

**Bayport Securitisation (RF) Limited**  
(Registration number 2008/003557/06)

**Audited consolidated and separate annual financial statements  
for the year ended 31 December 2022**

The annual financial statements of the group and the company were prepared in accordance with the requirements of the South African Companies Act 71 of 2008

The annual financial statements were prepared under the supervision of Warwick Keet CA(SA), chief financial officer of Bayport Financial Services 2010 (Proprietary) Limited

The logo for Bayport Securitisation is located in the bottom right corner. It features the word "BAYPORT" in a large, white, sans-serif font, with a blue circular icon above the letter "Y". Below "BAYPORT" is the word "SECURITISATION" in a smaller, white, sans-serif font. The entire logo is set against a dark blue background that has a rounded top-left corner.

**BAYPORT**  
SECURITISATION

## Bayport Securitisation (RF) Limited

### Annual financial statements

*For the year ended 31 December 2022*

#### General information

|                                  |  |
|----------------------------------|--|
| <b>Country of incorporation:</b> | South Africa   |
| <b>Date of incorporation:</b>    | 11 February 2008   |
| <b>Nature of business:</b>       | Special purpose vehicle incorporated to house unsecured loans originated by Bayport Financial Services 2010 (Proprietary) Limited                    |
| <b>Directors:</b>                | Olivia van Gisbergen (chairman)<br>Nick Clarke (alternate – appointed 29 September 2022)<br>Lood de Jager<br>Alfred Ramosedi<br>Rishendrie Thanthony |
| <b>Registered address:</b>       | Bayport House<br>3 Alice Lane<br>Sandton<br>2196   |
| <b>Business address:</b>         | Bayport House<br>3 Alice Lane<br>Sandton<br>2196   |
| <b>Postal address:</b>           | Postnet Suite 116<br>Private Bag X43<br>Sunninghill<br>2157  |
| <b>Banker:</b>                   | Standard Bank of South Africa Limited  |
| <b>Auditor:</b>                  | BDO South Africa Incorporated<br>Chartered Accountants<br>Registered Auditor   |
| <b>Company secretary:</b>        | Arthur Hlubi   |
| <b>Company registration:</b>     | 2008/003557/06   |



## Bayport Securitisation (RF) Limited

### Annual financial statements

*For the year ended 31 December 2022*

The reports and statements set out below comprise the annual financial statements presented to the shareholders:

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## **Bayport Securitisation (RF) Limited**

### **Annual financial statements**

***For the year ended 31 December 2022***

#### **Directors' responsibilities and approval of the annual financial statements**

The directors are required by the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the directors' responsibility to ensure that the annual financial statements fairly present the state of affairs of the group as at the end of the financial year and the results of their operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The annual financial statements are prepared in accordance with the Companies Act of South Africa and International Financial Reporting Standards and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined risk framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

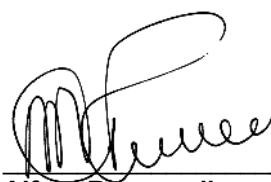
The directors have reviewed the cash flow forecast for the year to 31 December 2023 and are satisfied that the group has access to adequate resources to continue as a going concern for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the financial statements. The financial statements have been examined by the external auditors and their report is presented on pages 7 to 10.

The annual financial statements set out on pages 4 to 68, which have been prepared on the going concern basis, were approved by the board of directors on 25 April 2023 and were signed on its behalf by:



**Olivia van Gisbergen**



**Alfred Ramosedi**



## **Bayport Securitisation (RF) Limited**

### **Annual financial statements**

***For the year ended 31 December 2022***

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#### **Certificate from the company secretary**

In terms of section 88(2)(e) of the Companies Act, 2008, I certify that to the best of my knowledge and belief, Bayport Securitisation (RF) Limited has lodged with the Registrar of Companies for the financial period ended 31 December 2022 all such returns as are required of a public company in terms of the Companies Act, and that all returns are true, correct and up to date.



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**Arthur Hlubi**

Company secretary  
25 April 2023



## Bayport Securitisation (RF) Limited

### Report of the audit committee

*For the year ended 31 December 2022*

The audit committee submits this report to the shareholders of Bayport Securitisation (RF) Limited in respect of the year ended 31 December 2022. This report has been prepared based on the requirements of section 94(7)(f) of the Companies Act of South Africa ("the Act"), as amended from time to time and in terms of the JSE Limited Listing Requirements.

#### Purpose of the audit committee

The main purpose of the audit committee is to assist the board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and the preparation of accurate financial reporting and annual financial statements in compliance with legal requirements and accounting standards.

#### Membership and attendance

The audit committee is independent and at the date of this report consists of three independent directors: Lood de Jager, Olivia van Gisbergen and Rishendrie Thanthony.

Nick Clarke was appointed as an alternate member of the audit committee on 29 September 2022 and attended the meeting on 6 December 2022 as an invitee.

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 and regulation 42 of the Companies Regulations, 2011.

The audit committee meets at least bi-annually, as per its terms of reference, or more frequently should circumstances dictate.

The names of the members and attendance at meetings for the year under review are reflected below:

| <u>Names of members</u>  | <u>12 April 2022</u> | <u>6 December 2022</u> |
|--------------------------|----------------------|------------------------|
| Lood de Jager (chairman) | ✓                    | ✓                      |
| Rishendrie Thanthony     | ✓                    | ✓                      |
| Olivia van Gisbergen     | ✓                    | ✓                      |

#### Functions of the audit committee

- Approving the external audit engagement terms;
- Reporting on the independence of the auditors BDO South Africa Incorporated;
- Reviewing the tenure of the auditors and rotation of the audit partner;
- Reviewing the performance and effectiveness of the external audit process;
- Assessing the nature and extent of non-audit services;
- Making submissions to the board on accounting policies, financial controls, records and reporting;
- Reviewing key audit matters as provided by BDO South Africa Incorporated; and
- Reviewing the annual financial statements to confirm compliance with International Financial Reporting Standards, the Companies Act of South Africa and the JSE Limited Listing Requirements.

#### Attendance by auditors and executive directors

The external auditors are advised of all meetings of the audit committee. The executive directors of Bayport Financial Services 2010 (Proprietary) Limited also attended meetings by invitation.



## **Bayport Securitisation (RF) Limited**

### **Report of the audit committee (continued)**

***For the year ended 31 December 2022***

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#### **Independence of external auditor**

The audit committee has satisfied itself that the external auditors are independent of the group.

#### **Internal financial controls, accounting practices and group annual financial statements**

Based on the work of the group's assurance providers, nothing has come to the attention of the committee which indicates that the group's system of internal financial controls and accounting practices, in all material respects, does not provide a basis for reliable annual financial statements.

The committee is satisfied that the group annual financial statements are in compliance, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards, and recommended the financial statements for approval by the board.



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**Lood de Jager**

Chairman: audit committee  
25 April 2023





# Independent Auditor's Report

To the Shareholders of  
**Bayport Securitisation (RF) Limited**

## Report on the Audit of the Consolidated and Separate Financial Statements

### Opinion

We have audited the consolidated and separate financial statements of Bayport Securitisation (RF) Limited (the group and company) set out on pages 14 to 68, which comprise the consolidated and separate statements of financial position as at 31 December 2022, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Bayport Securitisation (RF) Limited as at 31 December 2022, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

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 Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board of 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 consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter  | How our audit addressed the key audit matter  |
|---|---|
| <b>Impairment of Loans and Advances (consolidated and separate financial statements)</b>  |   |
| <p>The group and company have a portfolio of financial instruments that fall within the scope of the IFRS 9 expected credit loss (ECL) impairment model. Significant judgement is required in estimating the ECL against these assets mentioned above and include assessing:</p> <ul style="list-style-type: none"><li>➤ probability of default (PD)</li><li>➤ loss given default (LGD)</li><li>➤ exposure at default (EAD)</li><li>➤ credit risk profile changes</li><li>➤ macro-economic scenario assumptions (FLI)</li></ul> <p>The group and company is required to recognise an allowance for either a 12-month or lifetime ECLs</p> | <p>We have performed the following audit procedures:</p> <ul style="list-style-type: none"><li>• Assessed the design, implementation and operating effectiveness of key controls relating to the ECL model's validation and data governance, and confirmed the application controls were operating effectively;</li><li>• Performed control testing over the origination, approval, disbursement, credit monitoring and collection processes in terms of the group credit policy and processes to ensure compliance with the policies and relevant laws and regulations;</li><li>• With the involvement of our technical accounting and credit risk solutions expertise, we completed an assessment over the methodologies and assumptions applied to ensure compliance with IFRS 9, including:</li></ul> |

BDO South Africa Incorporated  
Registration number: 1995/002310/21  
Practice number: 905526  
VAT number: 4910148685

Chief Executive Officer: B Mokoena

A full list of all company directors is available on [www.bdo.co.za](http://www.bdo.co.za)

The company's principal place of business is at The Wanderers Office Park, 52 Corlett Drive, Illovo, Johannesburg where a list of directors' names is available for inspection. BDO South Africa Incorporated, a South African personal liability company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.



depending on whether there has been a significant increase in credit risk (SICR) since initial recognition.

The relevant disclosures relating to the impairment of loans and advances have been provided in Notes 3 and 21 of the consolidated and separate financial statements. Due to the significance of this balance, a high degree of estimation uncertainty and significant judgement applied by management, the impairment of loan advances has been identified as a matter of most significance during our current year audit of the consolidated and separate financial statements.

- The determination of PD, EAD, LGD and discount rates;
- Validation of the IFRS 9 staging and ageing assignments;
- Management's calculation of ECL (including a roll-forward to December); and
- Consideration of forward-looking information in the calculation of ECL, which includes macro-economic factors.
- With the involvement of our technology expertise:
  - We confirmed the accuracy of ageing and staging of the loans and advances;
  - We confirmed the completeness, accuracy and validity of data for the calculations of the inputs used in the credit impairment models; and
  - We assessed the ITGC's over the SQL database;
  - We tested the interface between Exactus and SQL to confirm that the data sets utilized in the ECL models were aligned to the data in Exactus.
  - We tested the interface between BayportConnect and Exactus to confirm the loan initiation data is complete and accurate to Exactus system.
- With the assistance of our credit risk solutions expertise, we independently recalculated:
  - A range of model inputs (PD, EAD, LGD and discount rate);
  - The allocation of staging per loan;
  - Ranges of ECL as at 31 October 2022, using the independent inputs; and
  - The roll-forward ECL numbers using the loan loss ratio's as at 31 October 2022 to the 31 December 2022 loan book exposures.
- We have performed analytical procedures on the IFRS 9 ECL provision to assess the reasonableness of the provision.
- We evaluated the adequacy of disclosures against the requirements of International Financial Reporting Standards.

#### **Recognition and recoverability of deferred tax assets (consolidated and separate financial statements)**

The recoverability of the deferred tax asset represents a key risk for the business. IAS 12 states that a deferred tax asset can only be recognized to the extent that it is probable that taxable profits are available against which the deferred tax asset can be utilised.

IAS 12 further states that the recognition of previously unrecognised deferred tax assets should be reassessed on an annual basis.

We identified that the key judgement areas management used to justify their recognition of the deferred tax asset were as follows:

- Management's ability to reasonably forecast profits;
- The assumptions made in management's periodic future forecasts and the likelihood of those assumptions holding true;
- The inclusion of two prospective portfolio clients which are important components relating to the growth assumptions; and
- The time over which the deferred tax asset is expected to be recovered, given the forecasts.

We have performed the following audit procedures:

- Reviewed management's annual assessment for the recognition of the unrecognised and recognised deferred tax assets;
- Assessed management's periodic future forecasts, including assessing the budget to actual for the current year, identifying key assumptions inherent in the forecasts and evaluated the assumptions for reasonability against BDO's expectations and understanding of the entity and the unsecured lending industry;
- Stress test management's assumptions inherent in the forecasts and determine the impact of the stress testing on the recognition of the recognised and unrecognised deferred tax assets.
- Focused on the adequacy of the disclosure in the financial statements in terms of IAS 12.



The relevant disclosures relating to the recognition and recoverability of deferred tax assets have been provided in Note 4 of the consolidated and financial statements.

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#### **Other Information**

The directors are responsible for the other information. The other information comprises the information included in the document titled "Bayport Securitisation (RF) Limited Annual Financial Statements for the year ended 31 December 2022", which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained, 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 Consolidated and Separate Financial Statements**

The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and 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 group and / or the company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate 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 consolidated and separate 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 group's and 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 group's and 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 consolidated and separate 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 group and /or the company to cease to continue as a going concern.
  - Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 consolidated and separate 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 BDO South Africa Incorporated has been the auditor of Bayport Securitisation (RF) Limited for 4 years.

*BDO South Africa Inc.*

[BDO South Africa Inc. \(Apr 26, 2023 10:05 GMT+2\)](#)

**BDO South Africa Incorporated**  
Registered Auditors

**Alethia Chetty**  
Director  
Registered Auditor

26 April 2023

Wanderers Office Park  
52 Corlett Drive  
Illovo, 2196

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# Bayport Securitisation (RF) Limited

## Directors' report

### *For the year ended 31 December 2022*

The directors present their report on the activities of the group for the year ended 31 December 2022.

#### **1. Main business and operations**

The group consists of Bayport Securitisation (RF) Limited ("the company") and its wholly-owned subsidiary Zenthyme Investments (Proprietary) Limited ("Zenthyme").

The company is a special purpose vehicle incorporated to house unsecured loans originated by Bayport Financial Services 2010 (Proprietary) Limited ("BFS 2010") in South Africa. Management of the company is contracted to BFS 2010.

Zenthyme is an investment holding company that operates in South Africa and holds the investments in the insurance cell captives.

The operating results and state of affairs of the group and company are fully set out in the attached annual financial statements.

#### **2. Subsequent events**

No subsequent events have occurred between 31 December 2022 and the date of approval of the annual financial statements by the board of directors.

#### **3. Going concern**

In performing the going concern assessment, the directors have considered all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to the directors.

As part of the assessment, the directors have considered if there are any material uncertainties relating to events or conditions that might cast significant doubt upon the continuing use of the going concern basis of accounting in future periods.

Uncertainties relating to such events or conditions would be considered material, and therefore disclosed, if their disclosure could reasonably be expected to affect the economic decisions of shareholders and other users of the annual financial statements.

The going concern assessment is a matter of judgement. In making this judgement, the directors have considered the uncertainties arising from their assessment, both individually and in combination with others.

In determining whether there are material uncertainties, the directors have considered:

- the magnitude of the potential impacts of any uncertain future events or changes in conditions on the group and the likelihood of their occurrence in the medium term;
- the realistic availability and likely effectiveness of actions that the directors would consider undertaking to avoid, or reduce the impact or likelihood of occurrence of the uncertain future events or changes in conditions; and
- whether the uncertain future events or changes in conditions are unusual, rather than occurring with sufficient regularity to make predictions about them with a high degree of confidence.

Uncertainties are not considered material if the likelihood that the group will not be able to continue to use the going concern basis of accounting is assessed to be remote, however significant the assessed potential impact may seem.



## Bayport Securitisation (RF) Limited

### Directors' report (continued)

*For the year ended 31 December 2022*

#### 3. Going concern (continued)

In evaluating the group's ability to continue as a going concern during the ensuing twelve months, the following areas, amongst others, have been considered in making the assessment:

- financial performance (both historic and forecasted);
- liquidity (availability of funding as well as cash flow forecasts);
- capital adequacy; and
- the financial health of the consumer (debt to income levels, employment and inflation).

