**PRECINCT FUNDING 1 (RF) LIMITED**
**(Registration number 2012/079215/06)**
**AUDITED ANNUAL FINANCIAL STATEMENTS**
**FOR THE PERIOD ENDED 31 DECEMBER 2013**

# PRECINCT FUNDING 1 (RF) LIMITED
(Registration number 2012/079215/06)
AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

## General Information

| | |
|---|---|
| **Country of incorporation and domicile** | South Africa |
| **Directors** | RC Hayne<br>JRP Doidge<br>R Thanthony<br>B Harmse |
| **Registered office** | 135 Rivonia Road<br>Sandown<br>Sandton<br>Gauteng<br>2196 |
| **Postal address** | PO Box 1144<br>Johannesburg<br>2196 |
| **Holding company** | The Securitisation Issuer Owner Trust<br>incorporated in South Africa |
| **Auditors** | Deloitte & Touche |
| **Secretary** | Nedgroup Secretariat Services (Proprietary) Limited |
| **Company registration number** | 2012/079215/06 |
| **Preparer** | In terms of S 29(1)(e)(ii) of the Companies Act 71 of 2008 as amended, we confirm that the preparation of the following financial statements is the responsibility of GJ Rothman CA(SA), public officer of Precinct Funding 1 (RF) Limited. |
| **Certification by the Company Secretary** | In terms of Section 84 of the Companies Act, 71 of 2008, that for the period 31 December 2013, Precinct Funding 1 (RF) Limited has lodged with the Commissioner of the Companies Intellectual Property Commission, all such returns are true, correct and up to date. |

**Nedgroup Secretariat Services (Pty) Ltd**
Company Secretary
Date: 20/03/2014

# PRECINCT FUNDING 1 (RF) LIMITED

(Registration number 2012/079215/06)
AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

## Index

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

**Index**

# Audit Committee Report

**1. Members of the Audit Committee**

Name
B Harmse (Chairperson)
JRP Doidge
R Thanthony

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 of South Africa and Regulation 42 of the Companies Regulation, 2011.

**2. Meetings held by the Audit Committee**

The audit committee performs the duties laid upon it by Section 94(7) of the Companies Act of South Africa as amended by holding meetings with the key role players on a regular basis and by the unrestricted access granted to the external auditors.

The committee was formed in 2013 and held its first meeting on the 5 June 2013 during which it determined it's audit committee charter and fulfilled its responsibilities in order to recommend approval of the company's audited annual financial statements to the Board.

**3. Independence of external auditors**

The committee satisfied itself through enquiry that the external auditors are independent as defined by the Companies Act of South Africa as amended and as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided that internal governance processes within the firm support and demonstrate the claim to independence.

**4. Expertise and experience of finance function**

The on-going secretarial administration of the company's statutory records is done by Nedbank Secretariat, whilst accounting is managed by the Nedbank Capital Finance Department (jointly hereinafter "Administrator'). Nedbank Capital Transaction Management is the professional administrator of Precinct Funding 1 (RF) Limited.

The committee satisfied itself that the composition, experience and skills set of the finance function met the company's requirements.

**5. Discharge of responsibilities and audited annual financial statements**

Following the review by the committee of the audited annual financial statements of the company for the year ended 31 December 2013 and based on the information provided to it, the committee considers that, in all material aspects, the company complies with the provisions of the Companies Act 71 of 2008, as amended, International Financial Reporting Standards, and that the accounting policies applied are appropriate.

The committee fulfilled their responsibilities in compliance with the audit charter.

Following the review of the audited annual financial statements, the committee recommended the company's 2013 audited annual financial statements for approval to the Board on 20 MARCH 2014.

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

On behalf of the audit committee

**B Harmse**
**Chairman Audit Committee**

# Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is their responsibility to ensure that the audited annual financial statements fairly present the state of affairs of the company as at the end of the financial period and the results of its 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 audited annual financial statements.

The audited annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon 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 company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets 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 framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company 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 audited 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 company's cash flow forecast for the period to 31 December 2014 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's audited annual financial statements. The audited annual financial statements have been examined by the company's external auditors and their report is presented on page 5.

