued Interest in Commercial paper issued		(3,284,446)	1,064,023
Increase / (Decrease) in Accrued Interest in Swaps		855,944	(156,043)
Net Accrued Interest		<u>(5,279,386)</u>	<u>1,191,067</u>
Increase/(Decrease) in other liabilities		47,673	(152,263)
Increase in other receivables		(450,126)	-
<i>Non-cashflow item</i>			
Expected credit losses/ impairment losses		1,248,503	1,025,509
Fair value gains on credit default swaps		4,211,030	(7,448,835)
Fixed portion on the swaps		(7,852,183)	(2,654,336)
Premium amortised		7,869,173	2,629,229
Sundry Expenses		-	33,062
		<u>1,807,335</u>	<u>5,885,008</u>
Taxation received /(paid)		<u>1,013,095</u>	<u>(2,337,572)</u>
<b>Net cash generated from/(utilised in) operating activities</b>		<b><u>2,820,437</u></b>	<b><u>3,547,436</u></b>
<b>Cash flows from investing activities</b>			
Investment securities acquired	4	(217,052,386)	(649,000,000)
Investment securities repaid	4	147,048,565	-
Loans and advances acquired	3	(236,743,883)	(90,000,000)
Loans and advances repaid	3	174,147,369	-
<b>Net cash flows from investing activities</b>		<b><u>(132,600,335)</u></b>	<b><u>(739,000,000)</u></b>
<b>Cash flows from financing activities</b>			
Commercial paper issued	6	434,610,000	739,000,000
Commercial paper repaid	6	(321,500,000)	-
Proceeds received from swaps to fund purchase price of assets		20,052,386	-
Proceeds received from swaps to pay notes		1,951,435	-
Dividends paid		<u>(3,156,860)</u>	<u>(5,729,005)</u>
<b>Net cash flows utilised in financing activities</b>		<b><u>131,956,962</u></b>	<b><u>733,270,995</u></b>
<b>Net increase/(decrease) in cash and cash equivalents for the year</b>		2,177,060	(2,181,569)
<b>Cash and cash equivalents at the beginning of the year</b>		7,740,678	9,922,247
<b>Cash and cash equivalents at end of the year</b>	<b>2</b>	<b><u>9,917,741</u></b>	<b><u>7,740,678</u></b>

# Harcourt Street 1 (RF) Ltd

## Notes to the financial statements

for the period ended 31 March 2022 (continued)

### 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 company's financial statements are prepared in accordance with IFRS as issued by the IASB, its interpretations adopted by the IASB, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by Financial Reporting Standards Council, the JSE Debt Listings Requirements, and the South African Companies Act.

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 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 19. 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 judgements 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.



## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 1.4 Financial Instruments

##### 1.4.1 Business model

For financial assets, IFRS9 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 company 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, all financial liabilities are measured at amortised cost with the exception of derivative financial instruments which are measured at fair value..

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.

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

*for the period ended 31 March 2022 (continued)*

#### **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.

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 1.4.3 Identification and measurement of ECL (Expected credit loss) (continued)

Credit-impaired financial assets

The analysis of credit quality of Loans and Advances, and Investments in Securities is outsourced to Investec Bank in terms of the Administration Agreement. At each reporting date, the Investec Bank Limited assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of a loan or advance by the company on terms that the company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

#### 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 Other Liabilities 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:

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 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).

# Harcourt Street 1 (RF) Ltd

## Notes to the financial statements

for the period ended 31 March 2022 (continued)

### 1.8 Offsetting

Where offsetting has been applied or the entity has instruments that are subject to offsetting, the following disclosures should be provided:

- a) the gross amounts of those recognised financial assets and recognised financial liabilities;
- b) the amounts that are set off in accordance with the criteria of IAS 32 when determining the net amounts presented in the statement of financial position;
- c) the net amounts presented in the statement of financial position;
- d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in, including:
  - (i) amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria of IAS 32; and
  - (ii) amounts related to financial collateral (including cash collateral); and
- (b) 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 utilized in the statement of comprehensive income except to the extent that it relates to items utilized 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.

## **Harcourt Street 1 (RF) Ltd**

### **Notes to the financial statements**

*for the period ended 31 March 2022 (continued)*

#### **1.10 Taxation (continued)**

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by 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 issued but not yet effective**

There are no standards and interpretations issued but not yet effective which are expected to have a material impact on the financial statements.

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

	2022	2021
	R	R
<b>2. Cash and cash equivalents</b>		
Series 2 - Current account at Investec Bank Limited	25,521	25,533
Series 5 - Current account at Investec Bank Limited	1,429,446	721,245
Series 6 - Current account at Investec Bank Limited	899,387	320,286
Series 7 - Current account at Investec Bank Limited	1,165,081	3,459,000
Series 8 - Current account at Investec Bank Limited	1,941,311	459,842
Series 9 - Current account at Investec Bank Limited	804,014	2,814,571
Series 10 - Current account at Investec Bank Limited	221,053	(392,199)
Series 12 - Current account at Investec Bank Limited	1,162,456	164,493
Series 13 - Current account and Reserve account at Investec Bank Limited	2,155,238	-
Surplus account - Current account at Investec Bank Limited	114,133	167,806
Petty cash	101	101
	<b>9,917,741</b>	<b>7,740,678</b>

Cash and cash equivalents are held with Investec Bank that is rated 'BB-/B' global scale issuer credit ratings and 'zaAA/zaA-1+' South Africa national scale ratings. Interest on the current account is earned at the SAFEX Overnight Call Rate. Interest on the reserve account is earned at the Prime rate less 0.50%.

### 3. Loans and advances

Loans and advances comprise corporate loans originated by various lenders and purchased by Harcourt Street 1 (RF) Limited.