Having taken the aforementioned factors into account, the directors consider the going concern basis of accounting appropriate for the ensuing twelve months.

#### 4. Authorised and issued ordinary and preference share capital

There was no change in ordinary and preference share capital during the year under review.

#### 5. Dividends paid

No dividend was declared or paid to the ordinary or preference shareholders during the 12 months ended 31 December 2022 (2021: R nil).

#### 6. Holding company

The Bayport Securitisation Ownership Trust holds 100% of the ordinary share capital in Bayport Securitisation (RF) Ltd, whilst Bayport Financial Services 2010 (Pty) Ltd holds 100% of the preference share capital.

#### 7. Financial risk management and governance

The board of directors of the company is ultimately responsible for financial risk management and governance. The day-to-day management of the company is the responsibility of BFS 2010 through the authority granted by the board of the company by way of the management agreement between the company and BFS 2010. The shareholders have constituted an audit committee which comprises three independent non-executive directors and meets at least bi-annually. Invitees to the audit committee meetings include the external auditors, the internal auditors and representatives of BFS 2010.

The audit committee assists the board with:

- combined assurance;
- internal audit;
- external audit; and
- corporate governance.

The board has constituted a social and ethics committee to consider the company's activities with regard to matters relating to social and economic development. The committee consists of at least three members elected by the board and the chairman is a non-executive director of the board. The committee meets at least once annually and is accountable to both the board and shareholders.



## Bayport Securitisation (RF) Limited

### Directors' report (continued)

*For the year ended 31 December 2022*

#### 8. Directors

The directors of the company during the accounting period and up to the date of this report were as follows:

| <b>Name</b>          | <b>Position</b>                              | <b>Date appointed</b> |
|----------------------|--|-----------------------|
| Olivia van Gisbergen | Independent non-executive chairman           | 5 December 2018       |
| Nick Clarke          | Alternate independent non-executive director | 29 September 2022     |
| Lood de Jager        | Independent non-executive director           | 26 April 2021         |
| Alfred Ramosedi      | Non-executive director                       | 1 November 2018       |
| RishendrieThanthony  | Independent non-executive director           | 31 January 2013       |

#### 9. External auditor

BDO South Africa Incorporated continued as external auditor of the group.

#### 10. Company secretary

The company secretary during the accounting period and up to the date of this report was as follows:

| <b>Name</b>  | <b>Date appointed</b> |
|--------------|-----------------------|
| Arthur Hlubi | 1 June 2017           |



## Bayport Securitisation (RF) Limited

### Statements of financial position

As at 31 December 2022

| R'000  | Notes | Group            |                  | Company          |                  |
|--|-------|------------------|------------------|------------------|------------------|
|  |       | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| <b>Assets</b>                                    |       |                  |                  |                  |                  |
| Cash   | 19    | 559 842          | 436 892          | 559 519          | 436 587          |
| Trade and other receivables                      | 2     | 82 924           | 61 686           | 99 752           | 105 267          |
| Loans and advances                               | 3     | 3 141 271        | 3 077 783        | 3 141 271        | 3 077 783        |
| Deferred tax assets                              | 4     | 511 136          | 312 520          | 511 136          | 312 520          |
| Investment in subsidiary                         | 5     | -                | -                | 214 040          | 190 302          |
| Other financial assets                           | 6     | 246 638          | 258 036          | -                | -                |
| <b>Total assets</b>                              |       | <b>4 541 811</b> | <b>4 146 917</b> | <b>4 525 718</b> | <b>4 122 459</b> |
| <b>Liabilities</b>                               |       |                  |                  |                  |                  |
| Trade and other payables                         | 7     | 125 310          | 88 616           | 109 216          | 64 158           |
| Interest bearing liabilities                     | 8     | 3 499 596        | 3 169 957        | 3 499 596        | 3 169 957        |
| <b>Total liabilities</b>                         |       | <b>3 624 906</b> | <b>3 258 573</b> | <b>3 608 812</b> | <b>3 234 115</b> |
| <b>Equity</b>                                    |       |                  |                  |                  |                  |
| Share capital and share premium                  | 9     | 1 300 001        | 1 300 001        | 1 300 001        | 1 300 001        |
| Accumulated deficit                              |       | (594 546)        | (599 388)        | (597 135)        | (601 959)        |
| Fair value reserve                               | 6 & 5 | 211 450          | 187 731          | 214 040          | 190 302          |
| Equity attributable to the owners of the company |       | 916 905          | 888 344          | 916 906          | 888 344          |
| <b>Total equity</b>                              |       | <b>916 905</b>   | <b>888 344</b>   | <b>916 906</b>   | <b>888 344</b>   |
| <b>Total equity and liabilities</b>              |       | <b>4 541 811</b> | <b>4 146 917</b> | <b>4 525 718</b> | <b>4 122 459</b> |



## Bayport Securitisation (RF) Limited

### Statements of comprehensive income

For the year ended 31 December 2022

| R'000  | Notes | Group            |                  | Company          |                  |
|--|-------|------------------|------------------|------------------|------------------|
|  |       | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| Interest and other similar income                      | 10    | 819 926          | 861 610          | 819 899          | 861 601          |
| Interest and other similar expenses                    | 10    | (326 834)        | (280 585)        | (326 834)        | (280 585)        |
| <b>Net interest income</b>                             | 10    | 493 092          | 581 025          | 493 065          | 581 016          |
| Impairment of loans and advances                       | 3     | (493 389)        | (448 254)        | (493 389)        | (448 254)        |
| <b>Risk adjusted net interest income</b>               |       | (297)            | 132 771          | (324)            | 132 762          |
| Non-interest income                                    | 11    | 74 749           | 67 147           | 74 749           | 67 147           |
| Direct costs   | 12    | (1 672)          | (3 711)          | (1 670)          | (3 710)          |
| <b>Non interest gross profit</b>                       |       | 73 077           | 63 436           | 73 079           | 63 437           |
| Indirect costs   | 13    | (266 547)        | (282 998)        | (266 547)        | (282 998)        |
| <b>Loss before tax</b>                                 |       | (193 767)        | (86 791)         | (193 792)        | (86 799)         |
| Income tax credit                                      | 14    | 198 609          | 42 140           | 198 616          | 42 143           |
| <b>Profit / (loss) for the year</b>                    |       | 4 842            | (44 651)         | 4 824            | (44 656)         |
| <b>Other comprehensive profit <sup>1</sup></b>         |       |                  |                  |                  |                  |
| Items that will not be reclassified to profit or loss: |       |                  |                  |                  |                  |
| Movement on equity instruments designated at FVOCI     | 6 & 5 | 23 719           | 105 169          | 23 738           | 105 174          |
| <b>Total comprehensive income for the year</b>         |       | 28 561           | 60 518           | 28 562           | 60 518           |

<sup>1</sup> Refer to statement of changes in equity on pages 16 and 17.





## Bayport Securitisation (RF) Limited

### Statements of changes in equity

For the year ended 31 December 2022

#### Group

| R'000   | Share capital and share premium | Fair value reserve | Accumulated deficit | Total equity |
|---|---------------------------------|--------------------|---------------------|--------------|
| <b>Balance at 31 December 2020</b>            | 1 300 001                       | 82 562             | (554 737)           | 827 826      |
| Total comprehensive income / (loss)           | -                               | 105 169            | (44 651)            | 60 518       |
| - Loss for the year                           | -                               | -                  | (44 651)            | (44 651)     |
| - Other comprehensive income                  | -                               | 105 169            | -                   | 105 169      |
| - Revaluation of insurance cells <sup>1</sup> | -                               | -                  | -                   | -            |
| <b>Balance at 31 December 2021</b>            | 1 300 001                       | 187 731            | (599 388)           | 888 344      |
| Total comprehensive income                    | -                               | 23 719             | 4 842               | 28 561       |
| - Profit for the year                         | -                               | -                  | 4 842               | 4 842        |
| - Other comprehensive income                  | -                               | 23 719             | -                   | 23 719       |
| - Revaluation of insurance cells <sup>1</sup> | -                               | -                  | -                   | -            |
| <b>Balance at 31 December 2022</b>            | 1 300 001                       | 211 450            | (594 546)           | 916 905      |

<sup>1</sup> Zenthyme Investments (Proprietary) Limited holds investments in Hollard Business Associates and Guardrisk Life Limited (refer note 6).



## Bayport Securitisation (RF) Limited

### Statements of changes in equity (continued)

For the year ended 31 December 2022

#### Company

| R'000  | Share capital and share premium | Fair value reserve | Accumulated deficit | Total equity   |
|--|---------------------------------|--------------------|---------------------|----------------|
| <b>Balance at 31 December 2020</b>                                 | 1 300 001                       | 85 128             | (557 303)           | 827 826        |
| Total comprehensive (loss) / income                                | -                               | 105 174            | (44 656)            | 60 518         |
| - Loss for the year  | -                               | -                  | (44 656)            | (44 656)       |
| - Other comprehensive income                                       | -                               | 105 174            | -                   | 105 174        |
| - Revaluation of investment in Zenthyme at fair value <sup>1</sup> | -                               | 105 174            | -                   | 105 174        |
| <b>Balance at 31 December 2021</b>                                 | <u>1 300 001</u>                | <u>190 302</u>     | <u>(601 959)</u>    | <u>888 344</u> |
| Total comprehensive income   | -                               | 23 738             | 4 824               | 28 562         |
| - Profit for the year  | -                               | -                  | 4 824               | 4 824          |
| - Other comprehensive income                                       | -                               | 23 738             | -                   | 23 738         |
| - Revaluation of investment in Zenthyme at fair value <sup>1</sup> | -                               | 23 738             | -                   | 23 738         |
| <b>Balance at 31 December 2022</b>                                 | <u>1 300 001</u>                | <u>214 040</u>     | <u>(597 135)</u>    | <u>916 906</u> |

<sup>1</sup> Refer to note 5.



## Bayport Securitisation (RF) Limited

### Statements of cash flows

For the year ended 31 December 2022

| R'000  | Notes | Group            |                  | Company          |                  |
|--|-------|------------------|------------------|------------------|------------------|
|  |       | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| <b>Cash flows from operating activities</b>          |       |                  |                  |                  |                  |
| Cash utilised by operations                          | 15    | (420 446)        | (237 940)        | (420 471)        | (237 948)        |
| Income taxes paid                                    |       | (7)              | (2)              | -                | -                |
| Dividends received                                   | 17    | 79 094           | 41 308           | 99 730           | 20 672           |
| Increase in trade and other receivables              | 2     | (21 238)         | (21 434)         | (21 238)         | (21 434)         |
| Decrease in gross loans and advances                 | 3     | 158 893          | 105 494          | 158 893          | 105 494          |
| (Decrease) / increase in trade payables and accruals | 7     | (23 621)         | 8 468            | (23 621)         | 8 468            |
| <b>Cash utilised by operating activities</b>         |       | <b>(227 325)</b> | <b>(104 106)</b> | <b>(206 707)</b> | <b>(124 748)</b> |
| <b>Cash flows from investing activities</b>          |       |                  |                  |                  |                  |
| Decrease in unlisted investments                     |       | 29 000           | 5 800            | -                | -                |
| <b>Cash generated by investing activities</b>        |       | <b>29 000</b>    | <b>5 800</b>     | <b>-</b>         | <b>-</b>         |
| <b>Cash flows from financing activities</b>          |       |                  |                  |                  |                  |
| (Decrease) in intercompany payables                  | 7     | (8 364)          | (26 436)         | -                | -                |
| (Decrease) / increase in intercompany loans          | 8     | (7 526)          | 28 872           | (7 526)          | 28 872           |
| Increase in senior and mezzanine debt                | 18    | 337 165          | 219 942          | 337 165          | 219 942          |
| <b>Cash generated by financing activities</b>        |       | <b>321 275</b>   | <b>222 378</b>   | <b>329 639</b>   | <b>248 814</b>   |
| <b>Net increase in cash for the year</b>             |       | <b>122 950</b>   | <b>124 072</b>   | <b>122 932</b>   | <b>124 066</b>   |
| Cash at beginning of the year                        |       | 436 892          | 312 820          | 436 587          | 312 521          |
| <b>Cash at end of the year</b>                       | 19    | <b>559 842</b>   | <b>436 892</b>   | <b>559 519</b>   | <b>436 587</b>   |



# Bayport Securitisation (RF) Limited

## Notes to the annual financial statements

*For the year ended 31 December 2022*

### 1. Accounting policies

The annual financial statements of the group and the company are prepared in accordance with International Financial Reporting Standards ('IFRS'), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the going-concern principle and the requirements of the South African Companies Act 71 of 2008.

The group and company's annual financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at fair value (accounting policy 1.2).

The group and company's statement of financial position are presented in order of liquidity. Reference to the current maturities of these financial assets and liabilities are disclosed in the statement of financial position notes and in the analysis of financial assets and liabilities. The accounting policies are consistent with the previous year, except where stated otherwise.

The group has made the following accounting policy election in terms of IFRS, with reference to the detailed accounting policy shown in brackets:

- equity instruments at fair value through other comprehensive income (accounting policy 1.2).

All monetary information and figures presented in these annual financial statements are stated in thousands of South African Rand (R'000), unless otherwise indicated.

The principle accounting policies are set out below:

#### 1.1 Basis of consolidation

##### Subsidiary companies and other controlled entities

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company.

Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. In assessing control, potential voting rights which presently are exercisable or convertible are taken into account.

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Intra-group transactions, balances and unrealised gains or losses are eliminated on consolidation.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements

*For the year ended 31 December 2022*

#### 1. Accounting policies (continued)

##### 1.1 Basis of consolidation (continued)

###### Special purpose entities

Special purpose entities ('SPEs') are entities created to accomplish a narrow and well-defined objective such as the securitisation of a particular asset, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the group and the SPE's risks and rewards, the group concludes that it controls the SPE (including SPEs that are owned by trusts).

The assessment of whether the group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the group and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the group and a SPE and in such instances the group determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the group's voluntary actions change the relationship between the group and a SPE, the group performs a reassessment of control over the SPE.

###### Business combinations

Business combinations are accounted for in accordance with the acquisition method of accounting. Subsidiaries are consolidated from the dates on which the group acquires effective control of the entity. Consolidation ceases from the date control no longer exists.

On acquisition the identifiable assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values. The cost of an acquisition is the fair value of the assets given, liabilities incurred or assumed and equity instruments issued. Any costs directly relating to the acquisition are expensed to profit and loss.

The consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All subsequent changes in the fair value of a contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS. Changes in the fair value of any contingent consideration classified as equity are not recognised. Where a business combination is achieved in stages, the group's previously held interests in the acquired entity are re-measured to fair value at the acquisition date (i.e. the date the group attains control) and the resulting gain or loss, if any, is recognised in profit or loss.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements

*For the year ended 31 December 2022*

#### 1. Accounting policies (continued)

##### 1.1 Basis of consolidation (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or as additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the group obtains all relevant information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

The non-controlling interest in the acquiree is measured at acquisition date either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets (applied on a transaction by transaction basis for all business combinations). The treatment is not an accounting policy choice but is selected for each business combination, and disclosed in the note for business combinations.