The audited annual financial statements set out on pages 6 to 26, which have been prepared on the going concern basis, were approved by the board of directors on 20 March 2014 and were signed on its behalf by:

Director

Director

PO Box 243
Durban 4000
South Africa

Deloitte & Touche
Registered Auditors
Audit - KZN
Deloitte Place
2 Pencarrow Crescent
Pencarrow Park
La Lucia Ridge Office Estate
La Lucia 4051
Docex 3 Durban

Tel: +27 (0)31 560 7000
Fax: +27 (0)31 560 7351
www.deloitte.com

# Independent Auditor's Report

## To the Shareholder of Precinct Funding 1 (RF) Limited

We have audited the annual financial statements of Precinct Funding 1 (RF) Limited, as set out on pages 8 to 26, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Annual Financial Statements

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

## Auditors' Responsibility

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Precinct Funding 1 (RF) Limited as at 31 December 2013, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

## Other reports required by the Companies Act

As part of our audit of the annual financial statements for the period ended 31 December 2013, we have read the Directors' Report and the Audit Committee's Report for the purpose of identifying whether there are material inconsistencies between these reports and the annual financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the annual financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche

**Deloitte & Touche**

**Registered Auditors**
**Per: Stephen Munro**
**Partner**

**20 March 2014**

# Directors' Report

The directors have pleasure in submitting their report on the audited annual financial statements of Precinct Funding 1 (RF) Limited for the period ended 31 December 2013.

## 1. Incorporation

The company was incorporated in the name of Bowwood and Main No 9 (Proprietary) Limted on 04 May 2012 and obtained its certificate to commence business on the same day.

On 14 May 2012 the company's name was amended from Bowwood and Main No 9 (Proprietary) Limted to Precinct Funding 1 (RF) Limited, with the company being converted from a private to a public company and the Memorandum of Incorporation was replaced with an entirely new one.

On 11 September 2013, the company changed its financial year end from the end of February each year to the end of December each year.

## 2. Nature of business

Precinct Funding 1 (RF) Limited is a securitisation special purpose vehicle that acquires the rights, title, interest and related security of commercial and retail property loans from Nedbank Limited under segregated series medium term note programme. These assets are funded through the issuance of medium term secured floating rate notes to investors in the South African capital markets.

## 3. Review of financial results and activities

The Company was incorporated in May 2012. Upon listing of the medium term secured floating rate notes on the JSE on 27 March 2013, the Company issued notes to the public and commenced trading. Note holders are paid interest on a quarterly basis via priority of payments.

The audited annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. Full details of the financial position, results of operations and cash flows of the company are set out in these audited annual financial statements.

As at 31 December 2013 there was a breach in one of the portfolio covenants per the offering circular. The breach pertains to covenant 6.5 whereby the aggregate principal balances of loan agreements to any one borrower should not exceed 3.75% of the aggregate principal balances of the loan agreements in the loan portfolio. This is currently being addressed by management to resolve the noted non-compliance.

## 4. Share capital

Refer to note 8 of the audited annual financial statements for detail of the authorised and issued share capital.

## 5. Directorate

The directors in office during the year and at the date of this report are as follows:

| Directors | Changes |
|---|---|
| RC Hayne | |
| JRP Doidge | Appointed 07 February 2013 |
| R Thanthony | Appointed 07 February 2013 |
| B Harmse | |
| J Wandrag | Resigned 07 February 2013 |

No material contracts involving directors' interest were entered into in the current year (no contracts: February 2013).

## 6. Interest of directors and officers

The directors and officers have no interests in the company.

## 7. Holding company

The company's holding company is The Securitisation Issuer Owner Trust which holds 100% (February 2013: 100%) of the company's equity. The Securitisation Issuer Owner Trust is incorporated in South Africa.

# Directors' Report

### 8. Events after the reporting period

There are no events after the reporting date requiring amendment to or disclosure in the annual financial statements.

### 9. Secretary

The company secretary is Nedgroup Secretariat Services (Proprietary) Limited.

**Postal address**

PO Box 1144
Johannesburg
2000

**Business address**

135 Rivonia Road
Sandown
Sandton
2196

### 10. Controlling entity

The Securitisation Issuer Owner Trust holds 100% of the issued ordinary shares of Precinct Funding 1 (RF) Limited. Nedbank Limited holds the issued cumulative redeemable preference share.

In terms of IFRS10 - consolidated financial statements, an entity is consolidated when it is controlled by an investor. Control is achieved when the investor is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, an investor controls an investee if and only if the investor has:- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns.

In terms of IFRS10, the company is regarded to be controlled by Nedbank Limited and is consolidated in Nedbank Limited's annual financial statements. Nedbank Limited is incorporated in South Africa.

### 11. Audit committee

An audit committee has been appointed and meetings were held on 26 November 2013 and 10 March 2014.

### 12. Social and ethics committee

An application for the exemption from the requirement to appoint a Social and Ethics Committee has been submitted and await approval.

