TORQUE SECURITISATION (RF) LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2012/030043/06)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

TORQUE SECURITISATION (RF) LIMITED

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

CONTENTS **PAGE**

CORPORATE GOVERNANCE STATEMENT	1-6
STATEMENT OF THE BOARD OF DIRECTORS' RESPONSIBILITY	7
CERTIFICATE BY THE COMPANY SECRETARY	8
AUDIT COMMITTEE REPORT	9-10
INDEPENDENT AUDITOR'S REPORT	11
BOARD OF DIRECTORS' REPORT	12-13
STATEMENT OF FINANCIAL POSITION	14
STATEMENT OF COMPREHENSIVE INCOME	15
STATEMENT OF CHANGES IN EQUITY	16
STATEMENT OF CASH FLOWS	17
NOTES TO THE FINANCIAL STATEMENTS	18-45

TORQUE SECURITISATION (RF) LIMITED

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

CORPORATE GOVERNANCE STATEMENT

Torque Securitisation (RF) Limited (Torque)(the company) was established by Iemas Financial Services (Co-operative) Limited (Iemas) in 2012 to serve as a special purpose vehicle to buy certain participating assets from Iemas, subject to the eligibility criteria and portfolio covenants of the Programme Memorandum with Iemas. Torque initially funded the purchase of the participating assets by issuing notes to investors.

INTEGRATED REPORT

Torque is a special purpose vehicle with no employees. Torque's integrated report is limited. It should be read in conjunction with Iemas' annual integrated report. Although Iemas is not a publicly-listed entity, it produces integrated annual reports covering the group's most material issues so as to inform the investors of Torque about the operations of the entity and group during the year.

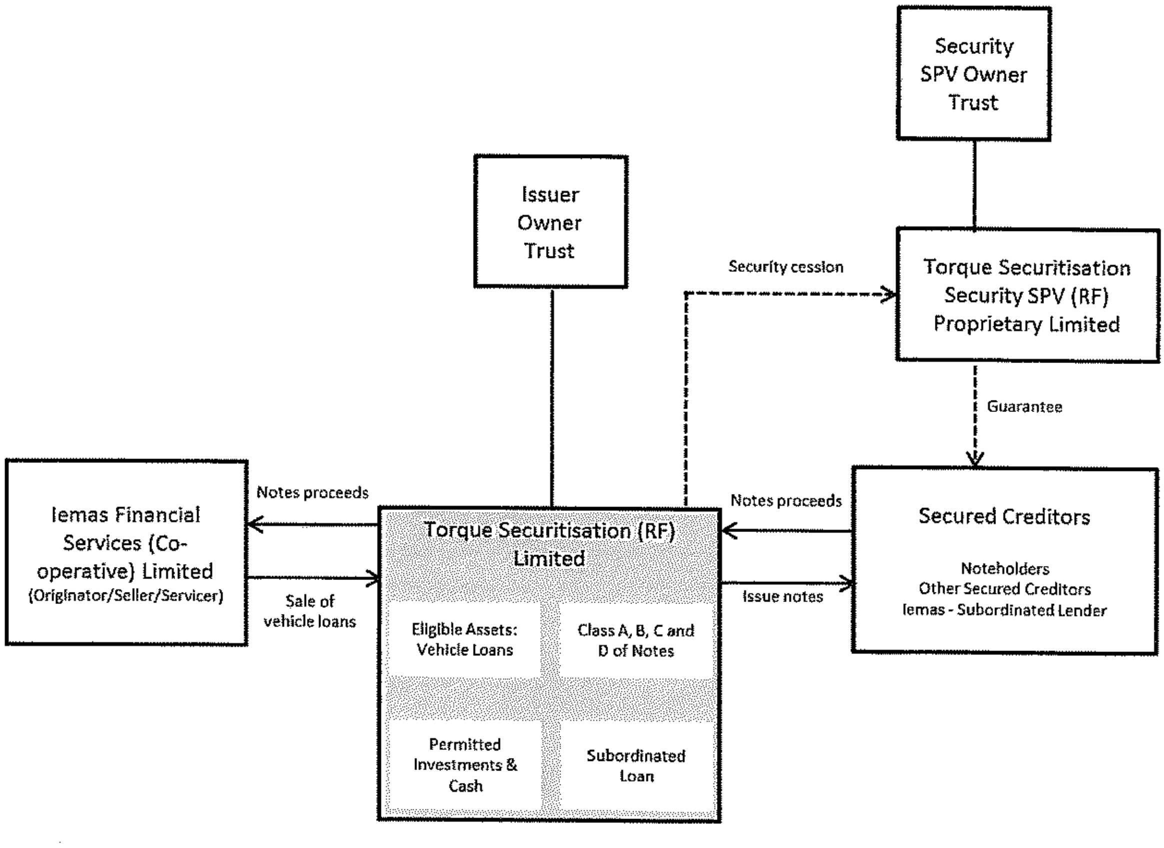
REPORTING PERIOD AND PRINCIPLES

This report covers the financial year ending on 31 August 2016. The annual financial statements have been produced in accordance with International Financial Reporting Standards and in the manner required by the Companies Act (2008). The reporting is aligned with the principles of the King Report on Corporate Governance for South Africa.

COMPANY INFORMATION

Torque is a special purpose vehicle established to enable Iemas to obtain additional funding by selling certain participating assets to Torque Securitisation (RF) Limited. The company has issued JSE listed notes.

Company structure



TORQUE SECURITISATION (RF) LIMITED

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

Overview

Iemas sold participating assets, subject to the eligibility criteria and the portfolio covenants of the Programme Memorandum, to Torque. However, Torque commenced with voluntary early amortisation on 17 May 2016 and is consequently not permitted to acquire or replace any further participating assets in terms of the Programme Memorandum. The early amortisation process requires that subsequent cash generated by the structure should, except for statutory and other expenses, be utilised to repay the interest and capital of rated notes. All note repayments will be paid in descending order of rank based on the rating classes of the notes. Notes of equal ranking will be paid pari passu until the aggregate capital and interest of ranked notes have been repaid. The first capital repayment was on 15 August 2016 where R124 million of the class A notes were repaid.

Torque initially funded the purchase of assets by issuing unsubordinated, secured, compulsory redeemable, asset-backed notes to investors. These notes were issued to various investors as class A1, class A2, class A3, class A4, class A5, class B, class B2, class C, class C2 and class D notes. The class A1 notes were redeemed in August 2014 and the class A2, class B en class C notes were redeemed in August 2015.

The class B, class C and class D notes are subordinated in favour of the class A notes, the class C and class D notes are subordinated in favour of the class B notes and the class D notes are subordinated in favour of the class C notes.

Torque Securitisation Security SPV (RF) Proprietary Limited (the Security SPV) was established for the purpose of guaranteeing the performance by Torque of its obligations to the secured creditors set out in the Priority of Payments as included in the Programme Memorandum. The Security SPV has accordingly issued the guarantee to the secured creditors on the basis that they will only proceed with a claim against the Security SPV under the guarantee in the event of Torque failing to meet its obligations to them.

Torque has provided the Security SPV with an indemnity in terms of which it indemnifies the Security SPV against all claims made under the guarantee. Torque's obligations to the Security SPV under this indemnity are secured by a cession and pledge of all Torque's assets to the Security SPV.

Torque has appointed Iemas as the servicer in respect of the participating assets and Iemas will continue, inter alia, to collect payments and administer and manage the portfolio of participating assets on an ongoing basis as set out in the servicing agreement.