##### 1.2 Financial instruments

A financial instrument is defined as a contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

###### Initial recognition

The group initially recognises financial assets and financial liabilities on the date on which the group becomes party to the contractual provisions of the financial instrument.

A financial asset or financial liability is initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The group generally does not reclassify financial instruments between different categories subsequent to initial recognition. Financial assets are reclassified only if the group changes its business model for managing financial assets. In accordance with IFRS 9:

- Financial liabilities can never be reclassified; and
- Financial assets can only be reclassified if there is a change in business model.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 1. Accounting policies (continued)

#### 1.2 Financial instruments (continued)

##### Classification

Financial assets

Financial assets are classified and measured at either:

- amortised cost; or
- fair value through other comprehensive income.

On initial recognition of an equity instrument that is not held for trading, the group may irrevocably elect to present subsequent changes in fair value through other comprehensive income. This election is done on an investment-by-investment basis.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment

The group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, matching the duration of financial assets to the liabilities that are funding those assets or realising cash flows through the sales of the assets;
- how the performance of the portfolio is evaluated and reported to group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated (whether compensation is based on fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. Information about sales activity is considered as part of the overall assessment of how the group's stated objective for managing the financial assets is achieved and how cash flows are realised.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 1. Accounting policies (continued)

##### 1.2 Financial instruments (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (for example, liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payment of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual clause that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the group considers:

- interest rate charged to customers;
- origination fee and service fee charged to customers;
- any other amounts charged to customers (if any);
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the group's claim to cash flows from specified assets (for example, non-recourse asset arrangements); and
- features that modify consideration of time value of money (for example, periodical reset of interest rates).

The group holds a portfolio of loans with a term of between six months to five years. These loans charge customers a fixed interest rate equal to the maximum rate allowed by the National Credit Act [No 34 of 2005] (NCA). Interest rates are changed only in the event of court intervention or if there are any changes to legislation. Term extensions take place if the customer defaults, or through court intervention, and the resulting terms result in contractual cash flows that are solely payments of principal and interest. The group has determined that the contractual cash flows of these loans are solely payments of principal and interest.

Financial assets which have been classified as measured at amortised cost include cash and cash equivalents, trade and other receivables and loans and advances.

Financial liabilities

Financial liabilities are classified and measured at amortised cost.

#### Subsequent measurement

Fair value through other comprehensive income – equity instruments

These instruments are equity instruments which are not held for trading, and upon initial recognition, it is elected that the movements in fair value will be recognised in other comprehensive income. Amounts recognised in other comprehensive income are not reclassified to profit or loss under any circumstances.

Dividend income on these investments is recognised in profit or loss when Bayport becomes entitled to that income.





## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 1. Accounting policies (continued)

##### 1.2 Financial instruments (continued)

Amortised cost

Financial assets which are classified as measured at amortised cost are measured using the effective interest method less any expected credit losses which are recognised in profit or loss. Amortised cost is calculated by taking into account any transaction costs on acquisition as well as fees and costs that are an integral part of the effective interest rate. Origination fees and service fees are both considered to be integral to the effective interest rate. Origination fees are added to the original debt amount and included in the initial measurement of the loan.

Expected credit losses are calculated through the use of an appropriate impairment methodology.

#### Impairment

The group recognises loss allowances for expected credit losses on the following financial assets:

- Loans and advances; and
- Trade and other receivables.

No impairment loss is recognised on equity investments.

Impairments are measured as 12-month expected credit losses upon origination (referred to as stage 1). Where there has been a significant increase in credit risk since initial recognition of a financial asset, the loss allowance is measured as an amount equal to lifetime expected credit losses (referred to as stage 2).

Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit losses.

12-month expected credit losses are the portion of expected credit losses that result from default events on a financial instrument, that are possible within the 12 month period after the reporting date.

Expected credit losses are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit impaired at the reporting date – as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expect to receive) (stages 1 and 2);
- Financial assets that are credit-impaired at the reporting date – as the difference between the gross carrying amount and the present value of estimated future cash flows (stage 3).

Loss allowances for expected credit losses are presented in the statement of financial position as a deduction from the gross carrying amount of the financial asset.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly, since initial recognition. The group considers reasonable and supportable information that is relevant and available without undue cost and effort. This includes both quantitative and qualitative information and analysis, based on the group's historical experience and expert credit assessment and including forward-looking information.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 1. Accounting policies (continued)

##### 1.2 Financial instruments (continued)

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure.

##### Credit risk

The group monitors the borrower's credit risk using contractual delinquencies (CD) (i.e. number of missed contractual payments). An additional credit risk monitor has been imposed whereby an account moves to a cured contractual delinquent (CCD) state by adhering to the curing criteria of:

- the sum of payments in the last three months of at least 75% of the sum of three original instalments;
- where an account has an active payroll deduction then one payment of at least 75% of the original instalment; or
- where an account is in debt review the sum of payments in the last three months of at least 45% of the sum of three original instalments.

When a customer catches up their arrears and becomes fully paid up they move back to CD0 (stage 1).

##### Generating a PD term structure

The PD (probability of default) is the probability that an account enters default at some point in the future, where default is defined as CD4+ and CCD4+. The PD term structure introduces a timing (ageing) element to the PD, where the term structure (life of the loan) is broken down into the annualised periods.

For example, the term structure would consider the following sequence:

- The probability that an account will default in the first year;
- If the account does not default in the first year, what is the probability that the account will default in the second year and then the year after that and then in the following years; and
- This will result in PDs per multiple annual periods.

##### Credit-impaired financial assets

At each reporting date, the group assesses whether financial assets carried at amortised cost are credit-impaired. 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 to 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 group on terms that the group 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.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

*For the year ended 31 December 2022*

#### 1. Accounting policies (continued)

##### 1.2 Financial instruments (continued)

A loan that has been renegotiated due to the deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, an exposure that is overdue for 90 days or more (CD4+ and CCD4+) is considered impaired / in default.

##### Collective versus individual impairment

All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar credit risk characteristics (e.g. on the basis of the collection strategy and contractual delinquency count and months on book).

##### Modelling techniques

In assessing collective impairment the group statistically models the following:

- historical trends of the probability of default;
- timing of recoveries; and
- the amount of loss incurred.

These factors are adjusted for management's judgement regarding whether current economic and credit conditions will result in actual losses that are likely to be greater or less than those suggested by the historical models.

Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual results to ensure that they remain appropriate.

#### **Financial liabilities and equity instruments issued by the group**

##### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group are recognised at the value of the proceeds received, net of direct issue costs.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

*For the year ended 31 December 2022*

#### 1. Accounting policies (continued)

##### 1.2 Financial instruments (continued)

###### Fair value

The fair value of a financial instrument 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.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. Where such evidence is available, the financial instrument is initially measured at its fair value.

The method of determining the fair value of financial instruments is analysed into the following categories:

Level 1: Unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

Level 2: Valuation techniques using market observable inputs, including:

- using recent arm's length market transactions;
- reference to the current fair value of similar instruments; and
- discounted cash flow analysis, pricing models or other techniques commonly used by market participants.

Level 3: Valuation techniques, as described for level 2 above, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The valuation techniques in level 2 and level 3 use inputs such as interest rate yield curves, equity prices, commodity and currency prices / yields, volatilities, and the correlation between inputs. The models used in these valuation techniques are calibrated against industry standards, other similar economic models, and against observed transaction prices, where available.

###### Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position, when there is a legally enforceable right to set off the recognised amounts and there is an intention to realise the asset and settle the liability simultaneously.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

*For the year ended 31 December 2022*

#### 1. Accounting policies (continued)

#### 1.2 Financial instruments (continued)

##### **Derecognition**

Financial assets (or a portion thereof) are derecognised when the group realises the rights to the benefits specified in the contract, the rights expire, the asset is substantially modified or the group surrenders or otherwise loses control of the contractual rights that comprise the financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable (including any new asset obtained) are included in profit or loss.

Financial liabilities (or a portion thereof) are derecognised when the obligation specified in the contract is discharged, cancelled or expires. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and the amount paid for it are included in the statement of comprehensive income.

##### **Full derecognition**

Loans are only fully derecognised when the loan account is settled in the debtors management system. This typically happens after 3 years of non-payment (prescription of debt).

##### **Partial derecognition**

When a customer has not paid any amount in the preceding 12 months and the contractual delinquency is greater than or equal to 12, the group considers there to be no reasonable expectation of recovery. At this point the gross carrying amount of these loans are derecognised to the extent of their carrying value as determined by the expected credit loss model.

A second partial derecognition of the gross carrying amount occurs when a customer that was partially derecognised more than 5 years ago has not paid any amount in the preceding 24 month period.

Partially derecognised loans are categorised as stage 3 for the purposes of calculating expected credit losses.

##### **Modifications**

A loan modification is a permanent change to one or more terms of the loan. Enforcing terms that were present in the original terms of the facility, is not seen to be a loan modification. The group may renegotiate or otherwise modify the contractual cashflows of loans to customers in the normal course of business. These restructures require assessment of qualitative and quantitative factors that need to be considered to establish whether the change to the contractual cashflows is substantial or non-substantial.

In a distressed restructure the group needs to determine whether it is merely attempting to recover the original cashflows, in the most optimal manner, and as such the original cashflows have not expired, or whether the risks and rewards associated with the cashflows have been fundamentally altered for the original loan to be derecognised.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 1. Accounting policies (continued)

#### 1.2 Financial instruments (continued)

##### Modifications (continued)

The group renegotiates loans with customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Such modifications include:

- debt review;
- credit life substitutions;
- administration orders; and
- emolument attachment orders.

The revised terms resulting from the above restructured transactions usually include extending the maturity and adjusting the interest rate. These modifications do not novate the terms of the original credit agreement and are merely an attempt to recover the remaining capital outstanding in the most efficient manner available. As such the group does not derecognise the original loan. In the case of distressed modifications, the original terms of the modified loans are applied when determining the expected credit losses.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime probability of default at the reporting date based on the modified terms; with
- the remaining lifetime probability of default estimated based on data at initial recognition and the original contractual terms.

When modifications take place, the group will perform a qualitative evaluation of whether the cash flows of the original loan have been substantially modified.

##### Qualitative evaluation

Qualitative factors need to be considered to determine if the modification is substantial. Examples of such factors would include the group's intention for modifying the contract:

- The group modified the contract due to the customer's credit risk which has increased due to retrenchment etc;
- The group modified the contract for a strategic business reason such as in order to be competitive in the market; or
- The group modified the contract in an attempt to recover the original contractual amounts outstanding as part of a distressed modification and hence the terms are not substantially different to the original terms.

#### 1.3 Interest income

Interest income is recognised in profit or loss for all instruments measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to the gross carrying amount of the financial asset. When calculating the effective interest rate for financial instruments other than credit-impaired assets, the group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

*For the year ended 31 December 2022*

#### 1. Accounting policies (continued)

##### 1.3 Interest income (continued)

For credit impaired financial assets, interest income is recognised by applying the effective interest rate to the net carrying value, being the gross carrying value after deducting the impairment provision for expected credit losses. The group accordingly ceases to recognise, in profit or loss, the portion of the contractual interest charged on credit impaired assets, thus equating to the result of the net carrying value of the credit impaired exposure being multiplied by the applicable effective interest rate.

The calculation of the effective interest rate includes transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Monthly services fees are regarded as an integral part of the effective interest rate and are accounted for as interest income.

Incremental collection costs are excluded from the calculation of the effective interest rate.

##### 1.4 Monthly service fees

These are fees which form an integral part of the effective interest rate and are charged to customers on a monthly basis. These fees are recognised as part of the effective interest rate over the shorter of the original contractual term and the actual term of the loans and receivables.

##### 1.5 Interest expense

Interest expense comprise interest on borrowings, debentures and other costs incurred in connection with the borrowing of funds.

Interest expense is recognised in the period in which it is incurred using the effective interest method except to the extent in which it meets the criteria for capitalisation against a qualifying asset in which case it is capitalised as part of the cost of the asset.

##### 1.6 Non-interest income

Dividends are recognised in profit or loss when the right to receive payment is established.

##### 1.7 Direct costs

Direct costs comprise funding and listing fees expensed during the year directly attributable to the borrowing of funds and the collection of loans and advances.

##### 1.8 Investments in subsidiaries

Investments in subsidiaries are accounted for at fair value with movements recorded through other comprehensive income.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 1. Accounting policies (continued)

##### 1.9 Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid instruments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

On the statement of cashflows, cash and cash equivalents comprise:

- Balances with banks
- Money on call deposits

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes and are carried at cost, which due to their short-term nature, approximate fair value.

There are two cash reserves held within the group:

- The capital redemption reserve is a cash reserve requirement during the six months prior to the maturity date of any class A, B or C note that is repayable as a bullet payment; and
- The liquidity reserve is a cash reserve of R250 million held within the group.

##### 1.10 Share capital

Proceeds received upon the issuance of shares are included in equity, net of directly attributable transaction costs. Dividends and other distributions made to equity holders are recognised as a reduction in equity when they are no longer at the discretion of the entity.

##### 1.11 Taxation

###### Current

The charge for current tax is based on the results for the year adjusted for items which are tax exempt or are not tax deductible. Tax is calculated using rates that have been enacted or substantively enacted by financial year-end.

###### Deferred tax

Deferred tax is calculated using the liability method.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit or taxable profit nor a tax loss.

Deferred tax is calculated using taxation rates that have been enacted or substantially enacted at financial year-end. The effect on deferred tax of any changes in taxation rates is charged to profit or loss, except to the extent that it relates to items previously charged or credited directly to equity in which case the deferred tax is charged to equity.

Deferred tax assets are recognised to the extent that it is probable that future profits will be available against which the associated tax deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.





## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 1. Accounting policies (continued)

##### 1.11 Taxation (continued)

###### Indirect taxation

Indirect taxation in the form of non-claimable value-added tax (VAT) on expenses is disclosed as indirect costs in the statement of comprehensive income. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

##### 1.12 Dividends paid

Dividends are recognised against equity in the period in which they are approved by the company's directors. Dividends declared after the reporting date are not recognised but disclosed as a post reporting date event.

##### 1.13 Segment reporting

The group operates as one segment. All disclosure in the annual financial statements is provided as the primary segment.

##### 1.14 Management estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. This forms the basis of making the judgements on carrying values of assets or liabilities that are not otherwise readily apparent. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Certain accounting policies have been identified as involving particularly complex or subjective judgements or assessments, as follows:

###### Deferred tax

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in future against which it can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation, taxation rates and competitive forces.

###### Valuation of Hollard Business Associates (HBA) / Guardrisk investments

The investments in HBA and Guardrisk are classified as fair value through other comprehensive income. The valuation methodology applied is a discounted cash flow of the future expected cash flows i.e. dividends and capital on a rundown basis including one year of new business. Dividends and capital are discounted from the point of distribution to the present time at the risk free rate plus a constant risk margin. Net gains or losses recognised do not include dividend income.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 1. Accounting policies (continued)

##### 1.14 Management estimates (continued)

###### Impairment of financial assets

Financial assets are impaired using the approach prescribed in IFRS 9, unless the asset is considered to be credit impaired on initial recognition, in which case those specific requirements as contained in IFRS 9 will be applied. The estimation of impairments of financial assets is inherently uncertain and depends on many factors, including general economic conditions (current and forward-looking), structural changes within industries, changes in individual customer circumstances and other external factors such as legal requirements, regulatory specifications and governmental policy changes.