# Statement of Financial Position as at 31 December 2013

| | Note(s) | 31 December 2013 R | 28 February 2013 R |
|---|---|---|---|
| **Assets** | | | |
| **Non-Current Assets** | | | |
| Deferred tax | 4 | 1,023,549 | - |
| **Current Assets** | | | |
| Loan to Nedbank Limited | 3 | 1,953,460,811 | - |
| Trade and other receivables | 5 | 100 | 100 |
| Cash and cash equivalents | 6 | 599,002,221 | - |
| | | **2,552,463,132** | **100** |
| **Total Assets** | | **2,553,486,681** | **100** |
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| Share capital | 8 | 100 | 100 |
| Retained income | | 1,106,161 | - |
| | | **1,106,261** | **100** |
| **Liabilities** | | | |
| **Non-Current Liabilities** | | | |
| Long term debt instruments | 7 | 2,550,546,632 | - |
| **Current Liabilities** | | | |
| Current tax payable | | 1,453,722 | - |
| Trade and other payables | 9 | 380,066 | - |
| | | **1,833,788** | **-** |
| **Total Liabilities** | | **2,552,380,420** | **-** |
| **Total Equity and Liabilities** | | **2,553,486,681** | **100** |

# PRECINCT FUNDING 1 (RF) LIMITED

(Registration number 2012/079215/06)
AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

## Statement of Comprehensive Income

| | Note(s) | 10 months ended 31 December 2013 R | 10 months ended 28 February 2013 R |
|---|---|---|---|
| Interest income | 10 | 151,706,256 | - |
| Interest expense | 11 | (143,365,206) | - |
| **Net interest income** | | **8,341,050** | - |
| Other income | 12 | 740,990 | - |
| Operating expenses | 13 | (1,822,384) | - |
| **Operating profit** | | **7,259,656** | - |
| Net loss on financial instruments | 14 | (5,723,322) | - |
| **Profit before taxation** | | **1,536,334** | - |
| Taxation | 15 | (430,173) | - |
| **Profit for the period** | | **1,106,161** | - |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the period** | | **1,106,161** | - |

## Statement of Changes in Equity

| | Share capital<br>R | Retained income<br>R | Total equity<br>R |
|---|---|---|---|
| **Balance at 04 May 2012** | - | - | - |
| **Total comprehensive income for the period** | - | - | - |
| Issue of shares | 100 | - | 100 |
| **Total contributions by and distributions to owners of company recognised directly in equity** | **100** | **-** | **100** |
| **Balance at 01 March 2013** | **100** | **-** | **100** |
| Profit for the period | - | 1,106,161 | 1,106,161 |
| Other comprehensive income | - | - | - |
| **Total comprehensive income for the period** | **-** | **1,106,161** | **1,106,161** |
| **Balance at 31 December 2013** | **100** | **1,106,161** | **1,106,261** |
| Note(s) | 8 | | |

## Statement of Cash Flows

| | Note(s) | 10 months ended 31 December 2013 R | 10 months ended 28 February 2013 R |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from/(utilised in) operations | 16 | 7,639,722 | (100) |
| Movement in impairments of financial instruments | | (5,723,322) | - |
| **Net cash from operating activities** | | **1,916,400** | **(100)** |
| **Cash flows from investing activities** | | | |
| Increase in loan to Nedbank Limited | | (1,953,460,811) | - |
| **Net cash from investing activities** | | **(1,953,460,811)** | **-** |
| **Cash flows from financing activities** | | | |
| Proceeds on issue of shares | 8 | - | 100 |
| Increase in long term debt instruments | | 2,550,546,632 | - |
| **Net cash from financing activities** | | **2,550,546,632** | **100** |
| **Total cash movement for the period** | | **599,002,221** | **-** |
| **Total cash at end of the period** | 6 | **599,002,221** | **-** |

# Accounting Policies

## 1. Presentation of audited annual financial statements

The audited annual financial statements have been prepared in accordance with International Financial Reporting Standards, and the Companies Act of South Africa. The audited annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous period.

### 1.1 Financial instruments

**Classification**

Financial instruments, as reflected on the statement of financial position, include all financial assets and financial liabilites, including derivative instruments, but exclude deferred taxation and taxation payable/receivable. Financial instruments are accounted for under IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement. The company does not apply hedge accounting. This accounting policy should be read in conjunction with the classified statement of financial position in note 19.