#### Series 6 - Curro Series

Loans originated	150,000,000	150,000,000
Accrued interest	762,077	730,778
Expected credit loss	(162,604)	(106,063)
	<b>150,599,473</b>	<b>150,624,715</b>

#### Series 7 - RCL Series

Loans originated	235,000,000	235,000,000
Accrued interest	34,157	33,318
Loans and advances repaid	(22,500,000)	-
Expected credit loss	(114,489)	(82,114)
	<b>212,419,668</b>	<b>234,951,204</b>

#### Series 8 - Foschini Series

Loans originated	290,000,000	290,000,000
Accrued interest	601,439	532,808
Expected credit loss	(446,658)	(415,371)
	<b>290,154,781</b>	<b>290,117,437</b>

#### Series 9 - Lucky Star Series

Loans originated	-	150,000,000
Accrued interest	-	22,705
Expected credit loss	-	(74,336)
	-	<b>149,948,369</b>

#### Series 13 - We buy Cars

Loans originated	236,743,883	-
Accrued interest	2,003,095	-
Loans and advances repaid	(1,647,369)	-
Expected credit loss	(1,608,718)	-
	<b>235,490,891</b>	-

#### **Total Loans and advances**

Loans originated	911,743,883	825,000,000
Accrued interest	3,400,768	1,319,609
Loans and advances repaid	(24,147,369)	-
Expected credit loss	(2,332,469)	(677,884)
	<b>888,664,813</b>	<b>825,641,725</b>

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 4. Investment in Securities

##### 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 28 February 2023, has a face value of R200,000,000, and is a listed instrument on the JSE.

	2022	2021
	R	R
Liberty "LGL08" bond purchased	200,000,000	200,000,000
Accrued interest	1,081,518	952,110
	<u>201,081,518</u>	<u>200,952,110</u>
Expected credit loss	(80,844)	(93,600)
	<u><b>201,000,674</b></u>	<u><b>200,858,510</b></u>

##### 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 R138,065,529, and is a listed instrument on the JSE.

Mercedes Benz "MBP040" bond purchased	139,000,000	139,000,000
Accrued interest	748,958	672,973
Premium amortised	(651,896)	(338,402)
	<u>139,097,062</u>	<u>139,334,571</u>
Expected credit loss	(47,719)	(98,147)
	<u><b>139,049,342</b></u>	<u><b>139,236,424</b></u>

##### 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 R115,259,501, and is a listed instrument on the JSE.

Mercedes Benz "MBP065" bond purchased	117,000,000	117,000,000
Accrued interest	17,201	15,015
Premium amortised	(1,402,017)	(726,903)
	<u>115,615,183</u>	<u>116,288,112</u>
Expected credit loss	(22,659)	(82,075)
	<u><b>115,592,524</b></u>	<u><b>116,206,037</b></u>



## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 4. Investment in Securities (continued)

##### Series 10 Subseries 3 - Toyota Bond

This security comprises a Toyota Financial Services "TFS142" floating rate bond purchased by Harcourt Street 1 (RF) Limited, Series 10. This bond matured on 28 October 2021, had a face value of R147,048,565, and was a listed instrument on the JSE.

	2022	2021
	R	R
Toyota Financial Services "TFS142" bond purchased	-	149,000,000
Accrued interest	-	1,321,068
Premium amortised	-	(1,086,408)
	-	149,234,660
Expected credit loss	-	(193,257)
	-	149,041,403

##### Series 10 Subseries 4 - Mercedes Benz

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 R247,925,536, and is a listed instrument on the JSE.

Mercedes Benz "MBP040" bond purchased	250,000,000	250,000,000
Accrued interest	1,344,911	1,208,464
Premium amortised	(1,353,769)	(554,213)
	249,991,142	250,654,251
Expected credit loss	(85,690)	(176,243)
	<b>249,905,452</b>	<b>250,478,008</b>

##### Series 12 - Subseries 1 - Mercedes Benz Bond

This security comprises a Mercedes Benz "MBF049" 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 R250,000,000, and is a listed instrument on the JSE.

Mercedes Benz "MBP049" bond purchased	250,000,000	250,000,000
Accrued interest	113,363	66,096
	250,113,363	250,066,096
Expected credit loss	(95,323)	(177,904)
	<b>250,018,040</b>	<b>249,888,192</b>

##### Series 12 - Subseries 2 - Momentum Metropolitan Life

This security comprises a Momentum Metropolitan Life "MMIG05" fixed rate bond purchased by Harcourt Street 1 (RF) Limited, Series 12. This bond, which has a maturity date of 12 August 2027, has a face value of R104,000,000, and is a listed instrument on the JSE.

Momentum Metropolitan Life "MMIG05" bond purchased	109,012,519	-
Accrued interest	1,392,460	-
Premium amortised	(3,206,934)	-
	107,198,045	-
Expected credit loss	(43,788)	-
	<b>107,154,258</b>	-

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 4. Investment in Securities (continued)

##### Series 12 - Subseries 3 - Old Mutual Life Assurance

This security comprises an Old Mutual Life Assurance "OML07" fixed rate bond purchased by Harcourt Street 1 (RF) Limited, Series 12. This bond, which has a maturity date of 19 March 2030, has a face value of R93,000,000, and is a listed instrument on the JSE.

Old Mutual Life Assurance "OML07" bond purchased	108,039,867	-
Old Mutual Life Assurance "OML07" Nominal value	104,160,000	-
Accrued interest	307,040	-
Premium amortised	(2,009,138)	-
	<u>102,457,902</u>	<u>-</u>
Expected credit loss	(39,121)	-
	<u><b>102,418,782</b></u>	<u><b>-</b></u>

##### Total Investment in securities

Investments in securities originated	1,169,172,519	1,105,000,000
Accrued interest	5,005,451	4,235,726
Premium amortised	(8,623,755)	(2,705,927)
Expected credit loss	(415,144)	(821,226)
	<u><b>1,165,139,072</b></u>	<u><b>1,105,708,573</b></u>

#### 5. Derivative financial instruments

##### **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 2022 is R139,000,000. The swap is effective in the current year. The fair value of derivatives can change from year to year due to changes in economic conditions.