Upon origination of financial assets, impairments measured at 12-month expected credit losses will be provided. Impairments measured at lifetime expected credit losses will be provided on financial assets whose credit risk that has increased significantly since initial recognition. Impairments measured at lifetime expected credit losses will also be provided on financial assets that are credit-impaired.

###### Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount. They are recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities and contingent assets are not recognised but disclosed (if any) in the annual financial statements.

##### 1.15 New and amended accounting standards and interpretations

| IFRS / IAS and title  | Details of change  | Effective for periods beginning on or after: |
|---|--|--|
| Annual Improvements to IFRS: 2018-2020 Cycle                        | In May 2020, the IASB issued minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.  | 1 January 2022                               |
| Conceptual Framework for Financial Reporting (Amendments to IFRS 3) | In May 2020, the IASB issued amendments to IFRS 3, which update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments introduce an exception to the general recognition requirement for liabilities and contingent liabilities acquired in a business combination that is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRIC 12 Service Concession arrangements. | 1 January 2022                               |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 1. Accounting policies (continued)

##### 1.15 New and amended accounting standards and interpretations (continued)

| IFRS / IAS and title  | Details of change   | Effective for periods beginning on or after: |
|---|---|--|
| IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Cost of Fulfilling a Contract) | In May 2020, the IASB issued amendments to IAS 37, added paragraph 68A to specify which costs an entity includes in determining the cost of fulfilling a contract for the purposes of assess whether the contract is onerous. These amendments are expected to result in more contracts being accounted for as onerous contracts because they increase the scope of costs that are included in the onerous contract assessment. | 1 January 2022                               |

The above amendment to the standards has not had a material impact on the group's annual financial statements.

##### 1.16 New standards or amendments issued but not yet effective

| IFRS / IAS and title        | Details of change  | Effective for periods beginning on or after: |
|-----------------------------|--|--|
| IFRS 17 Insurance Contracts | <p>IFRS 17 introduces an internationally consistent approach to the accounting for insurance contracts. Prior to IFRS 17, significant diversity has existed worldwide relating to the accounting for and disclosure of insurance contracts, with IFRS 4 permitting many previous (non-IFRS) accounting approaches to continue to be followed. IFRS 17 will result in significant changes for many insurers, requiring adjustments to existing systems and processes. The new standard takes the view that insurance contracts combine features of a financial instrument and a service contract, and that many generate cash flows that vary substantially over time. It therefore takes the approach of:</p> <ul style="list-style-type: none"><li>• Combining current measurement of future cash flows with recognising profit over the period that services are provided under the contract</li><li>• Presenting insurance service results (including insurance revenue) separately from insurance finance income or expenses, and</li><li>• Requiring an entity to make an accounting policy choice for each portfolio whether to recognise all insurance finance income or expenses for the reporting period in profit or loss, or to recognise some in other comprehensive income.</li></ul> <p>Subsequent to the issue of IFRS 17, amendments to the standard and deferral of effective dates have been made.</p> | 1 January 2023                               |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 1. Accounting policies (continued)

##### 1.16 New standards or amendments issued but not yet effective (continued)

| IFRS / IAS and title  | Details of change  | Effective for periods beginning on or after: |
|---|--|--|
| Disclosure of Accounting Policies (Amendment to IAS 1 and IFRS Practice Statement 2)                    | In February 2021, the IASB issued amendments to IAS 1, which change the disclosure requirements with respect to accounting policies from 'significant accounting policies' to 'material accounting policy information'. The amendments provide guidance on when accounting policy information is likely to be considered material. The amendments to IAS 1 are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. As IFRS Practice Statements are non-mandatory guidance, no mandatory effective date has been specified for the amendments to IFRS Practice Statement 2.  | 1 January 2023                               |
| Definition of Accounting Estimates (Amendment to IAS 8)   | In February 2021, the IASB issued amendments to IAS 8, which added the definition of Accounting Estimates in IAS 8. The amendments also clarified that the effects of a change in an input or measurement technique are changes in accounting estimates, unless resulting from correction of prior period errors.  | 1 January 2023                               |
| Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) | <p>In May 2021, the IASB issued amendments to IAS 12, which clarify whether the initial recognition exemption applies to certain transactions that result in both an asset and a liability being recognised simultaneously (e.g. a lease in the scope of IFRS 16). The amendments introduce an additional criterion for the initial recognition exemption under IAS 12.15, whereby the exemption does not apply to the initial recognition of an asset or liability which at the time of the transaction, gives rise to equal taxable and deductible temporary differences.</p> <p>Subsequent to the release of amendments to IAS 1 Classification of Liabilities as Current or Non-Current, the IASB amended IAS 1 further in October 2022. If an entity's right to defer is subject to the entity complying with specified conditions, such conditions affect whether that right exists at the end of the reporting period, if the entity is required to comply with the condition on or before the end of the reporting period and not if the entity is required to comply with the conditions after the reporting period. The amendments also provide clarification on the meaning of 'settlement' for the purpose of classifying a liability as current or non-current.</p> | 1 January 2023                               |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 1. Accounting policies (continued)

##### 1.16 New standards or amendments issued but not yet effective (continued)

| IFRS / IAS and title   | Details of change  | Effective for periods beginning on or after: |
|--|--|--|
| IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-Current) | The IASB issued amendments to IAS 1 - Classification of Liabilities as Current or Non-current in January 2020, which have been further amended partially by amendments Non-current Liabilities with Covenants issued in October 2022. The amendments require that an entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement for at least twelve months after the reporting period. As a result of the COVID-19 pandemic, the Board deferred the effective date of the amendments by one year to annual reporting periods beginning on or after 1 January 2024. | 1 January 2024                               |

The impact of adopting IFRS 17 Insurance Contracts for the financial year ended 31 December 2023 is still being assessed. The remaining standards and amendments are not expected to have a material impact on the group's annual financial statements.

| R'000  | Group            |                  | Company          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| <b>2. Trade and other receivables</b>                    |                  |                  |                  |                  |
| Prepayments  | 2 230            | 119              | 2 230            | 119              |
| Receivable from West Road South No. 4 (Pty) Ltd          | 79 923           | 59 904           | 79 923           | 59 904           |
| Value added taxation receivable                          | 771              | 1 663            | 771              | 1 663            |
| Dividends receivable from Zenthyme Investments (Pty) Ltd | -                | -                | 16 828           | 43 581           |
|  | <u>82 924</u>    | <u>61 686</u>    | <u>99 752</u>    | <u>105 267</u>   |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

| R'000  | Group            |                  | Company          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| <b>3. Loans and advances</b>                   |                  |                  |                  |                  |
| Gross loans and advances                       | 5 457 953        | 5 616 846        | 5 457 953        | 5 616 846        |
| Allowance for impairment                       | (2 316 682)      | (2 539 063)      | (2 316 682)      | (2 539 063)      |
|  | <u>3 141 271</u> | <u>3 077 783</u> | <u>3 141 271</u> | <u>3 077 783</u> |
| <b>Gross loans and advances by asset type:</b> |                  |                  |                  |                  |
| Unsecured loans                                | <u>5 457 953</u> | <u>5 616 846</u> | <u>5 457 953</u> | <u>5 616 846</u> |

The above values approximate fair values. Loans and advances are ceded as security for interest bearing liabilities issued by the company (refer note 8). The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of the loan extended. However, other credit enhancements such as credit insurance provide additional security.

Loans and advances and the related allowance for impairment are split into IFRS 9 stages in note 21.1.2.

| R'000  | Group              |                    | Company            |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | 31 December 2022   | 31 December 2021   | 31 December 2022   | 31 December 2021   |
| <b>Allowance for impairment</b>  |                    |                    |                    |                    |
| Balance at beginning of the year   | (2 539 063)        | (2 628 436)        | (2 539 063)        | (2 628 436)        |
| Impairment of loans and advances   | (551 236)          | (634 938)          | (551 236)          | (634 938)          |
| Impairments purchased from Bayport Tutari (RF) (Pty) Ltd                   | (14 168)           | (8 445)            | (14 168)           | (8 445)            |
| Utilisation of allowance for write-offs                                    | 787 785            | 732 756            | 787 785            | 732 756            |
| Balance at end of the year   | <u>(2 316 682)</u> | <u>(2 539 063)</u> | <u>(2 316 682)</u> | <u>(2 539 063)</u> |
| <b>Impairment expense in profit or loss</b>                                |                    |                    |                    |                    |
| Impairment of loans and advances   | (551 236)          | (634 938)          | (551 236)          | (634 938)          |
| Interest in suspense on credit-impaired loans and advances (refer note 10) | 57 847             | 186 684            | 57 847             | 186 684            |
| <b>Net impairment expense recognised in profit or loss</b>                 | <u>(493 389)</u>   | <u>(448 254)</u>   | <u>(493 389)</u>   | <u>(448 254)</u>   |
| <b>Related credit risk exposure:</b>                                       |                    |                    |                    |                    |
| Maximum exposure to credit losses of loans and advances                    | <u>3 141 271</u>   | <u>3 077 783</u>   | <u>3 141 271</u>   | <u>3 077 783</u>   |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

| R'000   | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| <b>4. Deferred tax assets</b>                       |                  |                  |                  |                  |
| Deferred tax assets                                 | <u>511 136</u>   | <u>312 520</u>   | <u>511 136</u>   | <u>312 520</u>   |
| <b>Movements during the year:</b>                   |                  |                  |                  |                  |
| Deferred tax asset at beginning of year             | 312 520          | 270 377          | 312 520          | 270 377          |
| Tax credit to the statement of comprehensive income | 198 616          | 42 143           | 198 616          | 42 143           |
| Net deferred tax asset at end of the year           | <u>511 136</u>   | <u>312 520</u>   | <u>511 136</u>   | <u>312 520</u>   |

On 23 February 2022 the South African Minister of Finance announced a reduction in the corporate income tax rate from 28% to 27% for years of assessment ending on or after 31 March 2023. This tax rate reduction has resulted in write-downs of the deferred tax asset of R14m and the unrecognised deferred tax asset of R8m for the financial year ended 31 December 2022. These write-downs occurred prior to the R138m previously unrecognised deferred tax asset (discussed on the next page) being recognised. The R138m previously unrecognised deferred tax asset was recognised using a corporate income tax rate of 27%.

#### Group and company

| R'000  | Opening balance | Tax (charge) / credit due to: |                 | Closing balance |
|--|-----------------|-------------------------------|-----------------|-----------------|
|  |                 | Timing differences            | Tax rate change |                 |
| <b>2022</b>  |                 |                               |                 |                 |
| Impairment of loans and advances                   | 216 148         | (179 679)                     | 3 623           | 40 092          |
| Estimated tax losses                               | 100 052         | 391 638                       | (17 560)        | 474 130         |
| Revenue and expense recognition timing differences | (3 680)         | 480                           | 114             | (3 086)         |
| <b>Net deferred tax assets</b>                     | <u>312 520</u>  | <u>212 439</u>                | <u>(13 823)</u> | <u>511 136</u>  |
| <b>2021</b>  |                 |                               |                 |                 |
| Impairment of loans and advances                   | 232 849         | (16 701)                      | -               | 216 148         |
| Estimated tax losses                               | 41 882          | 58 170                        | -               | 100 052         |
| Revenue and expense recognition timing differences | (4 354)         | 674                           | -               | (3 680)         |
| <b>Net deferred tax assets</b>                     | <u>270 377</u>  | <u>42 143</u>                 | <u>-</u>        | <u>312 520</u>  |

In accordance with IAS12: Income Taxes the recognition of previously unrecognised deferred tax assets should be reassessed on an annual basis. In addition, deferred tax assets should be recognised only to the extent that it is probable that there will be future taxable profit against which deductible temporary differences can be recognised.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

#### For the year ended 31 December 2022

#### 4. Deferred tax assets (continued)

For the financial year ended 31 December 2022 management recognised R138m of the previously unrecognised deferred tax asset. This amount was calculated using the expected future taxable income as determined through the 2022 board approved budget. The budget incorporates strategies to increase loan origination levels and thereby improve the loan book in both size and credit quality. These strategies are expected to materialise sometime in the next 18 months and therefore a probability weighted assessment was performed for the recognition of the previously unrecognised deferred tax asset. For the financial year ended 31 December 2021 management did not recognise any previously unrecognised deferred tax asset.

The unrecognised deferred tax assets arose as a result of historical methodology adjustments to impairment calculations and tax losses. As at 31 December 2022 the unrecognised asset was R93m (2021: R239m) comprising of R26m relating to tax losses and R67m relating to impairment timing differences (2021: R27m and R212m respectively).

| R'000 | Group               |                     | Company             |                     |
|-------|---------------------|---------------------|---------------------|---------------------|
|       | 31 December<br>2022 | 31 December<br>2021 | 31 December<br>2022 | 31 December<br>2021 |

#### 5. Investment in subsidiary

Zenthyme Investments (Pty) Ltd

|                        |          |          |                |                |
|------------------------|----------|----------|----------------|----------------|
| Donated shares at cost | -        | -        | -              | -              |
| Fair value reserve     | -        | -        | 214 040        | 190 302        |
|                        | <u>-</u> | <u>-</u> | <u>214 040</u> | <u>190 302</u> |

The increase in the fair value reserve of R23 738 000 for the year under review (2021: R105 174 000) is included as other comprehensive income in the company's statement of comprehensive income.

| R'000 | Group               |                     | Company             |                     |
|-------|---------------------|---------------------|---------------------|---------------------|
|       | 31 December<br>2022 | 31 December<br>2021 | 31 December<br>2022 | 31 December<br>2021 |

#### 6. Other financial assets

##### Investments in insurance cells

|                      |                |                |          |          |
|----------------------|----------------|----------------|----------|----------|
| Shares at cost       | 18 360         | 47 360         | -        | -        |
| Fair value reserve   | 211 450        | 187 731        | -        | -        |
| Dividends receivable | 16 828         | 22 945         | -        | -        |
|                      | <u>246 638</u> | <u>258 036</u> | <u>-</u> | <u>-</u> |

##### Investments in insurance cells

The investments consist of 50 (2021: 50) "AB" ordinary shares in Hollard Business Associates (Proprietary) Limited ("HBA") and 4 (2021: 4) "L" ordinary shares in Guardrisk Life Limited held by Zenthyme Investments (Proprietary) Limited.

The increase in the fair value reserve of R23 719 000 for the year under review (2021: R105 169 000) is included as other comprehensive income in the group's statement of comprehensive income. The fair value is determined in accordance with the method documented in note 21.7.





## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

| R'000  | Group            |                  | Company          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| <b>7. Trade and other payables</b>                           |                  |                  |                  |                  |
| Trade payables and accruals                                  | 22 377           | 45 998           | 22 377           | 45 998           |
| Interest payable   | 82 331           | 13 652           | 82 331           | 13 652           |
| Payable to Bayport Financial Services 2010 (Pty) Ltd         | 16 094           | 24 458           | -                | -                |
| Payable to Bayport Tutari (RF) (Pty) Ltd                     | 4 508            | 4 508            | 4 508            | 4 508            |
|  | <u>125 310</u>   | <u>88 616</u>    | <u>109 216</u>   | <u>64 158</u>    |
| <b>8. Interest bearing liabilities</b>                       |                  |                  |                  |                  |
| <b>Debentures and loans</b>                                  |                  |                  |                  |                  |
| Senior debt  | 2 417 157        | 2 213 992        | 2 417 157        | 2 213 992        |
| Mezzanine debt   | 712 300          | 578 300          | 712 300          | 578 300          |
| Junior debentures: Bayport Financial Services 2010 (Pty) Ltd | 199 000          | 199 000          | 199 000          | 199 000          |
| Loan: Bayport Financial Services 2010 (Pty) Ltd              | 171 139          | 178 665          | 171 139          | 178 665          |
|  | <u>3 499 596</u> | <u>3 169 957</u> | <u>3 499 596</u> | <u>3 169 957</u> |
| Payable within 12 months                                     | 859 976          | 906 608          | 859 976          | 906 608          |
| Payable thereafter   | 2 639 620        | 2 263 349        | 2 639 620        | 2 263 349        |
|  | <u>3 499 596</u> | <u>3 169 957</u> | <u>3 499 596</u> | <u>3 169 957</u> |
| Fixed rate loans   | 548 700          | 582 700          | 548 700          | 582 700          |
| Variable rate loans  | 2 950 896        | 2 587 257        | 2 950 896        | 2 587 257        |
|  | <u>3 499 596</u> | <u>3 169 957</u> | <u>3 499 596</u> | <u>3 169 957</u> |
| Undrawn facility at year end                                 | <u>-</u>         | <u>-</u>         | <u>-</u>         | <u>-</u>         |

The company is not in breach or default of any provisions of the terms or conditions of the agreements governing borrowings.

A maturity analysis of actual future cash flows is included in the liquidity risk management section (refer to note 21.3).

The company operates in accordance with the Bayport Securitisation Programme Memorandum which stipulates how the priority of payments is to be affected.

The company has appointed Transaction Capital Recoveries as the stand-by administrator who can step into the role of manager if called upon to do so by the senior noteholders.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 8. Interest bearing liabilities (continued)

Johannesburg Interbank Average Rate ("JIBAR") is the only interbank interest rate benchmark used to calculate the interest expense on the group's liabilities. The South African Reserve Bank ("SARB") announced that it intends replacing JIBAR with the South African Rand Overnight Index Average ("ZARONIA") at some future point. Current expectations are that the replacement will occur in 2024.

The SARB began publishing ZARONIA rates with effect from 1 November 2022 but instructed that these rates should not be used in financial contracts to replace JIBAR until advised otherwise.

The financial impact of the conversion from JIBAR to ZARONIA cannot be calculated at present.

#### Senior debt – group and company

| 2022                | Balance<br>R'000 | Interest                               | Maturity                           |
|---------------------|------------------|--|------------------------------------|
| Fixed rate loans    | 510 700          | 12.18%                                 | 31 March 2026                      |
| Variable rate loans | 1 906 457        | JIBAR plus 3.8% to<br>JIBAR plus 5.0%  | 31 March 2023 to 30 September 2027 |
|                     | <u>2 417 157</u> |  |                                    |
| 2021                | Balance<br>R'000 | Interest                               | Maturity                           |
| Fixed rate loans    | 544 700          | 11.17% to 12.18%                       | 31 March 2023 to 31 March 2026     |
| Variable rate loans | 1 669 292        | JIBAR plus 3.65% to<br>JIBAR plus 5.5% | 31 March 2022 to 30 September 2024 |
|                     | <u>2 213 992</u> |  |                                    |

#### The following has been ceded as security for senior debt:

- Pledge and cession of the company's title and interest in loans and advances (refer note 3); and
- The bank accounts of the company (refer note 19).

#### Mezzanine debt – group and company

| 2022                | Balance<br>R'000 | Interest                                | Maturity                                  |
|---------------------|------------------|---|---|
| Variable rate loans | 712 300          | JIBAR plus 6.15% to<br>JIBAR plus 6.75% | 30 September 2023 to<br>30 June 2026      |
|                     | <u>712 300</u>   |   |   |
| 2021                | Balance<br>R'000 | Interest                                | Maturity                                  |
| Variable rate loans | 578 300          | JIBAR plus 6.25% to<br>JIBAR plus 6.75% | 30 September 2022 to<br>30 September 2024 |
|                     | <u>578 300</u>   |   |   |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 8. Interest bearing liabilities (continued)

##### Junior debentures

##### Group and company (2022 and 2021)

Junior debentures are made up of the following tranches:

| Start date        | Repayment date | Interest rate    | Balance<br>R'000 |
|-------------------|----------------|------------------|------------------|
| 30 September 2010 | 2 July 2035    | Prime plus 1.5%  | 34 000           |
| 30 September 2010 | 2 July 2035    | 17.01% per annum | 13 000           |
| 30 September 2010 | 2 July 2035    | 18.69% per annum | 25 000           |
| 17 May 2010       | 2 July 2035    | Prime plus 2%    | 27 000           |
| 16 April 2010     | 2 July 2035    | JIBAR plus 7.12% | 50 000           |
| 16 April 2010     | 2 July 2035    | Prime plus 1.5%  | 50 000           |
|                   |                |                  | 199 000          |

##### Loan from Bayport Financial Services 2010 (Proprietary) Limited

The R171 million loan from Bayport Financial Services 2010 (Proprietary) Limited at 31 December 2022 is non-interest bearing (2021: R179 million). There are no fixed repayment terms.

| R'000 | Group               |                     | Company             |                     |
|-------|---------------------|---------------------|---------------------|---------------------|
|       | 31 December<br>2022 | 31 December<br>2021 | 31 December<br>2022 | 31 December<br>2021 |

#### 9. Share capital and share premium

##### Authorised share capital

|   |     |     |     |     |
|---|-----|-----|-----|-----|
| 100 non-redeemable preference shares of R1 each | 0.1 | 0.1 | 0.1 | 0.1 |
| 45 ordinary shares of R20 each                  | 0.9 | 0.9 | 0.9 | 0.9 |
|   | 1.0 | 1.0 | 1.0 | 1.0 |

##### Issued share capital

|   |     |     |     |     |
|---|-----|-----|-----|-----|
| 100 non-redeemable preference shares of R1 each | 0.1 | 0.1 | 0.1 | 0.1 |
| 25 ordinary shares of R20 each                  | 0.5 | 0.5 | 0.5 | 0.5 |

##### Share premium

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| Share premium on buy-back and re-issue of 1 preference share | 1 300 000.0 | 1 300 000.0 | 1 300 000.0 | 1 300 000.0 |
|  | 1 300 000.6 | 1 300 000.6 | 1 300 000.6 | 1 300 000.6 |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

| R'000   | Group               |                     | Company             |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | 31 December<br>2022 | 31 December<br>2021 | 31 December<br>2022 | 31 December<br>2021 |
| <b>10. Net interest income</b>  |                     |                     |                     |                     |
| <b>Interest and other similar income is earned from:</b>                |                     |                     |                     |                     |
| Loans and advances  | 813 576             | 987 302             | 813 576             | 987 302             |
| Interest in suspense on credit-impaired loans and advances <sup>1</sup> | (57 847)            | (186 684)           | (57 847)            | (186 684)           |
|   | <u>755 729</u>      | <u>800 618</u>      | <u>755 729</u>      | <u>800 618</u>      |
| Cash  | 33 354              | 19 436              | 33 327              | 19 427              |
| Service fees  | 30 843              | 41 556              | 30 843              | 41 556              |
|   | <u>819 926</u>      | <u>861 610</u>      | <u>819 899</u>      | <u>861 601</u>      |
| <b>Interest and other similar expenses are paid on:</b>                 |                     |                     |                     |                     |
| Interest bearing liabilities  | <u>326 834</u>      | <u>280 585</u>      | <u>326 834</u>      | <u>280 585</u>      |
| Interest and other similar income                                       | 819 926             | 861 610             | 819 899             | 861 601             |
| Interest and other similar expense                                      | (326 834)           | (280 585)           | (326 834)           | (280 585)           |
|   | <u>493 092</u>      | <u>581 025</u>      | <u>493 065</u>      | <u>581 016</u>      |
| <b>11. Non-interest income</b>  |                     |                     |                     |                     |
| Dividends received from:  |                     |                     |                     |                     |
| - Zenthyme Investments (Pty) Ltd  | -                   | -                   | 72 977              | 64 253              |
| - Hollard Business Associates (HBA)                                     | -                   | -                   | -                   | -                   |
| - Guardrisk Life Limited  | 72 977              | 64 253              | -                   | -                   |
| Legal collection costs on-charged to customers                          | 1 723               | 2 735               | 1 723               | 2 735               |
| Sundry income   | 49                  | 159                 | 49                  | 159                 |
|   | <u>74 749</u>       | <u>67 147</u>       | <u>74 749</u>       | <u>67 147</u>       |

<sup>1</sup> The debtors management system records the gross carrying amount of loans and calculates interest income on these gross balances. IFRS 9 and the group's interest income accounting policy (refer note 1.3) requires interest income to be calculated on the net carrying value (gross carrying value less impairment provision for expected credit losses) for credit-impaired loans. Therefore a reallocation between interest income and impairment expense is made for the interest income on the difference between the gross and net carrying values of credit-impaired loans.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

| R'000                        | Group            |                  | Company          |                  |
|------------------------------|------------------|------------------|------------------|------------------|
|                              | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| <b>12. Direct costs</b>      |                  |                  |                  |                  |
| Transactional costs          | 59               | 79               | 57               | 78               |
| Funding and listing fees     | 1 612            | 3 631            | 1 612            | 3 631            |
| Legal collection costs       | 1                | 1                | 1                | 1                |
|                              | <u>1 672</u>     | <u>3 711</u>     | <u>1 670</u>     | <u>3 710</u>     |
| <b>13. Indirect costs</b>    |                  |                  |                  |                  |
| Management fees              | 234 451          | 251 616          | 234 451          | 251 616          |
| VAT not claimed <sup>1</sup> | 31 528           | 30 777           | 31 528           | 30 777           |
| Directors fees               | 260              | 249              | 260              | 249              |
| Compliance costs             | 248              | 281              | 248              | 281              |
| Consulting fees              | 60               | 75               | 60               | 75               |
|                              | <u>266 547</u>   | <u>282 998</u>   | <u>266 547</u>   | <u>282 998</u>   |

<sup>1</sup> Only a portion of input VAT can be claimed as goods and services are not acquired exclusively in the course of making taxable supplies.

#### 14. Income tax credit

South African normal taxation:

|                   |                |               |                |               |
|-------------------|----------------|---------------|----------------|---------------|
| Current taxation  | (7)            | (3)           | -              | -             |
| Current year      | (7)            | (3)           | -              | -             |
| Prior year        | -              | -             | -              | -             |
| Deferred taxation | 198 616        | 42 143        | 198 616        | 42 143        |
| Current year      | 198 616        | 42 143        | 198 616        | 42 143        |
| Prior year        | -              | -             | -              | -             |
|                   | <u>198 609</u> | <u>42 140</u> | <u>198 616</u> | <u>42 143</u> |

#### Tax rate reconciliation:

|   |             |            |             |            |
|---|-------------|------------|-------------|------------|
| South African corporate tax rate                            | 28%         | 28%        | 28%         | 28%        |
| Dividends received not taxable                              | 10%         | 21%        | 10%         | 21%        |
| Write-down of deferred tax assets to 27% corporate tax rate | (7%)        | -          | (7%)        | -          |
| Recognition of off-balance sheet deferred tax               | 71%         | -          | 71%         | -          |
| Effective tax rate  | <u>102%</u> | <u>49%</u> | <u>102%</u> | <u>49%</u> |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

| R'000  | Group               |                     | Company             |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | 31 December<br>2022 | 31 December<br>2021 | 31 December<br>2022 | 31 December<br>2021 |
| <b>15. Cash utilised by operations</b>           |                     |                     |                     |                     |
| Loss before tax                                  | (193 767)           | (86 791)            | (193 792)           | (86 799)            |
| Deduct interest income                           | (789 083)           | (820 054)           | (789 056)           | (820 045)           |
| Add back interest expenses                       | 326 834             | 280 585             | 326 834             | 280 585             |
| Add back interest received                       | 789 083             | 820 054             | 789 056             | 820 045             |
| Deduct interest paid                             | (258 155)           | (278 108)           | (258 155)           | (278 108)           |
| Adjusted for non-cash items:                     |                     |                     |                     |                     |
| Movement in allowance for impairment             | (222 381)           | (89 373)            | (222 381)           | (89 373)            |
| Dividends received                               | (72 977)            | (64 253)            | (72 977)            | (64 253)            |
|  | <u>(420 446)</u>    | <u>(237 940)</u>    | <u>(420 471)</u>    | <u>(237 948)</u>    |
| <b>16. Income taxes paid</b>                     |                     |                     |                     |                     |
| Amounts receivable at beginning of the year      | -                   | (1)                 | -                   | -                   |
| Charged in the statement of comprehensive income | 7                   | 3                   | -                   | -                   |
| Amounts receivable at end of the year            | -                   | -                   | -                   | -                   |
|  | <u>7</u>            | <u>2</u>            | <u>-</u>            | <u>-</u>            |
| <b>17. Dividends received</b>                    |                     |                     |                     |                     |
| Amounts receivable at beginning of the year      | 22 945              | -                   | 43 581              | -                   |
| Dividends declared for the year                  | 72 977              | 64 253              | 72 977              | 64 253              |
| Amounts receivable at end of the year            | (16 828)            | (22 945)            | (16 828)            | (43 581)            |
|  | <u>79 094</u>       | <u>41 308</u>       | <u>99 730</u>       | <u>20 672</u>       |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

| R'000  | Group               |                     | Company             |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | 31 December<br>2022 | 31 December<br>2021 | 31 December<br>2022 | 31 December<br>2021 |
| <b>18. Increase in senior and mezzanine debt</b> |                     |                     |                     |                     |
| Senior debt:                                     |                     |                     |                     |                     |
| Carrying value at beginning of the year          | 2 213 992           | 1 992 350           | 2 213 992           | 1 992 350           |
| Raising new debt                                 | 1 114 000           | 984 549             | 1 114 000           | 984 549             |
| Debt repayments                                  | (910 835)           | (762 907)           | (910 835)           | (762 907)           |
| Carrying value at end of the year                | <u>2 417 157</u>    | <u>2 213 992</u>    | <u>2 417 157</u>    | <u>2 213 992</u>    |
| Mezzanine debt:                                  |                     |                     |                     |                     |
| Carrying value at beginning of the year          | 578 300             | 580 000             | 578 300             | 580 000             |
| Raising new debt                                 | 545 300             | 76 300              | 545 300             | 76 300              |
| Debt repayments                                  | (411 300)           | (78 000)            | (411 300)           | (78 000)            |
| Carrying value at end of the year                | <u>712 300</u>      | <u>578 300</u>      | <u>712 300</u>      | <u>578 300</u>      |
| Senior and mezzanine debt:                       |                     |                     |                     |                     |
| Raising new debt                                 | 1 659 300           | 1 060 849           | 1 659 300           | 1 060 849           |
| Debt repayments                                  | (1 322 135)         | (840 907)           | (1 322 135)         | (840 907)           |
| Increase in senior and mezzanine debt            | <u>337 165</u>      | <u>219 942</u>      | <u>337 165</u>      | <u>219 942</u>      |
| <b>19. Cash</b>                                  |                     |                     |                     |                     |
| Bank balances                                    | <u>559 842</u>      | <u>436 892</u>      | <u>559 519</u>      | <u>436 587</u>      |

At 31 December 2022 bank balances carry interest at rates ranging from 4.50% to 7.54% (2021: 1.25% to 4.66%) per annum. There are no overdraft facilities on any of the bank accounts. Bank balances are ceded as security for interest bearing liabilities issued by the company (refer note 8).