TMF Corporate Services (SA) Proprietary Limited acts as trustee of both the Torque Issuer Owner Trust and the Torque Security SPV Owner Trust. In addition they act as the company secretary for Torque. The main functions as trustee include:

- Holding the shares of Torque Securitisation (RF) Limited and Torque Securitisation Security SPV (RF) Proprietary Limited.
- Review of documentations and signatory thereof impacting on the Owner Trusts, as and when required.
- Director services

FirstRand Bank Limited (acting through its Rand Merchant Bank division) (RMB) has undertaken to fulfil the role of the administrator of Torque and to render the services and carry out the responsibilities of Torque as set out in the administration agreement. Some of these general administration responsibilities include:

- Prepare and submit all applications, requests and filings that may be necessary in connection with the administration services;
- Determine the amount of taxes reasonably expected to be paid by Torque during the current financial year;
- Submit all correctly completed returns to the taxation authorities;
- Give reasonable assistance to TMF Corporate Services (SA) Proprietary Limited in respect of the company secretarial functions carried out by them;
- Keep records and documents for Torque in relation to the participating assets;
- Ensure that Torque is audited annually.

GOVERNANCE

Board composition

The board of directors comprise of three independent non-executive directors and a non-executive director. The board of directors is considered to be effective in size and composition in light of the purpose for which the company was established.

Independent non-executive directors

Willem Hermanus Swanepoel (65)
Chairperson of the board

With over 35 years' experience in the banking sector, Willie Swanepoel holds various higher and advanced diploma's in banking, finance and law from various tertiary institutions. Having successfully headed up Nedbank Namibia as their COO, Willie decided to join the TMF Corporate Services (SA) team as a structured finance specialist.

Brendan Harmse (50)
CA(SA)

Mr Harmse is a director of TMF Corporate Services (SA) Proprietary Limited. He has been involved in the South African debt capital markets since 2001. He is also currently the vice chairman of the South African Securitisation Forum (SASF).

Rishendrie Thanthony (33)
CA(SA) and Chairperson of the audit committee

Miss Thanthony is a structured finance specialist for TMF Corporate Services (SA) Proprietary Limited. She is a Chartered Accountant (SA) who completed her graduate studies at the University of KwaZulu-Natal. She has a strong audit background and gained valuable accounting and internal control related experience in the public and telecommunications sectors, whilst completing her articles at Nkonki Inc.

Alternate non-executive director

Olivia Ann Ferreira (33)
CA(SA)

After completing her professional qualification with KPMG in 2008, Olivia joined Absa's secured lending team and subsequently Quince Capital, a subsidiary of Reunert Ltd, as the Financial Manager. Whilst employed at Quince Capital, Olivia managed and administered, amongst other, a R2bn asset book, a securitisation vehicle and assisted with the analysis of various funding options. In 2012 she was appointed as the General Manager: Finance for Nashua Kopano, a Reunert Limited subsidiary, therein extending both her operational and commercial business acumen. In 2015 she returned to Quince Capital as the Operations Director furthering her experience in the financial, operations and information technology functions. In 2016 Olivia joined TMF Corporate Services (SA) Proprietary Limited in a dual-capacity as Chief Operations Officer and Head of Structured Finance.

Non-executive director

Tom O'Connell (46)
BCom(Hons), CTA, CA(SA), Management Development Programme (MDP), International Executive Programme (INSEAD). Member of the South African Institute of Chartered Accountants (SAICA)

Prior to starting his career at Iemas in October 1995, Mr O'Connell completed his articles at PricewaterhouseCoopers Inc. He was appointed as head of Iemas' Finance division in October 1998 and as executive director in 2005. Mr O'Connell has 23 years' experience in finance, funding and audit and his responsibilities include the finance, funding and administration functions in Iemas.

Directorate changes

Mrs Oliva Ferreira was appointed as alternate director to Brendan Harmse on 7 July 2016.

Role and function of the board

The board of directors remains responsible for the company in its entirety. The board of directors is the highest decision-making body and is ultimately responsible for governance.

Board committees

Torque had one committee of the board of directors in place during the year under review, being the audit committee.

The audit committee comprises of the three independent members of the board of directors. Mrs Thanthony chairs the audit committee. Other directors and assurance providers attend meetings by invitation.

The audit committee's primary objective is to assist the board of directors in discharging its responsibilities relating to the management of risk, safeguarding of assets, financial control and reporting, internal controls, investor reporting and corporate governance, particularly in respect of legislative requirements, compliance with accounting standards and general regulatory compliance.

Governance Practices

Board meetings and attendance

The board of directors meets on a quarterly basis or more frequently if circumstances require. The attendance of meetings by the directors of the company during the year up to the date of this report is reflected below:

Director	Sep-15	Dec-15	Mar-16	Jul-16
Brendan Harmse	No	Yes	Yes	Yes
Willie Swanepoel (chairperson of the board)	Yes	No	Yes	Yes
Rishendrie Thanthony	Yes	Yes	Yes	Yes
Tom O'Connell	Yes	Yes	Yes	Yes
Olivia Ferreira (alternate director)	N/A	N/A	N/A	Yes

Director appointments

All appointments follow a formal and transparent procedure and are subject to confirmation by the shareholders at the annual general meeting. TMF Corporate Services (SA) Proprietary Limited provides independent directors and trust services to the company and applies professional care, following due processes in doing so.

Authority

The level of power and authority on the board of directors is such that no one director has unfettered powers to make decisions.

Induction of new directors

New board members with no or limited board experience receive training to inform them of their duties, including fiduciary responsibilities, powers and potential liabilities.

Board skills and development

Directors are expected to keep themselves abreast of changes and trends in the business and in the company's environment and markets, as well as changes and trends in the economic, political, social and legal climate generally. The directors have access to training and advice from the company secretary and are entitled to seek independent professional advice concerning the affairs of the company at the company's expense. The board of directors is briefed on external changes relevant to the business as and when required.

Confidentiality

Directors of the company are required to comply with the prescriptions of the JSE Limited regarding inside information, transactions and disclosure of transactions.

Company secretary

The company secretary has a key role to play in ensuring that the board of directors' procedures are followed and reviewed regularly, while also having the responsibility in law to ensure that each board member is made aware of and provided with guidance as to their duties, responsibilities and powers. The company secretary is responsible for ensuring that the applicable rules and regulations for the conduct of the affairs of the board of directors are complied with. The company secretary must maintain statutory books in accordance with legal requirements and must provide the board of directors as a whole and the board members individually with detailed guidance as to how their responsibilities should be properly discharged in the best interests of the company. The company secretary has established a social and ethics committee as required by the Companies act.

Conflicts of interest

The company secretary maintains the declarations of interest and related-party disclosures of the board of directors. The board of directors is required to declare and update their interest at each board of directors meeting. Directors who have a conflict of interest on any matter to be discussed at meetings are required to inform the chairperson and the secretary of the board of directors before the meeting. Both the chairperson and the secretary of the board of directors are of the opinion that no conflict of interest or interests in contracts exist that requires special attention from the board.

Finance, internal audit and company secretarial functions

The company has concluded a servicer agreement with Iemas and an administration agreement with FirstRand Bank Limited (acting through its Rand Merchant Bank division) whereby it ensures the fulfilment of certain duties, including internal audit and finance functions, where applicable. Company secretarial functions are carried out by TMF Corporate Services (SA) Proprietary Limited.

Relations and communication with stakeholders

The board of directors is committed to keeping the investor community informed of developments in the company's business. During the financial year road shows were held to the investors to inform them of the voluntary early amoritsation process. The road show also provided them with a financial overview for both Torque and Iemas as well as a performance update on their investments in Torque.

Risk management

The board of directors is responsible for the total process of risk management, as well as for forming its own opinion on the effectiveness of the process. The day-to-day administration and management of the entity is provided in terms of the servicer agreement with Iemas and an administration agreement with FirstRand Bank Limited (acting through its Rand Merchant Bank division). The management of these entities is accountable to the board of directors for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the company.

Internal control environment

The company continues to review its internal controls to ensure it maintains a strong and effective internal control environment. The audit committee considers significant control matters raised by the servicer, administrator, the Iemas internal audit team and the company's external auditors who reports their findings to the board of directors through the audit committee. Where weaknesses are identified the audit committee ensures that responsible parties take appropriate action. The members of the audit committee has reviewed the finance function by means of servicer and administrator declarations and reports, and is of the opinion that the function itself is adequate and that the internal financial controls are working optimally. There are no material deficiencies to be reported on in the past financial year.