**Initial recognition and measurement**

Financial instruments are recognised on the statement of financial position when the company becomes a party to the contractual provisions of a financial instrument. All purchases of financial assets that require delivery within the time frame established by regulation or market convention ('regular way' purchases) are recognised at trade date, which is the trade date on which the company commits to purchase the asset. The liability to pay for 'regular way' purchases of financial assets is recognised on trade date, which is when the company becomes a party to the contractual provisions of the financial instrument. Contracts that require or permit net settlement of the change in the value of the contract are not considered 'regular way' contracts and are treated as derivatives between the trade and settlement of the contract.

Financial instruments are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

**Subsequent measurement**

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

Financial instruments at fair value through profit or loss.

Financial assets at fair value through profit or loss consist of instruments that the company has elected, on initial recognition date, to designate as at fair value through profit or loss. The designation of these financial assets at fair value through profit and loss eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from using different bases to measure and recognise the gains and losses of these financial assets.

Financial assets at fair value through profit or loss are measured at fair value, with fair value gains and losses (excluding interest income and interest expense calculated on the amortised-cost basis relating to interest-bearing instruments that have been designated as at fair value through profit or loss) reported in non-interest revenue as they arise. Interest income and interest expense calculated on the amortised-cost basis are reported in interest income and expense.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the company as at fair value through profit or loss. Financial assets classified as loans and receivables are carried at amortised cost, with interest income recognised in profit or loss.

Financial liabilities

All financial liabilities are classified as non-trading liabilities and are measured at amortised cost.

# Accounting Policies

### 1.1 Financial instruments (continued)

**Cash and cash equivalents**

For the purpose of the statement of cash flows, cash includes cash on hand, other cash and cash equivalents, redraw reserve and liquidity reserve.

### 1.2 Tax

**Current tax assets and liabilities**

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

**Deferred tax assets and liabilities**

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 at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

### 1.3 Impairment of financial assets

The company assesses at each end of the reporting period whether there is any indication that a financial asset or group of financial assets may be impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has (or events have) an impact on the estimated future cashflows of the financial asset that can be reliably estimated.

Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the company about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties, or
- observable data indicating that there is a measurable decrease in the estimated future cashflows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the including: a) adverse changes in the payment status of borrowers, or b) national or local economic conditions that correlate with defaults on the assets.

### 1.4 Contingencies and commitments

Transactions are classified as contingencies where the company's obligations depend on uncertain future events. Items are classified as commitments where the company commits itself to future transactions or if the items will result in the acquisition of assets.

# Accounting Policies

### 1.5 Measurement basis of financial instruments

Amortised cost

Amortised cost of financial assets and financial liabilities are measured at fair value plus transaction costs on initial recognition, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, less any cumulative impairment losses.

Fair value

Transaction costs directly attributable to financial assets and financial liabilities other than those at fair value through profit or loss are included in the initial fair value of these instruments. The best evidence of the fair value of a financial asset or financial liability at initial recognition is the transaction price, unless the fair value of the instrument is evidenced by comparison with other current observable market transactions in the same instrument or based on a valuation technique whose variables include only observable market data.

Where quoted market prices or rates are available, such market data is used to determine the fair value of financial assets and financial liabilities that are measured at fair value. The bid price is used to measure financial assets held.

If quoted bid prices are unavailable, the fair value of financial assets and financial liabilities is estimated using pricing models or discounted cashflow techniques. Where discounted cashflow techniques are used, estimated future cashflows are based on management's best estimates and the discount rate used is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures (prices from observable current market transactions in the same instrument without modification or other observable market data) at the reporting date.

### 1.6 Derecognition

The company derecognises a financial asset or part of a financial asset when, and only when, the contractual rights to the cashflows arising from the financial asset have expired; or it transfers the financial asset, including substantially all the risks and rewards of ownership of the asset; or it transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

A financial liability is derecognised when, and only when, the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or has expired. The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss for the year.

### 1.7 Interest income and expense

Interest income and expense are recognised in profit or loss using the effective-interest-rate method taking into account the expected timing and amount of cashflows. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant year. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

### 1.8 Use of estimates and key management assumptions

The company's policy regarding the credit impairment of loans and advances is aligned with that of Nedbank Limited. In terms of this policy an incurred-loss approach is adopted. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more past events that has occurred since initial recognition. This necessitates the establishment of impairment triggers on the occurrence of which an impairment loss may be recognised.

Credit impairment is based on discounted estimated future cashflows on an asset or group of assets, where such objective evidence of impairment exists. The discount rate used to calculate the recoverable amount excludes consideration of any anticipated future credit losses.