##### **Statement of financial position**

Fair value of swap	633,535	381,436
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##### **Statement of other comprehensive income**

Cash flow hedges – effective portion of changes in fair value	209,540	177,071
Cash flow hedges – reclassified to profit or loss	(244,736)	(243,339)
	<u><b>(35,196)</b></u>	<u><b>(66,268)</b></u>
Net other comprehensive income		

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 5. Derivative financial instruments (continued)

##### 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 2022 is R117,000,000. The swap is effective in the current year. The fair value of derivatives can change from year to year due to changes in economic conditions.

##### Statement of financial position

Fair value of swap	1,712,620	1,658,343
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##### Statement of other comprehensive income

Cash flow hedges – effective portion of changes in fair value	(629,165)	(636,058)
Cash flow hedges – reclassified to profit or loss	8,296	9,289

Net other comprehensive income	<u>(620,869)</u>	<u>(626,769)</u>
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##### Series 10 Sub-series 3

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 2022 is nil. The swap was effective in the current year. The fair value of derivatives can change from year to year due to changes in economic conditions.

##### Statement of financial position

Fair value of swap	-	1,910,880
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##### Statement of other comprehensive income

Cash flow hedges – effective portion of changes in fair value	(661,507)	2,492,549
Cash flow hedges – reclassified to profit or loss	(73,821)	(1,757,221)

Net other comprehensive income	<u>(735,328)</u>	<u>735,328</u>
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##### Series 10 Sub-series 4

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 2022 is R250,000,000. The swap is effective in the current year. The fair value of derivatives can change from year to year due to changes in economic conditions.

##### Statement of financial position

Fair value of swap	2,101,149	2,117,647
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##### Statement of other comprehensive income

Cash flow hedges – effective portion of changes in fair value	(912,412)	3,625,531
Cash flow hedges – reclassified to profit or loss	95,217	(2,072,086)

Net other comprehensive income	<u>(817,195)</u>	<u>1,553,445</u>
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## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 5. Derivative financial instruments (continued)

##### Series 12 Sub-series 2

Harcourt Street 1 (RF) Limited has entered into a Prime-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 2022 is R104,000,000. The swap is effective in the current year. The fair value of derivatives can change from year to year due to changes in economic conditions.

##### Statement of financial position

Fair value of swap	(2,538,308)	-
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##### Statement of other comprehensive income

Cash flow hedges – effective portion of changes in fair value	3,302,159	-
Cash flow hedges – reclassified to profit or loss	(3,384,285)	-
Net other comprehensive income	<u>(82,126)</u>	-

##### Series 12 Sub-series 3

Harcourt Street 1 (RF) Limited has entered into a Prime-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 2022 is R 93 000 000. The swap is effective in the current year. The fair value of derivatives can change from year to year due to changes in economic conditions.

##### Statement of financial position

Fair value of swap	(6,509,734)	-
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##### Statement of other comprehensive income

Cash flow hedges – effective portion of changes in fair value	5,836,314	-
Cash flow hedges – reclassified to profit or loss	(3,087,018)	-
Net other comprehensive income	<u>2,749,296</u>	-

#### Reconciliation of Cash flow Hedge Reserve

	Series 10 Sub-series 1	Series 10 Sub-series 2	Series 10 Sub-series 3	Series 10 Sub- series 4	Series 12 Sub-series 2	Series 12 Sub- series 3
Balance at 1 April 2021	(124,146)	(936,389)	(735,328)	(1,553,445)	-	-
Movements for the year	35,196	620,869	735,328	817,195	82,126	(2,749,296)
<b>Balance at 31 March 2022</b>	<b>(88,950)</b>	<b>(315,520)</b>	<b>-</b>	<b>(736,250)</b>	<b>82,126</b>	<b>(2,749,296)</b>
Related deferred tax	24,017	85,190	-	198,787	(22,174)	742,310
<b>Balance at 31 March 2022 (net of deferred tax)</b>	<b>(64,934)</b>	<b>(230,329)</b>	<b>-</b>	<b>(537,462)</b>	<b>59,952</b>	<b>(2,006,986)</b>

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 5. Derivative financial instruments (continued)

	2022 R	2021 R
<b>Total Statement of other comprehensive income</b>		
Cash flow hedges – effective portion of changes in fair value		
- Series 10 subseries 1	209,540	177,071
- Series 10 subseries 2	(629,165)	(636,058)
- Series 10 subseries 3	(661,990)	2,492,549
- Series 10 subseries 4	(912,412)	3,625,531
- Series 12 subseries 2	3,302,159	-
- Series 12 subseries 3	5,836,314	-
	<u>7,144,446</u>	<u>5,659,093</u>
Cash flow hedges – reclassified to profit or loss		
- Series 10 subseries 1	(244,736)	(243,339)
- Series 10 subseries 2	8,296	9,289
- Series 10 subseries 3	(73,337)	(1,757,221)
- Series 10 subseries 4	95,217	(2,072,086)
- Series 12 subseries 2	(3,384,285)	-
- Series 12 subseries 3	(3,087,018)	-
	<u>(6,685,863)</u>	<u>(4,063,357)</u>
Net other comprehensive income	<u>458,583</u>	<u>1,595,736</u>

#### 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
<b>2022</b>			
Interest rate swap	MBP040 Bond	633,535	Three months
Interest rate swap	MBF065 Bond	1,712,620	Three months
Interest rate swap	TFS142 Bond	-	Three months
Interest rate swap	MBF040 Bond	2,101,149	Three months
Interest rate swap	MMIG05 Bond	(2,538,308)	Three months
Interest rate swap	OML07 Bond	(6,509,734)	Three months
<b>2021</b>			
Interest rate swap	MBP040 Bond	381,436	Three months
Interest rate swap	MBF065 Bond	1,658,343	Three months
Interest rate swap	TFS142 Bond	1,910,880	Three months
Interest rate swap	MBF040 Bond	2,117,647	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 (R6.7 million) (2021: -R4.1 million) are included in net interest income.