External audit

The audit committee is responsible for assessing the independence of and nominating the company's external auditor, PricewaterhouseCoopers Inc. The external auditors are responsible for providing an independent, reasonable, but not absolute, assurance on the fair presentation of the financial statements.

Going concern

The board of directors believes that the company has adequate resources and facilities available to continue to operate in the foreseeable future. The board of directors, therefore, continues to apply the going concern basis in preparing the annual financial statements. The board of directors is satisfied that there is no reason to believe that the company will not continue as a going concern in the coming financial year.

TORQUE SECURITISATION (RF) LIMITED

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

STATEMENT OF THE BOARD OF DIRECTORS' RESPONSIBILITY

The board of directors is responsible for the preparation of the annual financial statements of Torque Securitisation (RF) Limited. In discharging this responsibility, the board of directors relies on the servicer in conjunction with the administrator to prepare the annual financial statements presented on page 12 to 45 in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act and for keeping adequate accounting records in accordance with the company's system of internal control.

In preparing the annual financial statements, suitable accounting policies have been applied and reasonable estimates have been made by the board of directors. The financial statements incorporate full and responsible disclosure in line with the company's philosophy on corporate governance.

The board of directors is responsible for the company's system of internal control. To enable the board of directors to meet these responsibilities, the board of directors sets the standards for internal control to reduce the risk of error or loss in a cost effective manner. The standards include the appropriate delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company.

Based on the information and explanations provided by the servicer, administrator and the Iemas internal auditors, nothing has come to the attention of the board of directors to indicate that the internal controls are inadequate and that the financial records may not be relied on in preparing the annual financial statements in accordance with IFRS. Nothing has come to the attention of the board of directors to indicate any breakdown in the functioning of internal controls, resulting in a material loss to the company, during the year and up to the date of this report. Based on the effective internal controls implemented by the servicer and administrator, the board of directors is satisfied that the annual financial statements fairly present the state of affairs of the company, at the end of the financial year, and the comprehensive income and cash flows for the year.

The going-concern basis has been adopted in preparing the annual financial statements. The board of directors has no reason to believe that the company will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These annual financial statements support the viability of the company.

No event, which is material to the financial affairs of the company, has occurred to the best of the knowledge and belief of the board of directors between the reporting date and the date of approval of the annual financial statements that would require either an adjustment or additional disclosure in the annual financial statements.

The company's external auditors, PricewaterhouseCoopers Incorporated, audited the financial statements. Their report on the fair presentation of the annual financial statements is presented on page 11.

The corporate governance statement and the annual financial statements for the year ended 31 August 2016, were approved by the board of directors on 6 December 2016 and are signed on its behalf by:

TD O'Connell
Director

W Swanepoel
Director

TORQUE SECURITISATION (RF) LIMITED

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

CERTIFICATE BY THE COMPANY SECRETARY

TMF Corporate Services (SA) Proprietary Limited declare that, to the best of our knowledge and belief, the company has lodged with the Registrar of Companies all such returns as are required by the Companies Act, 71 of 2008, and that such returns are true, correct and up to date.

TMF Corporate Services (SA) Proprietary Limited
Company secretary
P O Box 652514, Benmore, 2010
3rd Floor, 200 on Main, Cnr Main and Bowwood Road, Claremont, 7708
Tel: +27 11 666 0760
Fax: +27 86 603 3068

TORQUE SECURITISATION (RF) LIMITED

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

AUDIT COMMITTEE REPORT

Composition

The company has constituted an audit committee comprising of independent non-executive directors and is chaired by an independent non-executive director.

Audit committee meetings and attendance

At the date of this report, the audit committee consists of three independent directors. The audit committee meets at least two times per year, as per its terms of reference, or more frequently, should circumstances dictate. The attendance of meetings by the audit committee members during the year is reflected below:

Name of member	Dec-15	Jul-16
Rishendrie Thanthony (chairperson)	Yes	Yes
Brendan Harmse	Yes	Yes
Willie Swanepoel	No	Yes

Role

The committee's principal duties are to oversee the integrity of the internal control environment, appoint the statutory external auditors, and ensure that the financial statements are appropriate and comply with IFRS.

The main duties and activities of the audit committee in the period under review can be summarised as follows:

Financial statements

The audit committee has reviewed the financial statements for the period, and has considered matters such as the decisions requiring a major element of judgement, compliance with accounting standards and the going concern assumption.

Internal controls

The audit committee has reviewed the effectiveness of the company's internal controls, which include financial, operational and compliance controls, and procedures for identification, assessment and reporting of risks, and has reported to the board of directors on the outcome of this review.

Internal Audit

The internal audit function is performed by the Iemas internal audit team. Internal audit is a key independent assurance provider to the servicer as it has the ability to engage and test in detail the company's control environment. The servicer has undertaken to advise the audit committee of any adverse findings.

During the year internal audit performed a review of the adequacy and effectiveness of the Iemas internal control environment, including its internal financial controls and risk management processes. Based on the results of these reviews, the internal audit function confirmed to the audit committee that nothing has emerged to indicate material weakness in the risk management and internal control process of the servicer which would adversely impact the company.

TORQUE SECURITISATION (RF) LIMITED

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

AUDIT COMMITTEE REPORT

External Audit

The committee nominated PricewaterhouseCoopers Inc. as auditors of the company. The audit committee, in consultation with the board of directors, agreed to the engagement letter, terms of engagement, audit plan and fees for the 2016 financial year.

The audit committee is satisfied that the external auditors were independent of the company, as set out in the section 90(2) of the Companies Act, 2008. This conclusion was arrived at after taking into account the following:
- the representations made by the auditors to the audit committee;
- the auditors do not, except as external auditors or in rendering permitted non-audited services, receive any remuneration or other benefits from the company;
- the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by them;
- the auditors' independence was not prejudiced as a result of any previous appointment as auditor.

The audit committee has reviewed the annual financial statements together with the corporate governance statement and recommends it to the board of directors for approval.

R Thanthony
6 December 2016

pwc

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF TORQUE SECURITISATION (RF) LIMITED

We have audited the financial statements of Torque Securitisation (RF) Limited set out on pages 14 to 45, which comprise the statement of financial position as at 31 August 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Torque Securitisation (RF) Limited as at 31 August 2016, and its financial performance and its cash flows for the year 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 financial statements for the year ended 31 August 2016, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited 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 audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

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 PricewaterhouseCoopers Inc. has been the auditor of Torque Securitisation (RF) Limited for 5 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: M Meyer
Registered Auditor
Sunninghill
6 December 2016

PricewaterhouseCoopers Inc., 2 Eglin Road, Sunninghill 2157, Private Bag X36, Sunninghill 2157, South Africa
T: +27 (11) 797 4000, F: +27 (11) 797 5800, www.pwc.co.za

TORQUE SECURITISATION (RF) LIMITED

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2016

BOARD OF DIRECTORS' REPORT

Nature of business

Torque Securitisation (RF) Limited is a securitisation special purpose vehicle created solely to acquire vehicle loans from Iemas Financial Services (Co-operative) Limited (Iemas). These vehicle loans do not qualify for derecognition in terms of IAS 39 'Financial instruments: Recognition and measurement' in Iemas and are therefore represented by a loan receivable from Iemas.

Legal status of company

The nature and conduct of the company's business is ring-fenced and defined in the company's Memorandum of Incorporation.

Share capital

The authorised share capital is 1000 ordinary shares of no par value of which 1 share was issued to Torque Issuer Owner Trust.

100 Redeemable, non-cumulative no par value preference shares were authorised and issued at a consideration of R100. These shares are redeemable in terms of the Programme Memorandum.

Financial results

The results of the company are detailed in the annual financial statements for the year ended 31 August 2016 as set out on pages 14 to 45.

During the current financial year the presentation of the figures in the financial statements was amended from rand (R) to figures that have been rounded off to the nearest one thousand rand (R'000).

Controlling entity

The company is wholly owned by Torque Issuer Owner Trust, a trust set up solely for the purpose of holding the equity of the company. The trustee of the trust is TMF Corporate Services (SA) Proprietary Limited. Iemas is considered to be the ultimate controlling entity of the company from an IFRS perspective (refer to note 2 of the annual financial statements).