# Notes to the Audited Annual Financial Statements

| | 10 months ended 31 December 2013 R | 10 months ended 28 February 2013 R |
|---|---|---|

## 2. New Standards and Interpretations

### 2.1 Standards and interpretations effective and adopted in the current period

In the current period, the company has adopted the following standards and interpretations that are effective for the current financial period and that are relevant to its operations:

| Standard/ Interpretation: | Effective date: Years beginning on or after |
|---|---|
| • IFRS 10 Consolidated Financial Statements | 01 January 2013 |

### 2.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 January 2014 or later periods:

| Standard/ Interpretation: | Effective date: Years beginning on or after |
|---|---|
| • IFRS 9 Financial Instruments | 01 January 2015 |
| • Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) | 01 January 2014 |

## 3. Loan to Nedbank Limited

**Holding company**

| | | |
|---|---|---|
| Loan to Nedbank Limited (at amortised cost) | 1,959,184,133 | - |
| | 1,959,184,133 | - |
| Impairment | (5,723,322) | - |
| | **1,953,460,811** | - |

The loan to Nedbank Limited represents an amount owed to Precinct Funding 1 (RF) Limited by Nedbank Limited. This loan is backed by commercial and retail property loans, which did not achieve derecognition from Nedbank Limited's statement of financial position, in terms of derecognition principles set out in IAS 39 Financial Instruments: Recognition and Measurement, following the legal sale of such loans by Nedbank Limited to Precinct Funding 1 (RF) Limited. As a result, the transaction has been presented, for accounting purposes, as a Loan to Nedbank Limited as opposed to commercial and retail property loans themselves, given that derecognition of such loans was not achieved by Nedbank Limited. See analysis of pool of loans in note 20.

## 4. Deferred tax

**Deferred tax asset**

| | | |
|---|---|---|
| Deferred tax - impairments | 1,023,549 | - |
| Deferred tax asset | 1,023,549 | - |

## 5. Trade and other receivables

| | | |
|---|---|---|
| Trade receivables | 100 | 100 |

## Notes to the Audited Annual Financial Statements

| | 10 months ended 31 December 2013 R | 10 months ended 28 February 2013 R |
|---|---|---|

### 6. Cash and cash equivalents

Cash and cash equivalents consists of:

| | | |
|---|---|---|
| Redraw reserve | 203,373,481 | - |
| Liquidity reserve | 156,754,908 | - |
| Cash on hand | 119,756,291 | - |
| Other cash and cash equivalents | 119,117,541 | - |
| | **599,002,221** | **-** |

### 7. Long term debt instruments

The long term debt instruments consist of the following:

| | | |
|---|---|---|
| **Listed - External** | | |
| Class A1 notes | 353,859,397 | - |
| Class A2 notes | 480,406,931 | - |
| Class A3 notes | 606,925,973 | - |
| Class B notes | 303,569,836 | - |
| | **1,744,762,137** | **-** |
| **Listed - Internal** | | |
| Class A1 notes | 202,205,370 | - |
| Class A2 notes | 75,853,726 | - |
| Class C notes | 101,343,096 | - |
| Class D notes | 126,723,390 | - |
| | **506,125,582** | **-** |
| **Heading** | | |
| Listed - External | 1,744,762,137 | - |
| Listed - Internal | 506,125,582 | - |
| Subordinated loan | 299,658,913 | - |
| | **2,550,546,632** | **-** |

The notes are secured floating rate notes, backed by commercial and retail loans purchased from Nedbank Limited, and have a maturity date of 27 March 2028. The notes bear interest at the 3 month JIBAR plus a specified margin resetting quarterly on the 27 January, April, July, October. Inerest is settled quarterly on these interest payment dates.

Margin over 3-month Jibar

- Class A1 notes 1.06%
- Class A2 notes 1.25%
- Class A3 notes 1.34%
- Class B notes 1.54%
- Class C notes 2.40%
- Class D notes 2.60%

The 3-month JIBAR applicable to the notes in issue at year end was 5.142%

## Notes to the Audited Annual Financial Statements

| | 10 months ended 31 December 2013 R | 10 months ended 28 February 2013 R |
|---|---|---|

### 8. Share capital

**Authorised**

1 000 Ordinary no par value shares
100 Cumulative redeemable preference shares of R0.01 each

| | | |
|---|---|---|
| **Issued** | | |
| 100 Ordinary no par value shares | 100 | 100 |
| 1 Cumulative redeemable preference share of R0.01 each | - | - |
| | **100** | **100** |

During the current period 100 cumulative redeemable preference shares of R0.01 each were authorised. In March 2013, 1 cumulative redeemable preference share was issued to Nedbank Limited.