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 5. Derivative financial instruments (continued)

The amounts relating to items designated as the hedged items as at 31 March 2022 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
<b>2022</b>				
Investments in securities	714 120 358	-	-	-
<b>2021</b>				
Investments in securities	654 961 872	-	-	-

#### 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 2022 is R 139 000 000. The fair value of derivatives can change from year to year due to changes in economic conditions.

	2022 R	2021 R
Fair value of obligation	(22,876)	71,059
	<u>(22,876)</u>	<u>71,059</u>

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 5. Derivative financial instruments (continued)

##### 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 2022 is R117,000,000. The fair value of derivatives can change from year to year due to changes in economic conditions.

Fair value of obligation	(8,821)	14,520
	<u>(8,821)</u>	<u>14,520</u>

##### Series 10 Sub-series 3

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 (Non-Standard Reference Obligation) protection from Harcourt Street. The notional value of the credit default swap as at 31 March 2022 is nil. The fair value of derivatives can change from year to year due to changes in economic conditions.

Fair value of obligation	-	305,799
	<u>-</u>	<u>305,799</u>

##### Series 10 Sub-series 4

Harcourt Street 1 (RF) Limited has entered into a credit default swap transaction with Investec Bank Limited. Investec Bank Limited buys FirstRand Bank Limited (Non-Standard Reference Obligation) protection from Harcourt Street. The notional value of the credit default swap as at 31 March 2022 is R250,000,000. The fair value of derivatives can change from year to year due to changes in economic conditions.

Fair value of obligation	3,202,242	6,990,197
	<u>3,202,242</u>	<u>6,990,197</u>

#### Total Derivative Financial Instruments

Interest rate swap	MBP040 Bond	633 535	381,436
Interest rate swap	MBF065 Bond	1 712 620	1,658,343
Interest rate swap	TFS156 Bond	-	1,910,880
Interest rate swap	MBP040 Bond	2 101 149	2,117,647
Interest rate swap	MMIG05 Bond	(2 538 308)	-
Interest rate swap	OML07 Bond	(6 509 734)	-
Fair value of Credit Default Swap	MBP040 Bond	(22 876)	71,059
Fair value of Credit Default Swap	MBF065 Bond	(8 821)	14,520
Fair value of Credit Default Swap	TFS156 Bond	-	305,799
Fair value of Credit Default Swap	MBP040 Bond	3 202 242	6,990,197
		<u>(1,430,192)</u>	<u>13,449,881</u>

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

	2022 R	2021 R
<b>6. Commercial paper issued</b>		
Commercial paper issued are not rated.		
<u>Series 5</u>		
Commercial paper issued (maturity date: 29 November 2022)	200,000,000	200,000,000
Accrued interest (Jibar plus 125bps)	898,685	825,030
	<b>200,898,685</b>	<b>200,825,030</b>
<u>Series 6</u>		
Commercial paper issued (maturity date: 31 May 2022)	150,000,000	150,000,000
Accrued interest (Jibar plus 100bps)	643,192	577,060
	<b>150,643,192</b>	<b>150,577,060</b>
<u>Series 7</u>		
Commercial paper issued (maturity date: 30 June 2022)	235,000,000	235,000,000
Accrued interest (Tranche 9 Jibar plus 83bps)	-	2,501,057
Redemption of notes	(22,500,000)	-
	<b>212,500,000</b>	<b>237,501,057</b>
<u>Series 8</u>		
Commercial paper issued (maturity date: 19 April 2022, 17 June 2022)	290,000,000	290,000,000
Accrued interest (Tranche 24 JIBAR plus 78 bps, Tranche 26 JIBAR plus 80 bps)	525,371	429,337
	<b>290,525,371</b>	<b>290,429,337</b>
<u>Series 9</u>		
Commercial paper issued (maturity date: 01 July 2021)	-	150,000,000
Accrued interest (Jibar plus 180bps)	-	1,713,676
	-	<b>151,713,676</b>
<u>Series 10 Subseries 1</u>		
Commercial paper issued (maturity date: 26 February 2024)	139,000,000	139,000,000
Accrued interest (Jibar plus 180bps)	710,336	683,903
	<b>139,710,336</b>	<b>139,683,903</b>
<u>Series 10 Subseries 2</u>		
Commercial paper issued (maturity date: 30 September 2023)	117,000,000	117,000,000
Accrued interest (Jibar plus 165bps)	19,288	17,069
	<b>117,019,288</b>	<b>117,017,069</b>
<u>Series 10 Subseries 3</u>		
Commercial paper issued (maturity date: 28 October 2021)	-	149,000,000
Accrued interest (Jibar plus 220bps)	-	1,478,586
	-	<b>150,478,586</b>
<u>Series 10 Subseries 4</u>		
Commercial paper issued (maturity date: 23 February 2024)	250,000,000	250,000,000
Accrued interest (Jibar plus 270bps)	1,701,370	1,563,781
	<b>251,701,370</b>	<b>251,563,781</b>
<u>Series 12 Subseries 1</u>		
Commercial paper issued (maturity date: 28 September 2022)	250,000,000	250,000,000
Accrued interest (Jibar plus 80bps)	106,171	60,315
	<b>250,106,171</b>	<b>250,060,315</b>



## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 6. Commercial paper issued (continued)

	2022 R	2021 R
<u>Series 12 Subseries 2</u>		
Commercial paper issued (maturity date: 12 August 2022)	104,000,000	-
Accrued interest (Jibar plus 120bps)	688,152	-
	<u>104,688,152</u>	<u>-</u>
<u>Series 12 Subseries 3</u>		
Commercial paper issued (maturity date: 19 March 2025)	93,000,000	-
Accrued interest (Jibar plus 160bps)	135,112	-
	<u>93,135,112</u>	<u>-</u>
<u>Series 13</u>		
Commercial paper issued (maturity date: 7 November 2023, 7 July 2026, and 7 July 2026)	237,610,000	-
Accrued interest (Tranche 1 Prime less 95bps, Tranche 2 Prime less 80bps, Tranche 3 Prime less 75bps)	1,137,691	-
	<u>238,747,691</u>	<u>-</u>

With the exception of Series 13, the commercial papers bear interest at the 3 Month JIBAR rate plus the spread as determined in the Applicable Pricing Supplement. Series 13 commercial paper bears interest at the RSA Prime Lending Rate and resets daily. For as long as the commercial paper are in issue, interest on the Notes is payable quarterly in arrears

#### Total commercial paper issued

Commercial paper issued	2,065,610,000	1,930,000,000
Accrued interest	6,565,368	9,849,814
Redemption of Notes	(22,500,000)	-
<b>Total commercial paper outstanding</b>	<u>2,049,675,368</u>	<u>1,939,849,814</u>

#### 7. Other liabilities

Audit fee accrual	353,534	266,081
Accounts payable	(24)	54,759
	<u>353,510</u>	<u>320,840</u>
Sundry creditors	15,007	-
	<u>368,517</u>	<u>320,840</u>

#### 8. Other receivable

Credit default swap premium	450,126	-
	<u>450,126</u>	<u>-</u>

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

9. Deferred tax Liability	2022 R	2021 R
<u>The deferred tax balance arises due to temporary differences associated with:</u>		
Expected credit loss	556,392	314,813
Derivative Financial Instrument - Swap Fair Value adjustments	(1,028,130)	(937,806)
Fair value on credit default swaps	(856,047)	(2,066,841)
<b>Reconciliation of deferred tax balance</b>		
Opening balance	(2,689,834)	(372,711)
<b>Movement recognised in profit or loss:</b>		
Expected credit losses/ impairment losses	241,578	215,357
Fair value gains/(losses) on credit default swaps	1,210,794	(2,085,674)
<b>Movement recognised in Other Comprehensive Income:</b>		
Derivative Financial Instrument - Swap Fair Value adjustments	(90,324)	(446,806)
<b>Closing Balance</b>	<b><u>(1,327,786)</u></b>	<b><u>(2,689,834)</u></b>

Deferred taxation assets are recognised to the extent it is likely that profits will be available in future periods. The assessment of the likelihood of future profits is based on past performance and current projections.

During the year, the SA Government announced a decrease in the SA rate of corporation tax from 28% to 27% effective for years of assessment ending on/after 1 March 2023. As a result, the deferred tax balances at 31 March 2022 have been adjusted to reflect this substantively enacted rate change.

10. Other operating expenses	2022 R	2021 R
<u>Other operating expenses include the following:</u>		
Administrator fee	349,226	324,449
Auditor's remuneration	484,807	321,080
Agency fee	273,639	263,109
Facility fee	167,124	108,081
Regulatory costs	108,710	71,807
Trustee fee	320,908	348,034
Sundry expenses	109,102	95,480
	<b><u>1,813,516</u></b>	<b><u>1,532,040</u></b>

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 11. Interest income

##### Interest income

Current account - Series 2	113	2,490
Current account - Series 5	20,084	13,722
Current account - Series 6	29,959	11,809
Current account - Series 7	22,055	12,366
Current account - Series 8	38,619	28,144
Current account - Series 9	71,478	51,181
Current account - Series 10	5,065	4,764
Current account - Series 12	15,773	-
Current and Reserve account - Series 13	2,868,701	-
Current account - Surplus	104,893	147,415
Loan and advances - Series 6	8,272,508	8,783,601
Loan and advances - Series 7	12,143,361	13,200,040
Loan and advances - Series 8	15,093,809	12,592,384
Loan and advances - Series 9	2,066,268	8,955,456
Loan and advances - Series 13	2,323,992	-
Investment security - Series 5	11,827,447	12,510,104
Investment security - Series 10 sub-series 1	6,680,917	7,056,103
Investment security - Series 10 sub-series 2	4,871,713	5,327,036
Investment security - Series 10 sub-series 3	3,661,657	6,368,487
Investment security - Series 10 sub-series 4	11,760,372	9,803,043
Investment security - Series 12 subseries 1	12,209,925	5,301,281
Investment security - Series 12 subseries 2	3,832,726	-
Investment security - Series 12 subseries 3	4,606,185	-

Total Interest Income calculated using the effective interest rate method

102,527,622

90,169,426

##### Other interest income

Realised interest on the swap (note 11.1)

103,514

9,290

Interest portion on Tax Refund

13,934

-

**102,645,070**

**90,178,716**

#### 11.1 Realised interest on the swap

##### Series 10 sub-series 1

Interest income on the swap

6,730,982

7,155,922

Interest expense on the swap

(6,975,717)

(7,399,261)

**(244,736)**

**(243,339)**

##### Series 10 sub-series 2

Interest income on the swap

5,555,123

6,033,187

Interest expense on the swap

(5,546,828)

(6,023,897)

**8,296**

**9,290**

##### Series 10 sub-series 3

Interest income on the swap

4,525,420

5,586,239

Interest expense on the swap

(4,598,757)