Management of the business

The company is administered by FirstRand Bank Limited (acting through its Rand Merchant Bank division). Iemas, in its capacity as servicer, is responsible for the collection of payments, administration and management of the portfolio of participating assets.

Dividends

The company did not declare any dividends during the year.

Directors and secretariat

The names of the company's board of directors are:
B Harmse (appointed 22 February 2012)
R Thanthony (appointed 15 February 2013)
TD O'Connell (appointed 29 August 2013)
WH Swanepoel (appointed 25 March 2014)
OA Ferreira (appointed 7 July 2016)
TMF Corporate Services (SA) (Pty) Ltd (appointed 24 May 2012) (Company secretariat)

BOARD OF DIRECTORS' REPORT

Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Material events after year-end

No event, which is material to the financial affairs of the company, has occurred between the reporting date and the date of approval of the financial statements.

Auditors

PricewaterhouseCoopers Inc. will continue in office in accordance with section 90 of the Companies Act of 2008.

TORQUE SECURITISATION (RF) LIMITED

STATEMENT OF FINANCIAL POSITION
at 31 August

	Note	2016 R'000	2015 R'000
ASSETS			
Non-current assets			
Loans receivable	2	505,749	574,320
Deferred income tax	3	2,680	2,162
		508,429	576,482
Current assets			
Loans receivable	2	289,050	308,261
Cash and cash equivalents	4	23,537	46,261
Trade and other assets	5	33,865	36,375
Derivative financial assets	10	178	-
Income tax receivable	11	721	-
		347,351	390,897
TOTAL ASSETS		855,780	967,379
EQUITY AND LIABILITIES			
Equity			
Share capital	6	- *	- *
Retained reserves		73,135	56,784
		73,135	56,784
Non-current liabilities			
Notes issued	7	473,258	891,000
Borrowings	8	11,008	11,008
		484,266	902,008
Current liabilities			
Notes issued	7	297,235	2,917
Borrowings	8	79	66
Derivative financial liabilities	10	-	222
Trade and other liabilities	9	1,065	2,278
Income tax payable	11	-	3,104
		298,379	8,587
TOTAL EQUITY AND LIABILITIES		855,780	967,378

** Less than R 1,000.*

TORQUE SECURITISATION (RF) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 August

	Note	2016 R'000	2015 R'000
Interest income		116,759	107,842
Interest expenditure	12	(81,859)	(74,470)
Net interest income before impairment of loans receivable		34,900	33,372
Impairment of loans receivable	13	(8,884)	(6,253)
Net interest income after impairment of loans receivable		26,016	27,119
Other operating income	14	6,096	6,076
Income from operations		32,112	33,195
Operating expenditure	15	(9,289)	(8,019)
Profit before income tax		22,823	25,176
Income tax	16	(6,472)	(7,116)
Profit after income tax		16,351	18,060
Other comprehensive income		-	-
Total comprehensive income for the year		16,351	18,060
Total comprehensive income attributable to:			
- Owners of the company		16,351	18,060

TORQUE SECURITISATION (RF) LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 August

	Share capital R'000	Retained reserves R'000	Capital and reserves R'000
Balance at 1 September 2014	- *	38,724	38,724
Total comprehensive income for the year	-	18,060	18,060
Balance at 31 August 2015	- *	56,784	56,784
Balance at 1 September 2015	- *	56,784	56,784
Total comprehensive income for the year	-	16,351	16,351
Balance at 31 August 2016	- *	73,135	73,135

* *Less than R 1,000.*

TORQUE SECURITISATION (RF) LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 August

	Note	2016 R'000	2015 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from/(utilised by) operations	17	73,467	(39,623)
Interest received (excluding interest receivable)	17	116,554	107,355
Interest paid (excluding accrued interest)	17	(78,519)	(71,487)
Income tax paid	11	(10,815)	(5,292)
Derivative receipts	10	356	1,714
Net cash flow generated from/(utilised by) operating activities		101,043	(7,333)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of notes issued		(123,767)	(3,184) *
Decrease in borrowings		-	(73) *
Net cash flow utilised by financing activities		(123,767)	(3,257)
Net decrease in cash and cash equivalents		(22,724)	(10,590)
Cash and cash equivalents at beginning of the period		46,261	56,851
Cash and cash equivalents at end of the period	4	23,537	46,261

** Comparatives have been condensed.*

1. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the annual financial statements of Torque Securitisation (RF) Limited (Torque) are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The annual financial statements of Torque Securitisation (RF) Limited for the year 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations of International Reporting Standards (IFRIC's) as applicable in South Africa. In addition, it has also been prepared in terms of the requirements of the Companies Act of South Africa, and in accordance with the requirements of the JSE Limited Listings Requirements. These financial statements have been prepared under the historical cost convention, as modified by revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Torque is a securitisation special purpose vehicle created solely to purchase vehicle loans from Iemas. These vehicle loans do not qualify for derecognition in terms of IAS 39 'Financial instruments: Recognition and measurement' in Iemas, therefore a loan receivable from Iemas is accounted for in Torque. Torque earns interest income on the loan receivable from Iemas which results in only this one reporting segment. The directors of the company are the chief operating decision makers. The directors monitor the assets purchased from Iemas in terms of specific eligibility criteria and measure the performance of the participating assets in accordance with the processes disclosed in the financial statements and more specific in the loans receivable, impairment of loans receivable and the financial risk management notes.

During the current financial year the presentation of the figures in the financial statements was amended from rand (R) to figures that have been rounded off to the nearest one thousand rand (R'000).

The financial statements are prepared on the going concern basis.

Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimate and assumption that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

- *Impairment of loans receivable*

  A specific impairment is raised based on the performance over the last year of the vehicle loans in arrears as at the end of the previous financial year. The behaviour is determined according to the different ageing categories (0 to 30 days, 31 to 60 days, 61 to 90 days, 90 to 120 days, 121 to 150 days and over 150 days) of the vehicle loans.

  A portfolio impairment is raised based on the business conducted before the start of the financial year as well as business conducted during the financial year under review. The percentage of this impairment is also adjusted with the growth in the vehicle loans written off during the previous year.

  Post write-off recoveries are adhoc amounts received after vehicle loans have been written off as uncollectable and are disclosed as part of the impairment provision in the statement of comprehensive income.

Standards, interpretations and amendments to published standards that are not yet effective and possibly relevant for the company's operations

New standards, amendments and interpretations to existing standards have been published that are mandatory for the company's accounting periods beginning on or after 1 September 2016. Of those identified as possibly being relevant to the company's operations, the following have not been early adopted by the company:

- *IAS 12, 'Income taxes' (effective from 1 January 2017).* The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets.
- *IAS 7, 'Cash flow statements' (effective from 1 January 2018).* In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements.
- *IFRS 9, 'Financial Instruments' (2009) (effective from 1 January 2018).* This standard is part of the IASB's project to replace IAS 39. The standard addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories, amortised cost and fair value.
- *IFRS 9 (Amendment), 'Financial Instruments' (2010) (effective from 1 January 2018).* The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss.
- *IFRS 9 (Amendment), 'Financial Instruments' (effective from 1 January 2018).* The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39. Early adoption of the above requirements has specific transitional rules that need to be followed. Entities can elect to apply IFRS 9 for any of the following:
  - own credit risk requirements for financial liabilities;
  - classification and measurement (C&M) requirements for financial assets;
  - C&M requirements for financial assets and financial liabilities; and
  - the full current version of IFRS 9 (that is, C&M requirements for financial assets and financial liabilities and hedge accounting).
- *IFRS 15, 'Revenue from contracts with customers' (effective from 1 January 2018).* The FASB and IASB issued the standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer.
- *IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2016).* In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

Standards, interpretations and amendments to published standards that are not yet effective and not relevant for the company's operations

The following new standards, amendments and interpretations to standards are mandatory for accounting periods beginning on or after 1 September 2016 or later periods, but are not relevant to the company's operations:

- *IFRS 10 (Amendment), 'Consolidated financial statements' and IAS 28 (Amendment), 'Investments in associates and joint ventures'* on sale or contribution of assets (Postponed - initially effective from 1 January 2016).
- *IFRS 10 (Amendment), 'Consolidated financial statements' and IAS 28 (Amendment), 'Investments in associates and joint ventures'* on applying the consolidation exemption (effective from 1 January 2016).
- *IFRS 11 (Amendment), 'Joint arrangements'* on acquisition of an interest in a joint operation (effective from 1 January 2016).
- *IFRS 14, 'Regulatory deferral accounts'* (effective from 1 January 2016).
- *IFRS 16, 'Leases'* (effective from 1 January 2019).
- *IAS 16 (Amendment), 'Property, plant and equipment' and IAS 38 (Amendment), 'Intangible assets', on depreciation and amortisation* (effective from 1 January 2016).
- *IAS 16 (Amendment), 'Property, plant and equipment' and IAS 41 (Amendment), 'Agriculture' on bearer plants* (effective from 1 January 2016).
- *IAS 27 (Amendment), 'Separate financial statements' on equity accounting* (effective from 1 January 2016).
- There are a number of minor amendments and improvements which are part of the IASB's annual improvements process issued in September 2014 (effective from 1 January 2016) (not addressed above). These amendments are listed below and are unlikely to have an impact on the company's accounts and have therefore not been analysed in detail:
  - *IFRS 5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations'* (effective from 1 January 2016).
  - *IFRS 7 (Amendment), 'Financial Instruments: Disclosures'* (effective from 1 January 2016).
  - *IAS 19 (Amendment), 'Employee Benefits'* (effective from 1 January 2016).
  - *IAS 34 (Amendment), 'Interim Financial Reporting'* (effective from 1 January 2016).

Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the statement of comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the annual financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Financial instruments

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments, but exclude tax payable and deferred tax. The company recognises a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

Offsetting of financial instruments

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 offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Financial assets

The company classifies its financial assets in the 'Loans and receivables' category and they consist of loans receivable, trade and other assets and cash and cash equivalents (note 2, 4 and 5). Derivatives, where applicable are classified in the 'fair value through profit and loss' category (refer below).

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The classification, recognition and measurement and impairment of financial assets are discussed below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise of 'loans receivable', 'trade and other assets' and 'cash and cash equivalents' in the statement of financial position.

- *Loans receivable and impairment of loans receivable*

  Loans receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less impairment of loans receivable. An impairment of the underlying participating assets is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of these participating assets. This is firstly considered to be when the underlying vehicle loan is in arrears for longer than two months. Secondly, the recoverability of vehicle loans in arrears for more than thirty days, but less than sixty days is also considered. The amount of the impairment of loans receivable is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

For participating assets where no objective evidence in the form of default has been identified, the impairment of loans receivable also covers an estimation of losses incurred in the loan portfolio but not yet reported at year end. These have been estimated based upon historical patterns of losses in each component and reflect the current economic climate in which the borrowers operate. When a loan is uncollectible, it is written off against the respective impairment raised. Subsequent recoveries are credited to the statement of comprehensive income.

Loans receivable are derecognised when the rights to receive cash flows have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

- *Trade and other assets*

Trade and other assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. An impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment is recognised in the statement of comprehensive income.

- *Cash and cash equivalents*

In the statement of cash flows, cash constitute deposits held at call with original maturities of three months or less. Bank overdrafts are included under current liabilities in the statement of financial position, where applicable.

- *Restricted cash*

Cash which is subject to restrictions for its utilisation is stated separately at carrying value.

Financial liabilities

Financial liabilities consist of 'borrowings', 'notes issued' and 'trade and other liabilities'. Derivatives, where applicable are classified in the 'fair value through profit and loss' category (refer below).

Borrowings, notes issued and trade and other liabilities are recognised initially at fair value, net of transaction costs incurred, when they become party to the contractual provisions. These financial liabilities are subsequently stated at amortised cost using the effective interest rate method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings as interest.

Financial liabilities are classified as current liabilities, unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position date.

The company derecognises a financial liability (or part of the liability) from its statement of financial position, when and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Derivative financial instruments

Derivative financial assets/liabilities are initially recognised at fair value on the contract date and are subsequently re-measured to fair value at each reporting date with changes in fair value recognised as profit or loss in the statement of comprehensive income for the period. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. The company's policy is to use derivative instruments (primarily interest rate swaps) to convert its JIBAR-linked debt to prime-linked debt in order to economically hedge the interest rate risk.

Share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Income recognition

Income earned is recognised on the following basis, unless collectability is in doubt in which case it is not recognised:

(1) Interest income is recognised in the statement of comprehensive income on the time proportion basis using the effective interest rate method.

(2) Administration fees are recognised on an accrual basis when the services are rendered.

	2016 R'000	2015 R'000
2. LOANS RECEIVABLE		
Loan to Iemas Financial Services (Co-operative) Limited	807,799	892,581
Impairment provision (note 13)	(13,000)	(10,000)
	794,799	882,581
Non-current portion of loans receivable	505,749	574,320
Current portion of loans receivable	289,050	308,261
	794,799	882,581

The company purchased participating assets, comprising vehicle finance contracts, from Iemas Financial Services (Co-operative) Limited (Iemas) that are subject to the eligibility criteria and portfolio covenants. A security special purpose vehicle was established for the purpose of guaranteeing the performance by the company of its obligation to secured creditors (which include note holders, Iemas as the subordinated lender, Iemas as the first loss loan provider and other creditors of the company) set out in the Priority of Payments as contained in the Programme Memorandum. Iemas retained substantially all the risks and rewards of ownership of the assets due to the nature of the credit enhancements provided by Iemas. In addition the originator has over-collateralized the borrowings. As a result the subordinated retained interest absorbs all the variability in the cash flows and should be recognized in their entirety, because even though the transfer of cash flows has been met, Iemas still retains substantial risks and rewards of ownership. Based on the above facts the assets are still being recognised on Iemas' statement of financial position. Therefore the capital amount outstanding on all contracts is shown as a loan to Iemas. The underlying vehicles pertaining to the contracts also serve as security for the loan. The interest payable on the loan is equal to the interest payable on each individual contract, net of impairment on such underlying contracts.

An impairment provision was raised against the loan to Iemas due to the contractual exposure to the specific underlying assets in Iemas, which did not qualify for accounting derecognition in terms of IAS 39 'Financial instruments: Recognition and measurement' as explained above.

	2016 R'000	2015 R'000
3. DEFERRED INCOME TAX		
Deferred tax assets		
- To be recovered within 12 months	2,680	2,162
The gross movement on the deferred income tax account is as follows:		
At 1 September	2,162	1,612
Charge per statement of comprehensive income (note 16)	518	550
At 31 August	2,680	2,162

3. DEFERRED INCOME TAX *(continued)*

The movements in the deferred income tax assets per category are as follows:

	Fair value movement on interest rate swap R'000	Impairment provision R'000	Total R'000
Deferred tax assets			
At 31 August 2014	142	1,470	1,612
(Debit)/credit to the statement of comprehensive income	(80)	630	550
At 31 August 2015	62	2,100	2,162
(Debit)/credit to the statement of comprehensive income	(112)	630	518
At 31 August 2016	(50)	2,730	2,680

	2016 R'000	2015 R'000
4. CASH AND CASH EQUIVALENTS		
Cash at bank	10,099	34,389
Restricted cash	13,438	11,872
Cash and cash equivalents	23,537	46,261

In terms of the securitisation programme the company is required to maintain a reserve fund, which is required to be a minimum amount being the lesser of the principal amount outstanding of the notes, or 1% of the principal amount outstanding of the notes as at the most recent issue date. In addition an arrears fund equal to 50% of the aggregate outstanding delinquent participating assets is required. These amounts are held in unrestricted normal operational bank accounts.