### 9. Trade and other payables

| | | |
|---|---|---|
| Trade payables | 303,001 | - |
| VAT | 77,065 | - |
| | **380,066** | **-** |

### 10. Interest income

| | | |
|---|---|---|
| Interest on advances | 80,866,999 | - |
| Interest on intercompany assets | 70,839,257 | - |
| | **151,706,256** | **-** |

### 11. Interest expense

| | | |
|---|---|---|
| External notes | 85,063,986 | - |
| Internal notes (A1 and A2) | 13,167,247 | - |
| Internal notes (C and D) | 13,200,973 | - |
| Subordinated loan | 31,933,000 | - |
| | **143,365,206** | **-** |

### 12. Other income

| | | |
|---|---|---|
| Raising fees | 252,500 | - |
| Administration and management fees | 235,212 | - |
| Other income | 86,248 | - |
| Sundry Interest | 167,030 | - |
| | **740,990** | **-** |

### 13. Operating expenses

| | | |
|---|---|---|
| Audit fees | 303,000 | - |
| Administration fees | 285,000 | - |
| Service fees | 1,095,336 | - |
| Other fees | 139,048 | - |
| | **1,822,384** | **-** |

# Notes to the Audited Annual Financial Statements

| | 10 months ended 31 December 2013 R | 10 months ended 28 February 2013 R |
|---|---|---|

## 14. Net loss on financial instruments

| | | |
|---|---|---|
| Specific impairments | (849,281) | - |
| Portfolio impairments | (4,874,041) | - |
| | **(5,723,322)** | **-** |

## 15. Taxation

### Major components of the tax expense

| | | |
|---|---|---|
| **Current** | | |
| Local income tax - current period | 1,453,722 | - |
| **Deferred** | | |
| Deferred tax - impairments | (1,023,549) | - |
| | **430,173** | **-** |

### Reconciliation of the tax expense

Reconciliation between accounting profit and tax expense.

| | | |
|---|---|---|
| Accounting profit | 1,536,334 | - |
| Tax at the applicable tax rate of 28% (February 2013: 28%) | 430,173 | - |

## 16. Cash generated from/(utilised in) operations

| | | |
|---|---|---|
| Profit before taxation | 1,536,334 | - |
| **Adjustments for:** | | |
| Movement in impairments of finacial instruments | 5,723,322 | - |
| **Changes in working capital:** | | |
| Trade and other receivables | - | (100) |
| Trade and other payables | 380,066 | - |
| | **7,639,722** | **(100)** |

## 17. Risk management

### Financial risk management

In common with all other businesses, the company is exposed to financial risks. These risks are managed as part of the normal operations of the company and the board of directors oversees the effectiveness of risk management. In addition, the duties of the Audit, Risk and Compliance Committee of Nedbank Limited encompass the activities of the company. The more important financial risks to which the company is exposed are described below:

## Notes to the Audited Annual Financial Statements

| | 10 months ended 31 December 2013 R | 10 months ended 28 February 2013 R |
|---|---|---|

### 17. Risk management (continued)

**Liquidity risk**

The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities.

| At 31 December 2013 | Less than 1 year | Between 1 and 5 years | More than 5 years | Non Determinable | Total |
|---|---|---|---|---|---|
| Long term debt instruments | - | - | (2,550,546,632) | - | (2,550,546,632) |
| Current tax | (1,453,722) | - | - | - | (1,453,722) |
| Trade and other payables | (380,066) | - | - | - | (380,066) |
| | **(1,833,788)** | **-** | **(2,550,546,632)** | **-** | **(2,552,380,420)** |

The contractual maturity of the long term debt instruments is 27 March 2028.

The liquidity and interest rate risk of Precinct Funding 1 (RF) Limited is managed by Nedbank Assets and Liabilities Committee (ALCO) which meets monthly and reports quarterly to the Board Risk Committee.

**Market risk**

The company's activities expose it primarily to financial risks of changes in interest rates. The company seeks to minimise the effects of interest rate risks by using the derivative financial instruments. The use of financial derivative is governed by the company's policies approved by the board of directors, which provide written principles relating to interest rate risk and the use of financial derivative and non-derivative financial instruments. The company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

**Interest rate risk**

The company's activities expose it primarily to financial risks of differences in the base interest rate. The interest rate risk is monitored by management on a regular basis. The risk is minimized through the set interest rate margins on the JIBAR linked issued notes per the JSE Final Offering Circular. The company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company makes use of an internal risk management policy (credit committee approval policy), and utilises the Nedbank Group credit risk monitoring process (Credit Approval Policy of Nedbank Limited) to govern lending activities to external parties. The company only transacts with creditworthy counterparties. In addition financial assets may only be introduced into the program provided they meet certain Eligibility Criteria prescribed by the programme agreements.