In terms of the Bayport Securitisation Programme Memorandum, R250 million of cash is held as a liquidity reserve as at 31 December 2022 (2021: R250 million).



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

| R'000  | Group               |                     | Company             |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | 31 December<br>2022 | 31 December<br>2021 | 31 December<br>2022 | 31 December<br>2021 |
| <b>20. Related parties</b>   |                     |                     |                     |                     |
| <b>Relationships</b>   |                     |                     |                     |                     |
| Company which exercises control and provides management services:<br>Bayport Financial Services 2010 (Proprietary) Limited |                     |                     |                     |                     |
| <b>Related party balances</b>  |                     |                     |                     |                     |
| Junior debentures issued to Bayport Financial Services 2010 (Proprietary) Limited (refer note 8 for terms)                 | <u>(199 000)</u>    | <u>(199 000)</u>    | <u>(199 000)</u>    | <u>(199 000)</u>    |
| Loan from Bayport Financial Services 2010 (Proprietary) Limited (refer note 8 for terms)                                   | <u>(171 139)</u>    | <u>(178 665)</u>    | <u>(171 139)</u>    | <u>(178 665)</u>    |
| Payable to Bayport Financial Services 2010 (Proprietary) Limited   | <u>(16 094)</u>     | <u>(24 458)</u>     | <u>-</u>            | <u>-</u>            |
| Receivable from West Road South No. 4 (RF) (Pty) Ltd   | <u>79 923</u>       | <u>59 904</u>       | <u>79 923</u>       | <u>59 904</u>       |
| Dividend receivable from Zenthyme Investments (Proprietary) Limited  | <u>-</u>            | <u>-</u>            | <u>16 828</u>       | <u>43 581</u>       |
| Payable to Bayport Tutari (RF) (Pty) Ltd   | <u>(4 508)</u>      | <u>(4 508)</u>      | <u>(4 508)</u>      | <u>(4 508)</u>      |
| Investment in Zenthyme Investments (Proprietary) Limited   | <u>-</u>            | <u>-</u>            | <u>214 040</u>      | <u>190 302</u>      |
| <b>Related party transactions</b>  |                     |                     |                     |                     |
| Interest expense on junior debentures: Bayport Financial Services 2010 (Proprietary) Limited                               | <u>(24 334)</u>     | <u>(21 882)</u>     | <u>(24 334)</u>     | <u>(21 882)</u>     |
| Management fee expense: Bayport Financial Services 2010 (Proprietary) Limited  | <u>(234 451)</u>    | <u>(251 616)</u>    | <u>(234 451)</u>    | <u>(251 616)</u>    |
| Dividends received: Zenthyme Investments (Proprietary) Limited   | <u>-</u>            | <u>-</u>            | <u>72 977</u>       | <u>64 253</u>       |





## **21. Financial risk management and governance**

The board of directors of the company is ultimately responsible for financial risk management and governance. The day-to-day management of the company is the responsibility of BFS 2010 through the authority granted by the board of the company by way of the management agreement between the company and BFS 2010. The shareholders have constituted an audit committee which comprises three independent non-executive directors and meets at least bi-annually. Invitees to the audit committee meetings include the external auditors, the internal auditors as well as representatives of BFS 2010.

The audit committee assists the board with:

- combined assurance;
- internal audit;
- external audit; and
- governance.

### **21.1 Credit risk**

#### **21.1.1 Credit risk management and measurement**

BFS 2010 has constituted a credit committee. The credit committee is the ultimate custodian of the credit policy which governs the terms and conditions under which a credit application will be processed, assessed, approved or declined and ensures that the credit decision is at all times within the ambit and scope of the credit granting criteria that form part of the Domestic Medium Term Note (DMTN) programme memorandum. Adherence to the BFS 2010 credit policy, credit granting criteria and decisions taken by the credit committee are reported to the board on a quarterly basis.

The credit policy is designed to ensure that the credit process is efficient for the applicant while also providing the company with the necessary details to make an informed credit decision. A three stage approach to credit advancement is applied:

- assessing basic credit criteria;
- scoring the individual against a proprietary scorecard; and
- verifying details and performing an affordability check.

The company manages its exposure to credit losses by monitoring the credit granting criteria applied by BFS 2010. These criteria include assessing the affordability, risk profile and employment stability of prospective clients. Impairments are monitored and provided for using statistical techniques including experiential and behavioural models. These models are based on customers' financial performance information and assume that, under normal trading conditions, recent performance is a strong indicator of future performance. Models are either developed internally or by expert external advisors.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.1 Credit risk (continued)

##### 21.1.1 Credit risk management and measurement (continued)

The inputs, assumptions and techniques used for estimating impairment are summarised below:

###### Definition of default

An exposure will have defaulted once it is more than 90 days past due. This aligns to CD4 and above and/or CCD4 and above. Default is an indicator that an exposure has become credit-impaired.

###### Incorporation of forward-looking information

Testing has been performed using forward-looking economic data against the likelihood of default as well as the loss rates over time. The PD has not been adjusted for forward looking information as no logical correlation could be found between the variables tested.

###### Measurement of expected credit losses (ECL)

The key inputs into the measurement of ECL are the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD); and
- Effective interest rate (EIR).

These parameters have been derived by utilising internal historical data.

PD parameters are estimated, at a point in time, using internal historical default data and industry standard statistical models. Both performing and non-performing exposures are considered in the PD calculation, where the PD model tracks the default behavior of performing accounts over the remaining life of the loan. For stage 1 account this is limited to a 12 month period.

LGD is the magnitude of the likely loss upon default. The group estimates LGD parameters based on the expected future recoveries over the remaining lifetime of a defaulted account. The LGD models are segmented by the collection strategy (i.e. early stage, late stage, EAO etc.) and the contractual and cured contractual delinquency (which is indicative of the age of the default). They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure at the point of default. The EAD is estimated, using internal historical default data, as the outstanding balance at the point of default divided by the outstanding balance in the observation month. Only loans that default will be considered in the estimation of the EAD. As such, the EAD allows for amortisation of the loan as well as potential future amounts that may be drawn under the contract. This is estimated both over the next 12 months (12 month ECL), and over the lifetime (lifetime ECL).



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.1 Credit risk (continued)

##### 21.1.1 Credit risk management and measurement (continued)

###### Measurement of expected credit losses (ECL) (continued)

As described above, stage 1 financial assets are measured under a 12 month ECL which considers the likelihood of default within the next 12 months, the expected outstanding balance at this default point and the expected losses during default. For financial assets that have shown a significant increase in credit risk, the group measures ECL considering the risk of default over the lifetime / behavioural period (including any borrower's extension options, representing the period the account is exposed to risk) as well as the balance at this point with the associated expected loss. This lifetime is used even if, for risk management purposes, the group considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Number of months on book;
- Collection strategy; and
- Contractual and cured contractual delinquency location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogenous.

###### Generating the term structure of PD

PD is the probability that an account enters default at some point in the future, where default is defined as CD4+ and CCD4+. The PD term structure introduces a timing (ageing) element to the PD, where the term structure (life of the loan) is broken down into the annualised periods.

###### Significant increase in credit risk

Both quantitative as well as qualitative indicators of significant increases in credit risk have been considered.

###### Quantitative factors

The credit risk of exposures will be considered to have increased significantly (i.e. items are classified as stage 2) when an exposure is categorised in the following CD buckets:

- CD 1 to CD 3; and
- CCD 1 to CCD 3.

###### Qualitative factors

- Testing has been performed using bureau data as well as past delinquency, however the results have been inconclusive.
- If behavioural or other relevant data becomes available and proves to provide conclusive results, it will be considered for inclusion in staging criteria.

Within the current industry a missed payment is the leading indicator of a significant increase in credit risk.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.1 Credit risk (continued)

##### 21.1.1 Credit risk management and measurement (continued)

###### Modified financial assets

At times, customers may miss instalments or only pay a partial instalment. The remaining unpaid amount will be considered as being in arrears and will continue to incur interest until paid. In some circumstances, the group modifies the terms of these loans provided to customers. This occurs in the following instances:

- Debt review – court order;
- Credit life substitution;
- Emolument attachment orders (EAOs); and
- Administration orders.

Despite the changes made to the existing terms and conditions of the loan in each of the above scenarios, the objective is to maximise recoveries. Such restructuring activities include extended payment terms, payment holidays or temporary reductions in instalments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk identified under the original terms at initial recognition, when the modification is not substantial and does not result in derecognition of the original asset. The group monitors the subsequent performance of such modified assets and the related impact on the potential significant increase in credit risk. These assets are usually classified within stages 2 or 3 and will move between stages depending whether the loan is cured or default occurs again.

##### 21.1.2 Financial assets subject to credit risk

| R'000                       | Group               |                     | Company             |                     |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
|                             | 31 December<br>2022 | 31 December<br>2021 | 31 December<br>2022 | 31 December<br>2021 |
| Cash                        | 559 842             | 436 892             | 559 519             | 436 587             |
| Trade and other receivables | 82 924              | 61 686              | 99 752              | 105 267             |
| Loans and advances          | 3 141 271           | 3 077 783           | 3 141 271           | 3 077 783           |
| Other financial assets      | 246 638             | 258 036             | -                   | -                   |
|                             | <u>4 030 675</u>    | <u>3 834 397</u>    | <u>3 800 542</u>    | <u>3 619 637</u>    |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.1 Credit risk (continued)

##### 21.1.2 Financial assets subject to credit risk (continued)

The table below summarises the IFRS 9 categories of expected credit losses (ECL) for financial assets:

|         | Definition  | Calculation of ECL              |
|---------|---|---------------------------------|
| Stage 1 | Low credit risk or no significant increase in credit risk since initial recognition   | 12 month expected credit losses |
| Stage 2 | Significant increase in credit risk since initial recognition but not credit-impaired | Lifetime expected credit losses |
| Stage 3 | Objective evidence that asset has become credit-impaired since initial recognition    | Lifetime expected credit losses |

The following table shows the gross carrying amount of loans and advances carried at amortised cost and the ECL per IFRS 9 stage:

#### Group and company

| R'000                   | Gross book       | ECL                | Net book         | ECL % of gross book |
|-------------------------|------------------|--------------------|------------------|---------------------|
| <b>31 December 2022</b> |                  |                    |                  |                     |
| Stage 1                 | 1 503 726        | (21 494)           | 1 482 232        | 1.4%                |
| Stage 2                 | 821 592          | (79 725)           | 741 867          | 9.7%                |
| Stage 3                 | 3 132 635        | (2 215 463)        | 917 172          | 70.7%               |
| Total                   | <u>5 457 953</u> | <u>(2 316 682)</u> | <u>3 141 271</u> | <u>42.4%</u>        |
| <b>31 December 2021</b> |                  |                    |                  |                     |
| Stage 1                 | 1 365 409        | (47 165)           | 1 318 244        | 3.5%                |
| Stage 2                 | 865 453          | (180 171)          | 685 282          | 20.8%               |
| Stage 3                 | 3 385 984        | (2 311 727)        | 1 074 257        | 68.3%               |
| Total                   | <u>5 616 846</u> | <u>(2 539 063)</u> | <u>3 077 783</u> | <u>45.2%</u>        |

The ECL coverages have improved during the current financial year through the strategic shift from debit order to at source lending.

The contractual balances of loans partially derecognised that are still subject to enforcement activity amounted to R4 074 million (2021: R4 761 million) at the reporting date. An amount of R841 million (2021: R942 million) in respect of these balances has been recognised as stage 3 loans.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.1 Credit risk (continued)

Cash and trade and other receivables are carried at amortised cost and have been assessed to have no expected credit loss.

The other financial assets comprise the investments in insurance cells (refer note 6) and are measured at fair value through other comprehensive income.

##### 21.1.3 Reconciliation of loans and advances' expected credit loss (ECL)

| R'000  | Stage 1         | Stage 2          | Stage 3            | Total              |
|--|-----------------|------------------|--------------------|--------------------|
| <b>Group and company</b>                                       |                 |                  |                    |                    |
| <b>2022</b>  |                 |                  |                    |                    |
| Opening balance  | (47 165)        | (180 171)        | (2 311 727)        | (2 539 063)        |
| Originations   | (9 691)         | (5 210)          | (22 936)           | (37 837)           |
| Purchases of loans   | (12 062)        | (2 173)          | (1 718)            | (15 953)           |
| Existing book movements  | 29 460          | 90 032           | (288 324)          | (168 832)          |
| Partial derecognition  | -               | 5 694            | 325 979            | 331 673            |
| Derecognition (settlements in the ordinary course of business) | 17 964          | 12 103           | 83 263             | 113 330            |
| Total ECL  | <u>(21 494)</u> | <u>(79 725)</u>  | <u>(2 215 463)</u> | <u>(2 316 682)</u> |
| <b>2021</b>  |                 |                  |                    |                    |
| Opening balance  | (87 302)        | (182 271)        | (2 358 863)        | (2 628 436)        |
| Originations   | (17 243)        | (22 098)         | (25 595)           | (64 936)           |
| Purchases of loans   | (9 936)         | (4 994)          | (620)              | (15 550)           |
| Existing book movements  | 47 563          | 4 519            | (505 062)          | (452 980)          |
| Partial derecognition  | -               | 9 462            | 455 883            | 465 345            |
| Derecognition (settlements in the ordinary course of business) | 19 753          | 15 211           | 122 530            | 157 494            |
| Total ECL  | <u>(47 165)</u> | <u>(180 171)</u> | <u>(2 311 727)</u> | <u>(2 539 063)</u> |

##### 21.1.4 Cash

The group limits its counterparty exposure arising from money market instruments by dealing only with well-established financial institutions of high credit standing.

The group's policy is to maintain cash and short-term investments with various financial institutions to limit its exposure to any one financial institution. Deposits are placed only with South African banks and limited financial institutions. At the date of the statement of financial position, the group did not consider there to be any significant concentration of credit risk which has not been adequately provided for.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.2 Interest rate risk

Interest rate risk is the risk of loss arising from the fair value of future cash flows of a financial instrument because of changes in market interest rates.

The company is exposed to interest rate risk as it borrows and places funds. This risk is managed by utilising an appropriate mix of fixed and variable rate borrowings and by placing funds on short term deposit. Loans and advances to customers are at fixed interest rates and thus are not subject to interest rate risk.

The company has exposure to the effects of fluctuations in the prevailing levels of market interest rates on both the value of interest sensitive assets and liabilities and cash flows. The table below summarises the exposure to interest rate risk through grouping liabilities and assets into repricing categories, determined to be the earlier of contractual repricing date or maturity.