The long-term national scale credit ratings for the bank balances held:

	Global credit rating 2016	Global credit rating 2015
FirstRand Bank Limited	AA (Nov 16)	AA (Nov 15)

	2016 R'000	2015 R'000
5. TRADE AND OTHER ASSETS		
Cash-in-transit suspense - Iemas Financial Services (Co-operative) Limited	32,088	34,602
Cash-in-transit suspense - Rand Merchant Bank	1,226	1,174
Admin fees - Iemas Financial Services (Co-operative) Limited	551	599
	33,865	36,375

The carrying value of trade and other assets approximates their fair value due to the short-term maturities of these assets. Cash-in-transit suspense represents a portion of the cash flows received on the underlying participating assets which have not been transferred from Iemas Financial Services (Co-operative) Limited and amounts which have not been swept from the FirstRand Bank Limited suspense account into the company's bank accounts. Both of these accounts are cleared on a monthly basis. For the credit quality disclosure please refer note 21.

	2016 R'000	2015 R'000
6. SHARE CAPITAL		
Ordinary shares		
Authorised		
1000 no par value ordinary shares	-	-
Issued		
1 no par value ordinary share	-	-
Preference share capital		
Authorised and issued		
100 no par value, redeemable, non-cumulative preference shares issued at a consideration of R100. These shares are redeemable in terms of the Programme Memorandum.	- *	- *

** Less than R 1,000.*

	2016 R'000	2015 R'000
7. NOTES ISSUED		
Class A3 notes - Unsubordinated, secured, compulsory redeemable, asset-backed notes of R 1,000,000 each. The notes bear interest at 3 month JIBAR plus 1.59%. Scheduled maturity date is 15 August 2017. The legal maturity date is 15 April 2022.	164,021	200,000
Class A4 notes - Unsubordinated, secured, compulsory redeemable, asset-backed notes of R 1,000,000 each. The notes bear interest at 3 month JIBAR plus 1.60%. Scheduled maturity date is 15 August 2019. The legal maturity date is 15 August 2025.	205,026	250,000
Class A5 notes - Unsubordinated, secured, compulsory redeemable, asset-backed notes of R 1,000,000 each. The notes bear interest at 3 month JIBAR plus 1.80%. Scheduled maturity date is 15 August 2018. The legal maturity date is 15 August 2026.	195,185	238,000
Class B2 notes - Subordinated, secured, compulsory redeemable, asset-backed notes of R 1,000,000 each. The notes bear interest at 3 month JIBAR plus 2.10%. Scheduled maturity date is 15 August 2018. The legal maturity date is 15 August 2026.	84,000	84,000
Class C2 notes - Subordinated, secured, compulsory redeemable, asset-backed notes of R 1,000,000 each. The notes bear interest at 3 month JIBAR plus 3.00%. Scheduled maturity date is 15 August 2018. The legal maturity date is 15 April 2026.	49,000	49,000
Class D notes - Subordinated, secured, compulsory redeemable, asset-backed notes of R 1,000,000 each. The notes bear interest at prime rate plus 4.50%. Scheduled maturity date is 15 August 2017. The legal maturity date is 15 April 2022.	70,000	70,000
	767,232	891,000
Interest accrued	3,261	2,917
At 31 August	770,493	893,917

The notes are backed by a revolving pool of South African vehicle loan receivables originated by Iemas Financial Services (Co-operative) Limited. The class B, class C and class D notes are subordinated in favour of the class A notes, the class C and class D notes are subordinated in favour of the class B notes and the class D notes are subordinated in favour of the class C notes.

7. NOTES ISSUED *(continued)*

The company commenced with voluntary early amortisation on 17 May 2016 and is consequently not permitted to acquire any further participating assets in terms of the Programme Memorandum. The early amortisation process requires that subsequent cash generated by the structure should, except for statutory and other expenses, be utilised to repay the interest and capital of rated notes. All note repayments will be paid in descending order of rank, based on the rating classes of the notes. Notes of equal ranking will be paid *pari passu* until the aggregate capital and interest of ranked notes have been repaid. The first capital repayment was on 15 August 2016 where R124 million of the class A notes were repaid. Capital repayments are based on the quarterly capital received on the corresponding advances and as such the contractual capital repayment profile of the advances as apposed to the legal maturity of the notes has been used to calculated the current versus non-current disclosure at 31 August 2016.

The maturity analysis of the notes are as follows:

	2016 R'000	2015 R'000
No later than 1 year	297,235	2,917
Later than 1 year and less than 5	473,258	891,000
	770,493	893,917

8. BORROWINGS

	2016 R'000	2015 R'000
Non-current		
Iemas Financial Services (Co-operative) Limited	11,008	11,008
Current		
Iemas Financial Services (Co-operative) Limited	79	66
Total borrowings	11,087	11,074

The loan is a credit enhancement in terms of a subordinated loan of R 11 million provided by Iemas Financial Services (Co-operative) Limited to fund the purchase of the participating assets (refer note 2). Interest of prime plus 5% is payable on this loan. The loan is repayable only after all notes in issue have been fully redeemed.

	2016 R'000	2015 R'000
9. TRADE AND OTHER LIABILITIES		
Trade creditors	1,013	2,223
Vat payable	52	55
	1,065	2,278

The carrying amount approximates fair value due to the short term settlement periods of these obligations.

10. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 R'000	2015 R'000
Derivative financial assets		
Interest rate swaps	178	-
Total derivatives	178	-
Derivative financial liablities		
Interest rate swaps	-	222
Total derivatives	-	222

The company economically hedges part of its existing interest rate risk using interest rate swaps to convert a proportion of its JIBAR-linked debt to prime-linked debt. The fair value of the derivative financial asset at 31 August 2016 was R 0,2 million and the net fair value of the derivative financial liability at 31 August 2015 was R 0,2 million. The fair value of these swaps relates to financial instruments with a notional value of R 631 million (2015: R 768 million).

	2016 R'000	2015 R'000
Derivative financial assets/liabilities received		
Payable at the beginning of the year	(222)	(509)
Gain on interest rate swap (note 15)	756	2,001
(Receivable)/payable at the end of the year	(178)	222
Derivative receipts	356	1,714

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 August

	2016 R'000	2015 R'000
11. INCOME TAX PAID		
Payable at the beginning of the year	(3,104)	(730)
Normal tax (note 16)	(6,990)	(7,666)
Receivable at the end of the year	(721)	-
Payable at the end of the year	-	3,104
	(10,815)	(5,292)
12. INTEREST EXPENDITURE		
Interest expenditure	81,859	74,470
Interest expenditure consist of:		
- Notes issued	80,192	72,938
- Subordinated loan	1,667	1,570
- Taxation	-	(38)
	81,859	74,470
13. IMPAIRMENT OF LOANS RECEIVABLE		
The gross movement on the impairment is as follows:		
At 1 September	10,000	7,000
Participating assets written off during the year as uncollectible	(6,522)	(3,605)
Impairment charge	9,522	6,605
	13,000	10,000
Impairment of loans receivable in the statement of comprehensive income is as follows:		
New impairment raised (note 2)	13,000	10,000
Unused amounts reversed	(3,478)	(3,395)
Impairment charge	9,522	6,605
Post write-off recoveries	(638)	(352)
At 31 August	8,884	6,253
14. OTHER OPERATING INCOME		
Administration fees	6,096	6,076
	6,096	6,076

	2016 R'000	2015 R'000
15. OPERATING EXPENDITURE		
The following items have been charged against other operating expenditure:		
Administration fees	283	283
Arranging fee	459	598
Auditor's remuneration	290	224
Audit fees	290	224
Back-up servicer fees	342	329
Bank charges	16	15
Commitment fee	158	158
Board of directors' emoluments	235	214
Independent non-executive directors	235	214
Gain on interest rate swap (note 10)	(756)	(2,001)
Legal fees	200	241
Rating agency fees	478	558
Other professional fees	254	348
Servicer fees	7,330	7,052
	9,289	8,019

	2016 R'000	2015 R'000
16. INCOME TAX		
Current		
South African current tax (note 11)	6,990	7,666
Deferred		
Deferred income tax (note 3)	(518)	(550)
Income tax expense	6,472	7,116
Tax rate reconciliation	**%**	**%**
Effective rate of tax	28.4	28.3
Total tax has been affected by:		
Disallowed expenditure	(0.4)	(0.3)
Standard rate of South African tax	28.0	28.0

Disallowed expenditure mainly consists of professional fees that are not allowed as a tax deduction.