(7,380,396)

**(73,337)**

**(1,794,157)**

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 11. Interest income (continued)

##### 11.1 Realised interest on the swap (continued)

###### Series 10 sub-series 4

Interest income on the swap

12,655,146

8,285,169

Interest expense on the swap

(12,559,928)

(10,357,256)

**95,218**

**(2,072,087)**

###### Series 12 sub-series 2

Interest income on the swap

3,655,375

-

Interest expense on the swap

(7,039,660)

-

**(3,384,285)**

-

###### Series 12 sub-series 3

Interest income on the swap

3,472,480

-

Interest expense on the swap

(6,559,498)

-

**(3,087,018)**

-

Total

**(6,685,862)**

**(4,100,293)**

2022  
R

2021  
R

#### 12. Interest expense

Commercial paper issued

- Series 5

10,124,121

11,209,348

- Series 6

7,343,264

7,983,386

- Series 7

10,947,908

11,874,169

- Series 8

13,228,817

11,398,829

- Series 9

1,619,525

7,565,264

- Series 10 sub-series 1

7,426,099

7,900,916

- Series 10 sub-series 2

5,622,374

6,079,369

- Series 10 sub-series 3

4,210,808

5,143,410

- Series 10 sub-series 4

15,365,465

10,142,255

- Series 12 sub-series 1

11,386,103

4,952,294

- Series 12 sub-series 2

166,467

-

- Series 12 sub-series 3

1,241,569

-

- Series 13

4,663,284

-

Realised interest on the swap (Note 11.1)

- Series 10 sub-series 1

244,736

243,339

- Series 10 sub-series 3

73,337

1,794,157

- Series 10 sub-series 4

-

2,072,087

- Series 12 sub-series 2

3,384,285

-

- Series 12 sub-series 3

3,087,018

-

**100,135,179**

**88,358,823**

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 13. Ordinary share capital

Ordinary share capital

*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

*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. Taxation

South African normal tax

-current

2,004,817

1,292,182

-deferred tax

(1,452,372)

1,870,317

Net taxation charge

552,445

3,162,499

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

#### Reconciliation of effective tax rate

2022

**Income before taxation**

R  
**2,012,654**

Tax using the corporation tax rate

28%

563,543

Effects of change in tax rate

(11,098)

Total income tax expense

552,445

2021

Income before taxation

R  
11,261,575

Tax using the corporation tax rate

28%

3,153,242

- prior year adjustment

9,257

Total income tax expense

3,162,499

During the year, the SA Government announced a decrease in the SA rate of corporation tax from 28% to 27% effective for years of assessment ending on/after 1 March 2023. As a result, the deferred tax balances at 31 March 2022 have been adjusted to reflect this substantively enacted rate change. The taxation effect to the Statement of comprehensive income relating to the movement of these balances is R11,098.

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (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.

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 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.

#### 17. Related parties and transactions

##### **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), Security SPV, 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).

##### **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:

	2022	2021
	R	R
TMF Corporate Services (South Africa) Proprietary Limited (including directors fees)	272,887	228,844
Quadridge Trust Services Proprietary Limited (including directors fees)	147,879	139,463

##### *Harcourt Street Issuer 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) Limited.

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 18. Risk management

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.

##### *Credit and counterparty risk*

As per the Transaction Documents, the holders of Notes are fully exposed to all performance risks related to the relevant participating asset obligor (and associated participating asset(s)); and the various Series Transaction counterparties.

More specifically, the Noteholders are exposed to the credit risk of the participating asset obligor. Upon the occurrence of a participating asset event of default with respect to the participating asset obligor, the Noteholders may suffer significant losses at a time when no or lower losses may be suffered by a direct investor in obligations of the participating asset obligor. The holding of Notes (or a portion thereof) may not reflect the impact of investing in an obligation of the participating asset obligor, and losses in relation to the Notes could be considerably greater than would be suffered by a direct investor in the obligations of the participating asset obligor, and/or could arise for reasons unrelated to the participating asset obligor. Noteholders should also note that a participating asset event of default may occur even if the obligations of the participating asset obligor are unenforceable or its performance is prohibited by any applicable law or exchange controls.

The Issuer anticipates that Noteholders will perform their own credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions and information used to measure expected credit losses.

##### *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.

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 18. Risk management (continued)

##### Maturities of financial liabilities

2022	Current	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
<b>R</b>						
Commercial paper issued**	-	659,131,889	570,159,854	970,161,022	-	2,199,452,765
Derivative financial instruments	-	-	-	1,430,192	-	1,430,192
Other Liabilities	368,517	-	-	-	-	368,517
	<b>368,517</b>	<b>659,131,889</b>	<b>570,159,854</b>	<b>971,591,214</b>		<b>2,201,251,470</b>
<b>2021</b>	<b>Current</b>	<b>Between 1 and 3 months</b>	<b>Between 3 months and 1 year</b>	<b>Between 1 and 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>R</b>						
Commercial paper issued	-	494,385,668	957,480,258	560,539,262	-	2,012,405,188
Other Liabilities	320,840	-	-	-	-	320,840
	<b>320,840</b>	<b>494,385,668</b>	<b>957,480,258</b>	<b>560,539,262</b>		<b>2,012,726,028</b>

##### \*\*Commercial paper issued

The maturity analysis incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments. The principal and interest repayment amounts disclosed are determined by reference to the conditions existing at the end of the reporting period. To be provide more information, we have disaggregated the maturity profile as follows:

Commercial paper issued ('R)	1-2 years	2-3 years	3-5 years	Total
2022	649,719,121	-	320,441,901	970,161,022
2021	-	560,539,262	-	560,539,262

In the current year, the basis of estimation was amended to include Margin on the commercial paper issued.