##### 21.2.1 Risk profile of interest bearing liabilities and assets

| R'000                         | Variable rate liabilities | Fixed rate liabilities | Variable rate assets | Fixed rate assets | Net assets / (liabilities) |
|-------------------------------|---------------------------|------------------------|----------------------|-------------------|----------------------------|
| <b>Group</b>                  |                           |                        |                      |                   |                            |
| <b>2022</b>                   |                           |                        |                      |                   |                            |
| Borrowing / unsecured lending | (2 950 896)               | (548 700)              | 559 842              | 3 141 271         | 201 517                    |
|                               | <u>(2 950 896)</u>        | <u>(548 700)</u>       | <u>559 842</u>       | <u>3 141 271</u>  | <u>201 517</u>             |
| <b>2021</b>                   |                           |                        |                      |                   |                            |
| Borrowing / unsecured lending | (2 587 257)               | (582 700)              | 436 892              | 3 077 783         | 344 718                    |
|                               | <u>(2 587 257)</u>        | <u>(582 700)</u>       | <u>436 892</u>       | <u>3 077 783</u>  | <u>344 718</u>             |
| <b>Company</b>                |                           |                        |                      |                   |                            |
| <b>2022</b>                   |                           |                        |                      |                   |                            |
| Borrowing / unsecured lending | (2 950 896)               | (548 700)              | 559 519              | 3 141 271         | 201 194                    |
|                               | <u>(2 950 896)</u>        | <u>(548 700)</u>       | <u>559 519</u>       | <u>3 141 271</u>  | <u>201 194</u>             |
| <b>2021</b>                   |                           |                        |                      |                   |                            |
| Borrowing / unsecured lending | (2 587 257)               | (582 700)              | 436 587              | 3 077 783         | 344 413                    |
|                               | <u>(2 587 257)</u>        | <u>(582 700)</u>       | <u>436 587</u>       | <u>3 077 783</u>  | <u>344 413</u>             |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.2 Interest rate risk (continued)

##### 21.2.2 Weighted average interest rates are as follows:

|   | Bank balances | Borrowings |
|---|---------------|------------|
| <b>Group and company</b>                |               |            |
| <b>2022</b>                             |               |            |
| Interest bearing assets / (liabilities) | 5.3%          | (11.3%)    |
| <b>2021</b>                             |               |            |
| Interest bearing assets / (liabilities) | 3.9%          | (9.2%)     |





## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.2 Interest rate risk (continued)

##### 21.2.3 Sensitivity analysis

The impacts of a 1% move in interest rates on the group's profit before tax per asset or liability that is sensitive to a change in interest rates are shown below. An increase in interest rates contributes positively to profit before tax for assets and negatively to profit before tax for liabilities. The opposite impact arises for a decrease in interest rates.

| Group                       | Fair value       | Effect on profit<br>before tax of<br>1% change in<br>rates | Total carrying<br>value of asset /<br>liability classes |
|-----------------------------|------------------|--|---|
| R'000                       |                  |  |   |
| <b>31 December 2022</b>     |                  |  |   |
| <b>Assets</b>               |                  |  |   |
| Cash                        | 559 842          | 5 596  | 559 842   |
| Trade and other receivables | 82 924           | -  | 82 924  |
| Loans and advances          | 3 141 271        | -  | 3 141 271   |
| Other financial assets      | 246 638          | -  | 246 638   |
|                             | <u>4 030 675</u> | <u>5 596</u>   | <u>4 030 675</u>  |
| <b>Liabilities</b>          |                  |  |   |
| Trade and other payables    | 125 310          | -  | 125 310   |
| Interest bearing borrowings | 3 499 596        | 29 509   | 3 499 596   |
| - Variable rate borrowings  | 2 950 896        | 29 509   | 2 950 896   |
| - Fixed rate borrowings     | 548 700          | -  | 548 700   |
|                             | <u>3 624 906</u> | <u>29 509</u>  | <u>3 624 906</u>  |
| <b>31 December 2021</b>     |                  |  |   |
| <b>Assets</b>               |                  |  |   |
| Cash                        | 436 892          | 4 369  | 436 892   |
| Trade and other receivables | 61 686           | -  | 61 686  |
| Loans and advances          | 3 077 783        | -  | 3 077 783   |
| Other financial assets      | 258 036          | -  | 258 036   |
|                             | <u>3 834 397</u> | <u>4 369</u>   | <u>3 834 397</u>  |
| <b>Liabilities</b>          |                  |  |   |
| Trade and other payables    | 88 616           | -  | 88 616  |
| Interest bearing borrowings | 3 169 957        | 25 873   | 3 169 957   |
| - Variable rate borrowings  | 2 587 257        | 25 873   | 2 587 257   |
| - Fixed rate borrowings     | 582 700          | -  | 582 700   |
|                             | <u>3 258 573</u> | <u>25 873</u>  | <u>3 258 573</u>  |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.2 Interest rate risk (continued)

##### 21.2.3 Sensitivity analysis (continued)

The impacts of a 1% move in interest rates on the company's profit before tax per asset or liability that is sensitive to a change in interest rates are shown below. An increase in interest rates contributes positively to profit before tax for assets and negatively to profit before tax for liabilities. The opposite impact arises for a decrease in interest rates.

| Company                     | Fair value | Effect on profit<br>before tax of 1%<br>change in rates | Total carrying<br>value of asset /<br>liability classes |
|-----------------------------|------------|---|---|
| R'000                       |            |   |   |
| <b>31 December 2022</b>     |            |   |   |
| <b>Assets</b>               |            |   |   |
| Cash                        | 559 519    | 5 595   | 559 519   |
| Trade and other receivables | 99 752     | -   | 99 752  |
| Loans and advances          | 3 141 271  | -   | 3 141 271   |
| Investment in subsidiaries  | 214 040    | -   | 214 040   |
|                             | 4 014 582  | 5 595   | 4 014 582   |
| <b>Liabilities</b>          |            |   |   |
| Trade and other payables    | 109 216    | -   | 109 216   |
| Interest bearing borrowings | 3 499 596  | 29 509  | 3 499 596   |
| - Variable                  | 2 950 896  | 29 509  | 2 950 896   |
| - Fixed                     | 548 700    | -   | 548 700   |
|                             | 3 608 812  | 29 509  | 3 608 812   |
| <b>31 December 2021</b>     |            |   |   |
| <b>Assets</b>               |            |   |   |
| Cash                        | 436 587    | 4 366   | 436 587   |
| Trade and other receivables | 105 267    | -   | 105 267   |
| Loans and advances          | 3 077 783  | -   | 3 077 783   |
| Investment in subsidiaries  | 190 302    | -   | 190 302   |
|                             | 3 809 939  | 4 366   | 3 809 939   |
| <b>Liabilities</b>          |            |   |   |
| Trade and other payables    | 64 158     | -   | 64 158  |
| Interest bearing borrowings | 3 169 957  | 25 873  | 3 169 957   |
| - Variable                  | 2 587 257  | 25 873  | 2 587 257   |
| - Fixed                     | 582 700    | -   | 582 700   |
|                             | 3 234 115  | 25 873  | 3 234 115   |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.3 Liquidity risk management

Liquidity risk is the risk that the company is unable to meet payment obligations when they fall due or that insufficient funds are available to meet loan demands in the ordinary course of business. The company's objectives in relation to liquidity risk management are to manage the contractual mismatch between cash inflows from assets and cash outflows to liabilities, to fund the expected statement of financial position growth, to honour all cash outflow commitments, to avoid raising funds at market premiums or through the forced sale of assets as a result of liquidity pressure, and to take advantage of attractive but unanticipated borrowing opportunities.

The board of directors is ultimately responsible for the management of liquidity risk and to this end makes use of the asset and liability committee (ALCO) of Bayport Financial Services 2010 (Proprietary) Limited. The monitoring and reporting of liquidity risk takes the form of, as a minimum, cash flow projections, an analysis of the company's borrowing facilities and utilisation thereof, borrowing facilities under discussion, maturity profile and concentration of liability by counterparty, asset maturities and borrowing facility obligations and special conditions.

Bayport Management Limited's Capital Markets (CM) team is responsible for executing on fund raising mandates given to it by the company. This includes the on-going assessment and evaluation of various funding sources designed to grow and diversify the company's funding base in order to achieve an optimal funding profile and sound liquidity risk management. The CM team assists with the on-going monitoring of asset portfolio performance and its impact on borrowing covenants.

The company manages its daily cash flow requirements to ensure funding covenants are maintained within acceptable risk tolerances and to produce financial projections to monitor the impact of business trends in order to notify the CM team of any changes to the business environment that may impact funding requirements.

The table below analyses financial liabilities at the statement of financial position date by contractual maturity dates. The amounts disclosed in the table are the expected undiscounted cash flows including interest payable until maturity of the various liabilities.

| R'000                                 | 0 to 3 months  | 4 to 12 months | > 12 months      | Total            |
|---------------------------------------|----------------|----------------|------------------|------------------|
| <b>Group</b>                          |                |                |                  |                  |
| <b>2022</b>                           |                |                |                  |                  |
| Trade and other payables              | 125 310        | -              | -                | 125 310          |
| Interest bearing liabilities          | 401 312        | 753 114        | 3 453 348        | 4 607 774        |
| Cash flows from financial liabilities | <u>526 622</u> | <u>753 114</u> | <u>3 453 348</u> | <u>4 733 084</u> |
| <b>2021</b>                           |                |                |                  |                  |
| Trade and other payables              | 88 616         | -              | -                | 88 616           |
| Interest bearing liabilities          | 432 735        | 739 915        | 2 856 336        | 4 028 986        |
| Cash flows from financial liabilities | <u>521 351</u> | <u>739 915</u> | <u>2 856 336</u> | <u>4 117 602</u> |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.3 Liquidity risk management (continued)

| R'000                                 | 0 to 3 months  | 4 to 12 months | > 12 months      | Total            |
|---------------------------------------|----------------|----------------|------------------|------------------|
| <b>Company</b>                        |                |                |                  |                  |
| <b>2022</b>                           |                |                |                  |                  |
| Trade and other payables              | 109 218        | -              | -                | 109 216          |
| Interest bearing liabilities          | 401 312        | 753 114        | 3 453 348        | 4 607 774        |
| Cash flows from financial liabilities | <u>510 528</u> | <u>753 114</u> | <u>3 453 348</u> | <u>4 716 990</u> |
| <b>2021</b>                           |                |                |                  |                  |
| Trade and other payables              | 64 158         | -              | -                | 64 158           |
| Interest bearing liabilities          | 432 735        | 739 915        | 2 856 336        | 4 028 986        |
| Cash flows from financial liabilities | <u>496 893</u> | <u>739 915</u> | <u>2 856 336</u> | <u>4 093 144</u> |

##### 21.4 Capital management

The objective of the company's capital management strategy is to maximise shareholders' value whilst maintaining a strong capital base so as to retain investor and creditor confidence and to sustain future growth of the businesses of the company. To achieve this, the company considers the capital required to support growth, maintain credit ratings and to comply with debt covenants.

The company defines capital as equity and loans from Bayport Financial Services 2010 (Proprietary) Limited.

The board of directors monitors the cost of capital, which is defined as the weighted average cost of capital, taking into account the company's internally calculated cost of equity (shareholder funding) and long term cost of debt assumptions.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound equity position.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.5 Categorisation – statement of financial position

###### Group – 31 December 2022

| R'000                       | Fair value through other comprehensive income | Fair value through profit or loss | Financial assets carried at amortised cost | Non-financial assets | Total            |
|-----------------------------|---|-----------------------------------|--|----------------------|------------------|
| <b>Assets</b>               |   |                                   |  |                      |                  |
| Cash                        | -   | -                                 | 559 842                                    | -                    | 559 842          |
| Trade and other receivables | -   | -                                 | 79 923                                     | 3 001                | 82 924           |
| Loans and advances          | -   | -                                 | 3 141 271                                  | -                    | 3 141 271        |
| Deferred tax assets         | -   | -                                 | -  | 511 136              | 511 136          |
| Other financial assets      | 246 638                                       | -                                 | -  | -                    | 246 638          |
|                             | <u>246 638</u>                                | <u>-</u>                          | <u>3 781 036</u>                           | <u>514 137</u>       | <u>4 541 811</u> |

| R'000                         | Financial liabilities carried at amortised cost | Non-financial liabilities / equity | Total            |
|-------------------------------|---|------------------------------------|------------------|
| <b>Equity and liabilities</b> |   |                                    |                  |
| Trade and other payables      | 125 310   | -                                  | 125 310          |
| Interest bearing liabilities  | 3 499 596                                       | -                                  | 3 499 596        |
| Shareholder's surplus         | -   | 916 905                            | 916 905          |
|                               | <u>3 624 906</u>                                | <u>916 905</u>                     | <u>4 541 811</u> |

###### Group – 31 December 2021

| R'000                       | Fair value through other comprehensive income | Fair value through profit or loss | Financial assets carried at amortised cost | Non-financial assets | Total            |
|-----------------------------|---|-----------------------------------|--|----------------------|------------------|
| <b>Assets</b>               |   |                                   |  |                      |                  |
| Cash                        | -   | -                                 | 436 892                                    | -                    | 436 892          |
| Trade and other receivables | -   | -                                 | 59 904                                     | 1 782                | 61 686           |
| Loans and advances          | -   | -                                 | 3 077 783                                  | -                    | 3 077 783        |
| Deferred tax assets         | -   | -                                 | -  | 312 520              | 312 520          |
| Other financial assets      | 258 036                                       | -                                 | -  | -                    | 258 036          |
|                             | <u>258 036</u>                                | <u>-</u>                          | <u>3 574 579</u>                           | <u>314 302</u>       | <u>4 146 917</u> |

| R'000                         | Financial liabilities carried at amortised cost | Non-financial liabilities / equity | Total            |
|-------------------------------|---|------------------------------------|------------------|
| <b>Equity and liabilities</b> |   |                                    |                  |
| Trade and other payables      | 88 616  | -                                  | 88 616           |
| Interest bearing liabilities  | 3 169 957                                       | -                                  | 3 169 957        |
| Shareholder's surplus         | -   | 888 344                            | 888 344          |
|                               | <u>3 258 573</u>                                | <u>888 344</u>                     | <u>4 146 917</u> |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

#### 21.5 Categorisation – statement of financial position (continued)

##### Company - 31 December 2022

| R'000                       | Fair value<br>through other<br>comprehensive<br>income | Fair value<br>through profit<br>or loss | Financial<br>assets carried<br>at amortised<br>cost | Non-financial<br>assets | Total            |
|-----------------------------|--|---|---|-------------------------|------------------|
| <b>Assets</b>               |  |   |   |                         |                  |
| Cash                        | -  | -                                       | 559 519   | -                       | 559 519          |
| Trade and other receivables | -  | -                                       | 96 751  | 3 001                   | 99 752           |
| Loans and advances          | -  | -                                       | 3 141 271   | -                       | 3 141 271        |
| Deferred tax assets         | -  | -                                       | -   | 511 136                 | 511 136          |
| Investment in subsidiaries  | 214 040  | -                                       | -   | -                       | 214 040          |
|                             | <u>214 040</u>   | -                                       | <u>3 797 541</u>                                    | <u>514 137</u>          | <u>4 525 718</u> |

| R'000                         | Financial<br>liabilities<br>carried at<br>amortised cost | Non-financial<br>liabilities /<br>equity | Total            |
|-------------------------------|--|--|------------------|
| <b>Equity and liabilities</b> |  |  |                  |
| Trade and other payables      | 109 216  | -  | 109 216          |
| Interest bearing liabilities  | 3 499 596  | -  | 3 499 596        |
| Shareholder's surplus         | -  | 916 906                                  | 916 906          |
|                               | <u>3 608 812</u>   | <u>916 906</u>                           | <u>4 525 718</u> |