	2016 R'000	2015 R'000
17. CASH GENERATED FROM OPERATIONS		
Profit before income tax	22,823	25,176
Adjusted for:		
Interest income	(116,554)	(107,355)
Interest expenditure	78,519	71,487
Interest receivable	(205)	(487)
Accrued interest	358	2,982
Fair value changes on derivatives (unrealised)	(401)	(287)
Fair value changes on derivatives (realised)	(356)	(1,714) *
Admin fee receivable	(551)	(599)
Impairment provision (note 13)	8,884	6,253
Changes in working capital:		
Loans receivable	79,103	(36,111)
Increase in trade and other assets	3,061	174
(Decrease)/increase in trade and other liabilities	(1,214)	858 *
	73,467	(39,623)

** Realised derivative fair value change split out from movement in trade and other liabilities.*

18. COMMITMENTS

The company has issued an indemnity to the Torque Securitisation Security SPV (RF) Proprietary Limited indemnifying Torque Securitisation Security SPV (RF) Proprietary Limited against all claims by secured creditors in terms of a guarantee by Torque Securitisation Security SPV (RF) Proprietary Limited in favour of the company's secured creditors. The obligations of the company in terms of this indemnity are secured by a cession and pledge of all the company's assets to Torque Securitisation Security SPV (RF) Proprietary Limited.

19. RELATED PARTIES

Torque Issuer Owner Trust

One ordinary share of no par value, was issued to Torque Issuer Owner Trust.

Key management compensation

Key management includes the board of directors (Independent non-executive).

	2016 R'000	2015 R'000
Income and expenses		
Board of directors fees	235	214

Directors fees for Rishendrie Thanthony, Brendan Harmse and Willie Swanepoel are paid to an independent service provider (TMF Corporate Services (SA) Proprietary Limited). These directors are employed by TMF Corporate Services (SA) Proprietary Limited on a separate basis. No directors fees were paid to Tom O'Connell by the company or by entites in the same group of companies applying a legal Companies Act definition.

Iemas Financial Services (Co-operative) Limited

The company is a special purpose entity established by Iemas Financial Services (Co-operative) Limited (incorporated in South Africa). The transactions with Iemas Financial Services (Co-operative) Limited are listed below:

	2016 R'000	2015 R'000
Income and expenses		
Income		
Interest received	112,782	102,846
Expenses		
Interest paid on subordinated loan	1,667	1,570
Interest paid on the class A4 notes	-	639
Interest paid on the class B2 notes	7,475	271
Interest paid on the class C2 notes	3,840	121
Interest paid on the class D notes	10,163	9,632
Servicer fees paid	7,330	7,052
Loan purchases during the year		
Loans purchased from related party	414,766	534,143
Loans replaced between related parties	12,465	33,266

	2016 R'000	2015 R'000
19. RELATED PARTIES ***(continued)***		
Outstanding balances		
Payable to related party		
Class B2 notes	84,000	84,000
Class C2 notes	39,000	39,000
Class D Notes	70,000	70,000
Sub-ordinated loan	11,008	11,008
Interest payable on the subordinated loan	79	66
Interest payable on the class B2 notes	348	271
Interest payable on the class C2 notes	177	122
Interest payable on the class D notes	460	369
Servicer fee	576	636
Receivables from related party		
Cash-in-transit receivable	32,088	34,602
Admin fees receivable	551	599
Loans receivable	794,799	882,581

20. EVENTS AFTER THE REPORTING PERIOD

No events occurred after the reporting period that would require adjusting the financial results as presented.

21. FINANCIAL RISK MANAGEMENT

The company is a special purpose entity established by Iemas Financial Services (Co-operative) Limited (Iemas). The company has been established to fund the purchase of certain participating assets in terms of a securitisation agreement by issuing notes to investors. The entity is consolidated as part of the Iemas Financial Services (Co-operative) Limited Group (group). As a result of this relationship, the company has adopted and subscribes to the group's risk management framework and policies and procedures.

Structures are in place to exercise control and oversee the risk management process towards promoting the interest of all its stakeholders. The board of directors is ultimately responsible for risk management. The company's activities exposes it to the following financial risks:

Credit risk

Credit risk refers to the risk of loss or of adverse change in the financial position resulting directly or indirectly from the non-performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of the counterparty and any debtors to which the shareholder is exposed. It could also arise from the decrease in value of an asset subsequent to the downgrading of counterparties. Credit risk arises mainly from the 'participating assets' (as referred to below) which is effectively accounted for as the loan receivable from Iemas.

Liquidity risk

Liquidity risk is the risk that the company is unable to meet its obligations when they fall due as a result of cash requirements from contractual commitments, or other cash outflows.

Market risk

Market risk for stakeholders is the risk that the fair value on future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuers, or factors affecting all similar financial instruments traded in the market.

The purpose of the following section is to provide information on the processes in place to manage and mitigate the financial risks inherent in the company.

CREDIT RISK

Credit risk in the group is managed in terms of the credit risk management framework, which is prepared by the group credit risk management committee. The overall responsibility for the effectiveness of credit risk management processes vests with the group board of directors. The operational responsibility has been delegated to the group credit risk management committee.

Credit risk governance

The group credit risk management committee consists of the group chief executive officer, group chief financial officer, group executive director and the group general manager for credit and legal services. The group credit risk management committee is headed by the group chief executive officer.

21. FINANCIAL RISK MANAGEMENT *(continued)*

The groups' executive directors have approved a risk management policy and framework. The processes followed to identify, evaluate and manage risk are clearly reflected in this framework. The group board of directors remains responsible for the oversight of risk, however, the group board has delegated the review function to the group audit and risk committee together with the company audit committee that reports to their respective boards of directors.

Managing credit risk

The board of directors recognises and accepts that losses may occur through the inability of counterparty to pay amounts in full when due. In order to limit this risk, the group credit risk management committee has formulated guidelines regarding the assessment of customer's credit worthiness, including the affordability assessment as required by the National Credit Act, management of credit risk associated with various customers depending on their portfolio which includes a detailed assessment of the counterparty's financial strength, the prevailing economic environment, industry classification and other qualitative factors. The group credit risk management policy is reviewed at least annually and also whenever significant changes in the environment occur that require intervention to manage the risk. The policy is revised to meet customers' needs as well as to be in line with market trends, current economic circumstances, requirements of participating employers and the requirements of the National Credit Act.

The company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. The group performs on-going credit evaluations of the financial conditions of its members and employer groups and, where appropriate, purchases credit life insurance. Salary deductions are contractually negotiated with the employers before credit is granted to a Iemas member. At 31 August 2016 the company was of the opinion that there was no significant concentration of credit risk that had not been adequately provided for.

Credit mitigation instruments are used where appropriate. These include collateral and guarantees. There is also a specialist asset recovery unit that is responsible for repossessions and constitutes an important part of Iemas' risk management programme.

The group's main business model is based on strong relationships with the employers that the group has contracted to provide salary deduction backed facilities to their employees. The group's business could be adversely affected, should a large employer cancel its agreement with Iemas.

Participating assets that are not derecognised

The company purchased from Iemas participating assets that are subject to the eligibility criteria and portfolio covenants. The company funded the purchase on the first issue date by issuing notes to investors and drawing down on subordinated loans provided by Iemas. A security special purpose vehicle was also established for the purpose of guaranteeing the performance by the company of its obligation to secured creditors (which include note holders, Iemas as the subordinated lender, Iemas as the first loss loan provider and other creditors of the issuer) set out in the priority of payments. Iemas retained substantially all the risks and rewards of ownership of the company due to the nature of the credit enhancements provided. As a result the subordinated retained interest absorbs all the variability in the cash flows and therefore they are recognised in their entirety, as even though the transfer of cash flows has been met, Iemas still retains substantial risks and rewards of ownership. Based on the above facts the assets are still being reflected on Iemas' statement of financial position.