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.



## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 18. 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 the 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.

##### *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.

The company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the company;
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the company considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect in changes circumstances.

The definition of default largely aligns with that applied by the company for regulatory capital purposes.

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 18. Risk management (continued)

##### “Definition of default” (continued)

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

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

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 18. Risk management (continued)

##### “Definition of default” (continued)

##### ECL

The analysis of credit quality of Loans and Advances, and Investments in Securities is outsourced to Investec Bank in terms of the Administration Agreement. 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 2022 was calculated using revised macroeconomic variable forecasts and scenario weightings (dated 12 April 2022).
- 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. Financial assets that are written off could still be subject to enforcement activities in order to comply with the company's procedures for recovery of amounts due.

##### *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.

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 18. Risk management (continued)

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

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.

##### Measurement of ECL

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 outputs 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.

The scenario probability weightings applied in measuring ECL are as follows:

Scenario probability weighting	Extreme up	Up	Expected	Down	Extreme Down
	1%	2%	49%	42%	6%

## **Harcourt Street 1 (RF) Ltd**

### **Notes to the financial statements**

*for the period ended 31 March 2022 (continued)*

#### **18. Risk management (continued)**

##### *Forward-looking macro-economic scenarios (continued)*

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.

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 18. Risk management (continued)

##### An analysis of credit quality by internal rating grade

The analysis of credit quality of Loans and Advances, and Investments in Securities is outsourced to Investec Bank in terms of the Administration Agreement. Investec Bank uses a 25-grade internal rating scale which measures the risk of default to an exposure without taking into account any credit mitigation, such as collateral. This internal rating scale allows Investec Bank Limited to measure credit risk consistently across portfolios. The internal rating scale is derived from a mapping to PDs and can also be mapped to external rating agency scales.

PD range	Investec internal rating scale	Indicative external rating scale
less than 0.538%	IB01 – IB12	AAA to BBB-
0.538% – 6.089%	IB13 – IB19	BB+ to B
greater than 6.089%	IB20 – IB25	B- and below
	Stage 3	D

The internal credit rating distribution below is based on the 12-month PD at 31 March 2022 for gross core loans subject to ECL by stage. The staging classifications are not only driven by the absolute PD, but on factors that determine a significant increase in credit risk, including relative movement in PD since origination. There is therefore no direct correlation between the credit quality of an exposure and its stage classification as shown in the table below:

R	IB01 – IB12	IB13 – IB19	IB20 – IB25	Stage 3	Total ECL
<b>2022</b>					
<b>Loans and advances subject to ECL</b>	<b>653,897,673</b>	<b>142,354,713</b>	<b>94,744,892</b>	-	<b>890,997,278</b>
Stage 1	653,897,673	142,354,713	94,744,892	-	890,997,278
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>ECL</b>	<b>(723,751)</b>	<b>(404,264)</b>	<b>(1,204,454)</b>	-	<b>(2,332,469)</b>
Stage 1	(723,751)	(404,264)	(1,204,454)	-	(2,332,469)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>Coverage Ratio</b>	<b>0.11%</b>	<b>0.28%</b>	<b>1.27%</b>	-	<b>0.26%</b>
<b>Investments in securities subject to ECL</b>	<b>1,165,554,216</b>	-	-	-	<b>1,165,554,216</b>
Stage 1	1,165,554,216	-	-	-	1,165,554,216
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>ECL</b>	<b>(415,144)</b>	-	-	-	<b>(415,144)</b>
Stage 1	(415,144)	-	-	-	(415,144)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>Coverage Ratio</b>	<b>0.04%</b>	-	-	-	<b>0.04%</b>
<b>2021</b>					
<b>Loans and advances subject to ECL</b>	<b>826,319,609</b>	-	-	-	<b>826,319,609</b>
Stage 1	826,319,609	-	-	-	826,319,609
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>ECL</b>	<b>(677,884)</b>	-	-	-	<b>(677,884)</b>
Stage 1	(677,884)	-	-	-	(677,884)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>Coverage Ratio</b>	<b>0.08%</b>	-	-	-	<b>0.08%</b>
<b>Investments in securities subject to ECL</b>	<b>1,106,529,799</b>	-	-	-	<b>1,106,529,799</b>
Stage 1	1,106,529,799	-	-	-	1,106,529,799
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>ECL</b>	<b>(821,226)</b>	-	-	-	<b>(821,226)</b>
Stage 1	(821,226)	-	-	-	(821,226)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>Coverage Ratio</b>	<b>0.07%</b>	-	-	-	<b>0.07%</b>

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 18. Risk management (continued)

##### Concentrations of credit risk

The company observes concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances and investment in securities is shown below.

Concentration by sector	2022	2021
	Carrying amount R	Carrying amount R
<i>Loans and advances</i>		
Retail	738,065,336	675,017,010
Education	150,599,473	150,624,715
Financial Institutions	-	-
	<b>888,664,809</b>	<b>825,641,725</b>
<i>Investments in Securities</i>		
Retail	-	-
Education	-	-
Financial Institutions	1,165,139,072	1,105,708,573
	<b>1,165,139,072</b>	<b>1,105,708,573</b>

All of the Loans and advances, and Investment in Securities are on stage 1

##### Reconciliations from the opening to the closing balance of the loss allowance R

<i>Loans and Advances</i>	Stage 1	Stage 2	Stage 3	Total
ECL opening balance at 1 April 2021	677,884	-	-	677,884
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	120,203	-	-	120,203
New financial assets originated or purchased	1,608,718	-	-	1,608,718
Financial assets that have been derecognised	(74,336)	-	-	(74,336)
Write-offs	-	-	-	-
Unwind of discount	-	-	-	-
Foreign exchange and other movements	-	-	-	-
<b>Closing balance at 31 March 2022</b>	<b>2,332,469</b>	<b>-</b>	<b>-</b>	<b>2,332,469</b>