The primary measures used to identify, monitor and report on the level of exposure to credit risk in the group are: individual loan and loan portfolio ageing and performance analysis, analysis of impairment adequacy ratios, analysis of loss ratio trends and analysis of loan portfolio profitability.

The company's maximum to credit exposure to credit risk in respect of the mortgage loans is the balance of outstanding advances before taking into account the value of collateral held as security against such exposures and impairments raised (2013: R1 953 460 811). The collateral held as security for the mortgage asset exposures is in the form of first indemnity bonds over fixed commercial property. An analysis of the exposure to and ageing of the mortgage assets exposure is presented in note 21.

# Notes to the Audited Annual Financial Statements

| | 10 months ended 31 December 2013 R | 10 months ended 28 February 2013 R |
|---|---|---|

## 17. Risk management (continued)

### Operational risk

Operational risk is the risk of direct or indirect losses arising from inadequate or failed internal processes, employees and technology, and from external events. One of the core objectives of the company is to establish and instil a culture of control, compliance and risk consciousness appropriate to its business. In terms of the transaction documents applicable to the company, all these functions are outsourced to Nedbank Limited.

## 18. Related parties

All transactions with related parties are conducted at arm's length. Nedbank Limited provides administration services, the liquidity facility, the credit enhancement facility and all other related services.

The following significant transactions were entered into between Precinct Funding 1 (RF) Limited and the following related parties. All of these transactions were entered into in the normal course of business and are market-related.

### Related party balances

| | 10 months ended 31 December 2013 R | 10 months ended 28 February 2013 R |
|---|---|---|
| **Nedbank Capital: Synthesis Funding Limited [Due from / (to)]** | | |
| Notes A1 | (202,205,370) | - |
| Notes A2 | (75,853,726) | - |
| **Nedbank Limited [Due from / (to)]** | | |
| Loan to Nedbank | 1,953,460,811 | - |
| Cash and cash equivalents | 599,002,221 | - |
| Notes C | (101,343,096) | - |
| Notes D | (126,723,390) | - |
| Subordinated loan | (299,658,913) | - |
| **The Securitisation Issuer Owner Trust** | | |
| Trade receivables | 100 | 100 |

### Related party transactions

| | 10 months ended 31 December 2013 R | 10 months ended 28 February 2013 R |
|---|---|---|
| **Interest paid to (received from) related parties** | | |
| Loan to Nedbank Limited | (80,866,999) | - |
| Nedbank Limited - Intercompany | (70,839,257) | - |
| Internal notes (A1 and A2) | 13,167,247 | - |
| Internal notes (C and D) | 13,200,973 | - |
| Subordinated loan | 31,933,000 | - |
| **Administration fees paid to related parties** | | |
| Nedbank Limited | 285,000 | - |
| **Services fees paid to related parties** | | |
| Nedbank Limited | 1,095,366 | - |
| **Other fees paid to related parties** | | |
| Nedbank Limited | 139,048 | - |

# Notes to the Audited Annual Financial Statements

| | 10 months ended 31 December 2013 R | 10 months ended 28 February 2013 R |
|---|---|---|

## 19. Contingencies and commitments

The company has undrawn facilities of R2 735 584 (February 2013: nil) at the reporting date.

The Securitisation Security SPV Owner Trust has a limited recourse guaranteed in favour of noteholders and secured creditors. The company has indemnified the Securitisation Security SPV Owner Trust in respect of claims made under the guarantee. As security for such indemnities, the company has ceded in security the assets to the Precinct Funding 1 (RF) Limited.

## Notes to the Audited Annual Financial Statements

20. Categories of financial instruments

| | Note(s) | Debt instruments at amortised cost | Financial assets / liabilities at amortised cost | Equity and non financial assets and liabilities | Total |
|---|---|---|---|---|---|
| **Categories of financial instruments - December 2013** | | | | | |
| **Assets** | | | | | |
| **Non-Current Assets** | | | | | |
| Deferred tax | 4 | - | - | 1,023,549 | 1,023,549 |
| **Current Assets** | | | | | |
| Loans to group companies | 3 | 1,953,460,811 | - | - | 1,953,460,811 |
| Trade and other receivables | 5 | - | 100 | - | 100 |
| Cash and cash equivalents | 6 | 599,002,221 | - | - | 599,002,221 |
| | | 2,552,463,032 | 100 | - | 2,552,463,132 |
| Total Assets | | 2,552,463,032 | 100 | 1,023,549 | 2,553,486,681 |