##### Company - 31 December 2021

| R'000                       | Fair value<br>through other<br>comprehensive<br>income | Fair value<br>through profit<br>or loss | Financial<br>assets carried<br>at amortised<br>cost | Non-financial<br>assets | Total            |
|-----------------------------|--|---|---|-------------------------|------------------|
| <b>Assets</b>               |  |   |   |                         |                  |
| Cash                        | -  | -                                       | 436 587   | -                       | 436 587          |
| Trade and other receivables | -  | -                                       | 103 485   | 1 782                   | 105 267          |
| Loans and advances          | -  | -                                       | 3 077 783   | -                       | 3 077 783        |
| Deferred tax assets         | -  | -                                       | -   | 312 520                 | 312 520          |
| Investment in subsidiaries  | 190 302  | -                                       | -   | -                       | 190 302          |
|                             | <u>190 302</u>   | -                                       | <u>3 617 855</u>                                    | <u>314 302</u>          | <u>4 122 459</u> |

| R'000                         | Financial<br>liabilities<br>carried at<br>amortised cost | Non-financial<br>liabilities /<br>equity | Total            |
|-------------------------------|--|--|------------------|
| <b>Equity and liabilities</b> |  |  |                  |
| Trade and other payables      | 64 158   | -  | 64 158           |
| Interest bearing liabilities  | 3 169 957  | -  | 3 169 957        |
| Shareholder's surplus         | -  | 888 344                                  | 888 344          |
|                               | <u>3 234 115</u>   | <u>888 344</u>                           | <u>4 122 459</u> |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.6 Categorisation – statement of comprehensive income

| Group  | Financial<br>assets<br>carried at<br>amortised<br>cost | Financial<br>liabilities<br>carried at<br>amortised<br>cost | Fair value<br>through<br>other<br>comprehen<br>-sive income | Non-financial<br>assets and<br>liabilities | Total            |
|--|--|---|---|--|------------------|
| R'000  |  |   |   |  |                  |
| <b>2022</b>                                    |  |   |   |  |                  |
| Interest income                                | 819 926  | -   | -   | -  | 819 926          |
| Interest expense                               | -  | (326 834)   | -   | -  | (326 834)        |
| Net impairment                                 | (493 389)  | -   | -   | -  | (493 389)        |
| Legal collection costs on-charged to customers | 1 723  | -   | -   | -  | 1 723            |
| Loan fee expense                               | (1 672)  | -   | -   | -  | (1 672)          |
| Dividends received                             | -  | -   | 72 977  | -  | 72 977           |
| Sundry income                                  | -  | 49  | -   | -  | 49               |
| Indirect costs                                 | -  | -   | -   | (266 547)                                  | (266 547)        |
| Loss before tax for the year                   | <u>326 588</u>   | <u>(326 785)</u>  | <u>72 977</u>   | <u>(266 547)</u>                           | <u>(193 767)</u> |
| <b>2021</b>                                    |  |   |   |  |                  |
| Interest income                                | 861 610  | -   | -   | -  | 861 610          |
| Interest expense                               | -  | (280 585)   | -   | -  | (280 585)        |
| Net impairment                                 | (448 254)  | -   | -   | -  | (448 254)        |
| Legal collection costs on-charged to customers | 2 735  | -   | -   | -  | 2 735            |
| Loan fee expense                               | (3 711)  | -   | -   | -  | (3 711)          |
| Dividends received                             | -  | -   | 64 253  | -  | 64 253           |
| Sundry income                                  | -  | 159   | -   | -  | 159              |
| Indirect costs                                 | -  | -   | -   | (282 998)                                  | (282 998)        |
| Loss before tax for the year                   | <u>412 380</u>   | <u>(280 426)</u>  | <u>64 253</u>   | <u>(282 998)</u>                           | <u>(86 791)</u>  |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.6 Categorisation – statement of comprehensive income (continued)

| Company  | Financial assets carried at amortised cost | Financial liabilities carried at amortised cost | Fair value through other comprehensive income | Non-financial assets and liabilities | Total            |
|--|--|---|---|--------------------------------------|------------------|
| R'000  |  |   |   |                                      |                  |
| <b>2022</b>                                    |  |   |   |                                      |                  |
| Interest income                                | 819 899                                    | -   | -   | -                                    | 819 899          |
| Interest expense                               | -  | (326 834)                                       | -   | -                                    | (326 834)        |
| Net impairment                                 | (493 389)                                  | -   | -   | -                                    | (493 389)        |
| Legal collection costs on-charged to customers | 1 723                                      | -   | -   | -                                    | 1 723            |
| Loan fee expense                               | (1 670)                                    | -   | -   | -                                    | (1 670)          |
| Dividends received                             | -  | -   | 72 977  | -                                    | 72 977           |
| Sundry income                                  | -  | 49  | -   | -                                    | 49               |
| Indirect costs                                 | -  | -   | -   | (266 547)                            | (266 547)        |
| Loss before tax for the year                   | <u>326 563</u>                             | <u>(326 785)</u>                                | <u>72 977</u>                                 | <u>(266 547)</u>                     | <u>(193 792)</u> |
| <b>2021</b>                                    |  |   |   |                                      |                  |
| Interest income                                | 861 601                                    | -   | -   | -                                    | 861 601          |
| Interest expense                               | -  | (280 585)                                       | -   | -                                    | (280 585)        |
| Net impairment                                 | (448 254)                                  | -   | -   | -                                    | (448 254)        |
| Legal collection costs on-charged to customers | 2 735                                      | -   | -   | -                                    | 2 735            |
| Loan fee expense                               | (3 710)                                    | -   | -   | -                                    | (3 710)          |
| Dividends received                             | -  | -   | 64 253  | -                                    | 64 253           |
| Sundry income                                  | -  | 159   | -   | -                                    | 159              |
| Indirect costs                                 | -  | -   | -   | (282 998)                            | (282 998)        |
| Loss before tax for the year                   | <u>412 372</u>                             | <u>(280 426)</u>                                | <u>64 253</u>                                 | <u>(282 998)</u>                     | <u>(86 799)</u>  |





## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.7 Level disclosures

The table below provides an analysis of financial instruments that are measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statements of financial position.

| <b>R'000</b>  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|---|----------------|----------------|----------------|--------------|
| <b>Group</b>  |                |                |                |              |
| <b>2022</b>   |                |                |                |              |
| Investment in insurance cells (note 6)                | -              | -              | 246 638        | 246 638      |
| Total   | -              | -              | 246 638        | 246 638      |
| <b>2021</b>   |                |                |                |              |
| Investment in insurance cells (note 6)                | -              | -              | 258 036        | 258 036      |
| Total   | -              | -              | 258 036        | 258 036      |
| <b>Company</b>  |                |                |                |              |
| <b>2022</b>   |                |                |                |              |
| Investment in Zenthyme Investments (Pty) Ltd (note 5) | -              | -              | 214 040        | 214 040      |
| Total   | -              | -              | 214 040        | 214 040      |
| <b>2021</b>   |                |                |                |              |
| Investment in Zenthyme Investments (Pty) Ltd (note 5) | -              | -              | 190 302        | 190 302      |
| Total   | -              | -              | 190 302        | 190 302      |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.7 Level disclosures (continued)

###### Reconciliation of level 3 fair value measurements of financial assets

| R'000                           | Investment in<br>insurance cells                                | Total          |
|---------------------------------|---|----------------|
| <b>Group</b>                    |   |                |
| <b>2022</b>                     |   |                |
| Opening balance                 | 258 036   | 258 036        |
| Redemptions                     | (29 000)  | (29 000)       |
| Total income                    |   |                |
| - in other comprehensive income | 23 719  | 23 719         |
| Dividends receivable            | (6 117)   | (6 117)        |
| Closing balance                 | <u>246 638</u>  | <u>246 638</u> |
| <b>2021</b>                     |   |                |
| Opening balance                 | 135 722   | 135 722        |
| Redemptions                     | (5 800)   | (5 800)        |
| Total income                    |   |                |
| - in other comprehensive income | 105 169   | 105 169        |
| Dividends receivable            | 22 945  | 22 945         |
| Closing balance                 | <u>258 036</u>  | <u>258 036</u> |
|                                 | <b>Investment in<br/>Zenthyme<br/>Investments<br/>(Pty) Ltd</b> | <b>Total</b>   |
| <b>R'000</b>                    |   |                |
| <b>Company</b>                  |   |                |
| <b>2022</b>                     |   |                |
| Opening balance                 | 190 302   | 190 302        |
| Purchases                       | -   | -              |
| Total income                    |   |                |
| - in other comprehensive income | 23 738  | 23 738         |
| Dividends receivable            | -   | -              |
| Closing balance                 | <u>214 040</u>  | <u>214 040</u> |
| <b>2021</b>                     |   |                |
| Opening balance                 | 85 128  | 85 128         |
| Purchases                       | -   | -              |
| Total income                    |   |                |
| - in other comprehensive income | 105 174   | 105 174        |
| Dividends receivable            | -   | -              |
| Closing balance                 | <u>190 302</u>  | <u>190 302</u> |



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 21. Financial risk management and governance (continued)

##### 21.7 Level disclosures (continued)

###### Sensitivity analysis of valuation using unobservable inputs

As part of the group's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The financial instruments that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations. A significant parameter has been deemed to be one which may result in a change in the fair value asset or liability of more than 10%. This is demonstrated by the following sensitivity analysis which includes a reasonable range of possible outcomes:

**Group - for valuation of investments in insurance cells (note 6) and  
Company - for valuation of investment in Zenthyme Investments (Pty) Ltd (note 5)**

**31 December 2022**

| <b>R'000</b>              | <b>Significant unobservable parameters</b> | <b>Potential effect recorded directly in equity</b> |                 |
|---------------------------|--|---|-----------------|
| Valuation of investment/s |  |   |                 |
| - Flex 10% favourable     | (i), (ii)                                  | 23 915  |                 |
| - Flex 10% unfavourable   | (i), (ii)                                  |   | (22 380)        |
|                           |  | <u>23 915</u>                                       | <u>(22 380)</u> |

**31 December 2021**

| <b>R'000</b>              | <b>Significant unobservable parameters</b> | <b>Potential effect recorded directly in equity</b> |                 |
|---------------------------|--|---|-----------------|
| Valuation of investment/s |  |   |                 |
| - Flex 10% favourable     | (i), (ii)                                  | 18 602  |                 |
| - Flex 10% unfavourable   | (i), (ii)                                  |   | (17 608)        |
|                           |  | <u>18 602</u>                                       | <u>(17 608)</u> |

Unobservable parameters used for flex:

- i. Cost of equity of 17.90% (2021: 15.82%)
- ii. Claims ratio

The fair value of the investment in insurance cells was determined by discounting the estimated future cashflows at a risk adjusted rate of 17.90% (2021: 15.82%). Future cash flows were determined by forecasting new premium income for one year only and then assuming no further growth over a further four years. The fair value of the investment in Zenthyme Investments (Pty) Ltd was determined in the same manner as the investment in insurance cells is the main asset of Zenthyme Investments (Pty) Ltd.



## Bayport Securitisation (RF) Limited

### Notes to the annual financial statements (continued)

For the year ended 31 December 2022

#### 22. Directors' remuneration

| R'000                               | Services to BaySec paid by BaySec | Services to other group companies |                         | Paid to provident fund | Total        |
|-------------------------------------|-----------------------------------|-----------------------------------|-------------------------|------------------------|--------------|
|                                     |                                   | Paid by group companies           | Paid by related parties |                        |              |
| <b>2022</b>                         |                                   |                                   |                         |                        |              |
| Olivia van Gisbergen <sup>1,3</sup> | 80                                | 79                                | -                       | -                      | 159          |
| Nick Clarke <sup>2,3</sup>          | 20                                | 20                                | -                       | -                      | 40           |
| Lood de Jager <sup>3</sup>          | 80                                | 79                                | -                       | -                      | 159          |
| Alfred Ramosedi                     | -                                 | 6 364                             | -                       | 226                    | 6 590        |
| RishendrieThanthony <sup>3</sup>    | 80                                | 79                                | -                       | -                      | 159          |
|                                     | <u>260</u>                        | <u>6 621</u>                      | <u>-</u>                | <u>226</u>             | <u>7 107</u> |
| <b>2021</b>                         |                                   |                                   |                         |                        |              |
| Olivia van Gisbergen <sup>1,3</sup> | 90                                | 89                                | -                       | -                      | 179          |
| Jack Trevena <sup>1,3</sup>         | 14                                | 13                                | -                       | -                      | 27           |
| Lood de Jager <sup>3</sup>          | 55                                | 55                                | -                       | -                      | 110          |
| Alfred Ramosedi                     | -                                 | 7 223                             | -                       | 214                    | 7 437        |
| RishendrieThanthony <sup>3</sup>    | 90                                | 89                                | -                       | -                      | 179          |
|                                     | <u>249</u>                        | <u>7 469</u>                      | <u>-</u>                | <u>214</u>             | <u>7 932</u> |

<sup>1</sup> Chairman

<sup>2</sup> Alternate director

<sup>3</sup> The director is employed by TMF Corporate Services (SA) (Pty) Ltd (TMF). The company pays TMF directly for their services and the amounts are split evenly amongst the TMF directors. No amounts are paid directly to the director.

#### 23. Going concern

In performing the going concern assessment, the directors have considered all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to the directors.

As part of the assessment, the directors have considered if there are any material uncertainties relating to events or conditions that might cast significant doubt upon the continuing use of the going concern basis of accounting in future periods.

Uncertainties relating to such events or conditions would be considered material, and therefore disclosed, if their disclosure could reasonably be expected to affect the economic decisions of shareholders and other users of the annual financial statements.

The going concern assessment is a matter of judgement. In making this judgement, the directors have considered the uncertainties arising from their assessment, both individually and in combination with others.



**23. Going concern (continued)**

In determining whether there are material uncertainties, the directors have considered:

- the magnitude of the potential impacts of any uncertain future events or changes in conditions on the group and the likelihood of their occurrence in the medium term;
- the realistic availability and likely effectiveness of actions that the directors would consider undertaking to avoid, or reduce the impact or likelihood of occurrence of the uncertain future events or changes in conditions; and
- whether the uncertain future events or changes in conditions are unusual, rather than occurring with sufficient regularity to make predictions about them with a high degree of confidence.

Uncertainties are not considered material if the likelihood that the group will not be able to continue to use the going concern basis of accounting is assessed to be remote, however significant the assessed potential impact may seem.

In evaluating the group's ability to continue as a going concern during the ensuing twelve months, the following areas, amongst others, have been considered in making the assessment:

- financial performance (both historic and forecasted);
- liquidity (availability of funding as well as cash flow forecasts);
- capital adequacy; and
- the financial health of the consumer (debt to income levels, employment and inflation).

Having taken the aforementioned factors into account, the directors consider the going concern basis of accounting appropriate for the ensuing twelve months.

**24. Subsequent events**

No subsequent events have occurred between 31 December 2022 and the date of approval of the annual financial statements by the board of directors.