<i>Investments in securities</i>	Stage 1	Stage 2	Stage 3	Total
ECL opening balance at 1 April 2021	821,226	-	-	821,226
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(295,734)	-	-	(295,734)
New financial assets originated or purchased	82,908	-	-	82,908
Financial assets that have been derecognised	(193,257)	-	-	(193,257)
Write-offs	-	-	-	-
Unwind of discount	-	-	-	-
Foreign exchange and other movements	-	-	-	-
<b>Closing balance at 31 March 2022</b>	<b>415,144</b>	<b>-</b>	<b>-</b>	<b>415,144</b>

Significant changes in the ECL allowance were as follows:

- The acquisition of loans in Series Transaction 13 resulted in an overall increase of in the ECL recognised at year-end.

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 19. Financial assets and liabilities

*Analysis of assets and liabilities by measurement basis*

2022	Amortised Cost	Mandatorily at fair value through profit or loss	Liabilities at amortised cost	Non-financial instruments/financial instrument excluded from IFRS9	Total
<b>R</b>					
<i>Assets</i>					
Cash and cash equivalents*	9,917,741	-	-	-	9,917,741
Loans and advances	888,664,809	-	-	-	888,664,809
Investment in securities	1,165,139,072	-	-	-	1,165,139,072
Other receivables	450,126	-	-	-	450,126
	<b>2,064,171,748</b>	-	-	-	<b>2,064,171,748</b>
<i>Liabilities</i>					
Commercial paper issued	-	-	2,049,911,670	-	2,049,911,670
Derivative financial instruments	-	1,430,192	-	-	1,430,192
Taxation payable	-	-	-	-	-
Other liabilities*	-	-	368,517	-	368,517
Deferred tax liability*	-	-	-	3,274,190	3,274,190
	-	<b>1,430,192</b>	<b>2,050,280,187</b>	<b>3,274,190</b>	<b>2,054,984,569</b>

\* 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.

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.



## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 19. Financial assets and liabilities (continued)

			Level 1	Level 2	Level 3
The fair value of investments in securities held at amortised costs are:					
R					
			138,897,394	-	-
			115,599,146	-	-
			202,177,699	-	-
			113,544,683	-	-
			95,874,853	-	-
<b>2021</b>	<b>Amortised Cost</b>	<b>Mandatorily at fair value through profit or loss</b>	<b>Liabilities at amortised cost</b>	<b>Non-financial instruments /financial instrument excluded from IFRS9</b>	<b>Total</b>
R					
<i>Assets</i>					
	Cash and cash equivalents*	-	-	-	7,740,678
	Derivative financial instruments	-	13,449,881	-	13,449,881
	Loans and advances	825,641,725	-	-	825,641,725
	Investment in securities	1,105,708,573	-	-	1,105,708,573
	<b>1,939,090,976</b>	<b>13,449,881</b>	<b>-</b>	<b>-</b>	<b>1,952,540,857</b>
<i>Liabilities</i>					
	Commercial paper issued*	-	1,939,849,814	-	1,939,849,814
	Taxation payable	-	-	-	-
	Other liabilities*	-	320,840	-	320,840
	Deferred tax liability*	-	-	2,689,834	2,689,834
	<b>-</b>	<b>-</b>	<b>1,940,170,654</b>	<b>2,689,834</b>	<b>1,942,860,488</b>

\* 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.

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.

## Harcourt Street 1 (RF) Ltd

### Notes to the financial statements

for the period ended 31 March 2022 (continued)

#### 19. Financial assets and liabilities (continued)

	Level 1	Level 2	Level 3
The fair value of investments in securities held at amortised costs are:			
R			
MBP040 bond	138,878,866	-	-
MBF065 bond	115,920,351	-	-
LGL08 bond	203,113,476	-	-
TFS142 bond	148,556,785	-	-

#### *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.

##### *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
	<b>2022</b>
Cash flow hedges	<b>(4,600,737)</b>
Credit default swaps	<b>3,620,671</b>
	<hr/>
	R
	<b>2021</b>
Cash flow hedges	6,068,306
Credit default swaps	7,381,575
	<hr/>

## **Harcourt Street 1 (RF) Ltd**

### **Notes to the financial statements**

*for the period ended 31 March 2022 (continued)*

#### **20. 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 by incorporating ring-fencing provisions into its memorandum of incorporation. In addition, secured creditors have agreed to certain subordination, non-petition, and limited recourse clauses.

For the avoidance of doubt, we reiterate the following provisions as set out in the Harcourt Street 1 (RF) Limited ZAR10,000,000,000 Secured Note Programme:

Each noteholder agrees that its claims against the Issuer and the Security SPV are subordinated for the benefit of other secured creditors ranking prior to noteholders in accordance with the applicable priority of payments.

In respect of a transaction, if the net proceeds of the enforcement of the transaction security are not sufficient to make all payments then due in respect of the Notes issued in the transaction, the obligations of the Issuer will be limited to such net proceeds and the other assets of the Issuer will not be available to meet any shortfall. The shortfall shall be borne by the relevant secured creditors of the Issuer in accordance with the applicable priority of payments set out in the transaction documentation. The Issuer will not be obliged to make any further payment in excess of such net proceeds and no debt shall be owed by the Issuer in respect of such shortfall.

Each noteholder agrees that only the relevant security SPV may enforce the security created in favour of the relevant security SPV by the relevant security agreements in accordance with the provisions of the relevant security agreements and the relevant transaction documents.

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.

#### **21. Events subsequent to period end**

No material events have occurred between 31 March 2022 and the date of this report with the exception of the Covid-19 implications as stated in the Going Concern section above.