## Notes to the Audited Annual Financial Statements

20. Categories of financial instruments (continued)

| | Note(s) | Debt instruments at amortised cost | Financial liabilities / assets at amortised cost | Equity and non financial assets and liabilites | Total |
|---|---|---|---|---|---|
| **Equity and Liabilities** | | | | | |
| **Equity** | | | | | |
| Equity Attributable to Equity Holders of Parent: | | | | | |
| Share capital | 8 | - | - | 100 | 100 |
| Retained income | 8 | - | - | 1,106,161 | 1,106,161 |
| | | - | - | **1,106,261** | **1,106,261** |
| **Total Equity** | | - | - | 1,106,261 | 1,106,261 |
| Liabilities | | | | | |
| **Non-Current Liabilities** | | | | | |
| Long term debt instruments | 7 | - | 2,550,546,632 | - | 2,550,546,632 |

## Notes to the Audited Annual Financial Statements

20. Categories of financial instruments (continued)

| | Note(s) | Debt instruments at amortised cost | Financial liabilities / assets at amortised cost | Equity and non financial assets and liabilites | Total |
|---|---|---|---|---|---|
| **Current Liabilities** | | | | | |
| Current tax payable | | - | - | 1,453,722 | 1,453,722 |
| Trade and other payables | 9 | - | 380,065 | - | 380,065 |
| | | - | 380,065 | 1,453,722 | 1,833,787 |
| **Total Liabilities** | | - | 2,550,926,697 | 1,453,722 | 2,552,380,419 |
| **Total Equity and Liabilities** | | - | 2,550,926,697 | 2,559,983 | 2,553,486,680 |

## Notes to the Audited Annual Financial Statements

20. Categories of financial instruments (continued)

Categories of financial instruments - February 2013

| | Note(s) | Debt instruments at amortised cost | Financial liabilities / assets at amortised cost | Equity and non financial assets and liabilites | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current Assets** | | | | | |
| Trade and other receivables | 5 | - | 100 | - | 100 |
| **Total Assets** | | - | 100 | - | 100 |
| **Equity and Liabilities** | | | | | |
| **Equity** | | | | | |
| Equity Attributable to Equity Holders of Parent: | | | | | |
| Share capital | 8 | - | - | 100 | 100 |
| **Total Equity** | | - | - | 100 | 100 |
| **Total Equity and Liabilities** | | - | - | 100 | 100 |

## Notes to the Audited Annual Financial Statements

| | 10 months ended 31 December 2013 R | 10 months ended 28 February 2013 R |
|---|---|---|

### 21. Analysis - Loan to Nedbank Limited

All property loans assigned to Precinct Funding 1 (RF) Limited at 31 December 2013 had a maximum maturity of 25 years. The analysis of these loans is a follows:

| | | |
|---|---|---|
| **Classification of property loans** | | |
| Neither past due nor impaired | 1,905,637,169 | - |
| Past due but not impaired | 42,146,727 | - |
| Default - no impairment | 5,650,142 | - |
| Default - impaired | 5,750,095 | - |
| | **1,959,184,133** | **-** |
| **Age analysis of past due but not impaired** | | |
| < 30 days | 42,146,727 | - |
| 31 < 90 days | - | - |
| | **42,146,727** | **-** |
| **Credit quality of neither past due nor impaired** | | |
| NGR 1-12 | 733,262,965 | - |
| NGR 13-20 | 1,172,374,204 | - |
| NGR 21-25 | - | - |
| | **1,905,637,169** | **-** |
| **Credit quality of past due but not impaired** | | |
| NGR 1-12 | - | - |
| NGR 13-20 | - | - |
| NGR 21-25 | 42,146,727 | - |
| | **42,146,727** | **-** |

NGR 1-12 represents borrowers who demonstrate a strong capacity to meet financial obligations and who have a negligible or low probability of default.

NGR 13-20 represents borrowers who demonstrate a satisfactory ability to meet financial obligations and who have a low or moderate probability of default.

NGR 21-25 represents borrowers who are of higher risk. However the borrower has not defaulted and is continuing to make repayments.

| **Analysis of impairments - 2013** | **Specific** R | **Portfolio** R | **Total** |
|---|---|---|---|
| Statement of comprehensive income - charge | 849,281 | 4,874,041 | 5,723,322 |

Loans and advances are in certain circumstances renegotiated in response to an adverse change in the circumstances of the borrower.

Activities and concessions typical of renegotiating loans include, amongst others, extended payment arrangements or modification of the terms of the loan/advance, pending a change in circumstances of the client. Following restructuring of a loan, an overdue account is usually monitored for a further period of time, until management is confident that the account has been rehabilitated, before resetting the status of the account to 'current'.