21. FINANCIAL RISK MANAGEMENT *(continued)*

The company purchased a revolving pool of South African vehicle loan receivables from Iemas. Class A3, A4, A5, B2, C2 and D secured floating rate notes were issued to fund this purchase.

	2016 R'000	2015 R'000
Financial assets and liabilities		
Carrying amount of assets	852,381	965,217
Carrying amount of liabilities	(782,593)	(907,490)

Credit quality

Cash and cash equivalents

The balances held with banks are as follows (refer note 4):

First National Bank (a division of FirstRand Bank Limited)	23,537	46,261

The long term credit ratings for the bank balance held are disclosed in note 4. Management considered the concentration risk on cash and is of the opinion that the risk is adequately managed as bank balances are held at one of the major banks in South Africa.

Trade and other assets

The balances held with Iemas Financial Services (Co-operative) Limited are as follows (refer note 5):

Iemas Financial Services (Co-operative) Limited	32,639	35,201

The following table sets out the company's credit ratings so far as the instrument is rated:

	Global Credit Rating 2016	Global Credit Rating 2015
Iemas Financial Services (Co-operative) Limited	A- (Apr 17)	A- (Dec 15)

Collateral disclosure

Credit risk in respect of the exposure of the group is mitigated by collateral such as the credit life policies and the value of the underlying vehicles. Refer to the detail of collateral held in the following loan receivable table.

Loan receivable

The loan receivable as disclosed in note 2, represents the company's maximum exposure to credit risk. The following collateral is held for the loan receivable:

	Loan receivable R'000	Collateral R'000	Under collateralised R'000
As at 31 August 2015			
Participating assets	882,581	616,584	265,997
As at 31 August 2016			
Participating assets	794,799	684,420	110,379

21. FINANCIAL RISK MANAGEMENT *(continued)*

The underlying vehicles on the contracts of the participating assets serve as security on the loan. Current market trade values have been applied to the adjusted vehicle kilometre readings in calculating the collateral value of vehicles. The kilometre readings were taken as at inception of the contract and have subsequently been adjusted with a depreciation rate based on historical trends. Prior year numbers were adjusted to cap the collateral held per vehicle to the outstanding balance as at the reporting date.

The notes issued to fund the purchase of the participating assets are rated AAA for class A3, class A4 and class A5 notes, A+ for class B2 notes and BBB for class C2 notes. The ratings were determined at inception of the structure and are re-assessed on every annual anniversary. The ratings are determined by an external independant rating agency and provides support for the quality of the participating assets.

The underlying assets purchased from Iemas, which do not qualify for derecognition in terms of IAS 39 ' Financial Instruments: Recognition and measurement', are subject to numerous eligibility criteria at acquisition to enhance the credit quality of these assets. These criteria allow for passenger vehicles only which are not subject to balloon payments. In addition, it limits the original term of the contracts to 72 months, requires a greater seasoning and include the obligation that the contract should be covered by an insurance contract. At acquisition of these contracts the portfolio covenants also limit the concentration risk per individual contract (0.06%), employer group (10%) and mix between new and used vehicles (25/75). Even though not required in terms of the early amortisation rules, the company still complied with these concentration risk covenants at year-end.

Iemas is a financially sound entity with positive solvability and liquidity ratios as at 31 August 2016 and will be able to settle the loan payable to the company when needed.

All underlying assets that meet the following criteria are considered impaired:

The underlying vehicle loans are repayable by regular instalments and are considered past due if R1 is in arrears for one day or more and remains unpaid as at the reporting date. In these instances, the full outstanding amount is considered overdue even if part is not yet due.

A past due analysis is performed for vehicle loans with specific expiry or instalment repayment dates.

Age analysis of underlying assets

	Neither past due nor specifically impaired R'000	Total: Past due and specifically impaired R'000	Past due and specifically impaired			
			0-30 days R'000	31-60 days R'000	61-90 days R'000	>90 days R'000
As at 31 August 2015						
Vehicle loans	843,926	48,655	23,635	7,742	5,067	12,211
As at 31 August 2016						
Vehicle loans	742,827	64,972	27,571	10,927	6,233	20,241

The credit quality of "Neither past due nor impaired loans" is positively impacted if the employee is a current member of Iemas Financial Services (Co-operative) Limited and if the loans are collected by debit order or salary deduction.

21. FINANCIAL RISK MANAGEMENT *(continued)*

Specific impairments are raised for vehicle loans that are past due and impaired, whilst portfolio impairments are raised for vehicle loans that are neither past due nor impaired, net of impairment. The following table sets out the movement in specific and portfolio impairments:

	Opening R'000	Utilised R'000	Provided R'000	Closing R'000
As at 31 August 2015				
Specific impairment	5,379	(2,931)	4,998	7,446
Portfolio impairment	1,621	(674)	1,607	2,554
	7,000	(3,605)	6,605	10,000
As at 31 August 2016				
Specific impairment	7,446	(4,279)	4,030	7,197
Portfolio impairment	2,554	(2,243)	5,492	5,803
	10,000	(6,522)	9,522	13,000

Impairments held as percentage of gross loans receivable are summarised below:

	Neither past due nor specifically impaired %	Past due and specifically impaired %	Total %
As at 31 August 2015			
Vehicle loans	0.3	15.3	1.1
As at 31 August 2016			
Vehicle loans	0.8	11.1	1.6

Sensitivity analysis

In order to assess the sensitivity of the estimates and assumptions used in the calculation of the amount recognised for the impairment of loans receivable, the following sensitivity analysis has been performed in respect of both performing and non-performing loans. As the calculation of the impairment was based on the average net bad debt write-offs in the previous financial year as a percentage of the average outstanding vehicle loans for the same period, the sensitivity of the amounts provided for the impairment raised were tested based on changes in these percentages by the following:

	Change in the write off percentage		Sensitivity	
	2016 %	2015 %	2016 R'000	2015 R'000
Neither past due nor specifically impaired	0.2	0.2	1,467	1,668
Past due and specifically impaired	3.0	3.0	1,949	1,460

21. FINANCIAL RISK MANAGEMENT *(continued)*

MARKET RISK

The key component of market risk is interest rate risk.

Interest rate risk - Interest rate risk refers to the risk that the fair value of the future cash flows from a financial instrument will fluctuate because of changes in market interest rates.

Market risk governance

The group credit risk management committee is responsible for the group's market risk management, with the group audit and risk committee of the group board of directors providing oversight for market risks assumed on the company's statement of financial position on behalf of its stakeholders.

Interest rate risk

The company's interest rate risk arises from loans receivable, notes and long term borrowings. This exposes the company to effects of fluctuations in the prevailing levels of market interest rates, in its statements of financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce in the event that unexpected movements in interest rates occur. These assumptions are based on management's judgement. The loan receivable is prime linked.

Funding for the purchase of the loan receivable was obtained by issuing notes. The class A, class B and class C notes were issued at rates linked to 3 month ZAR-JIBAR. The class D notes are prime linked.

As part of the management of market risk, the company enters into interest rate swaps to match the interest rate risk associated with JIBAR-linked notes issued to the underlying prime-linked advances being financed by Iemas.

	2016 R'000	2015 R'000
The exposure of the company's loan receivable to an interest rate change of 0.5% at the reporting date will have the following pre-tax impact on 'net interest income' in the statement of comprehensive income over a one year period:		
Loans receivable	3,974	4,413
The table is based on loans receivable of the company with a total value of R 794,8 million (2015: R 882,5 million).		
The exposure of the cash and cash equivalents to an interest rate change of 0.5% at the reporting date will have the following pre-tax impact on 'net interest income' in the statement of comprehensive income over a one year period:		
Cash and cash equivalents	118	231
The table is based on cash and cash equivalents of the company with a total value of R 23,5 million (2015: R 46,2 million).		

21. FINANCIAL RISK MANAGEMENT *(continued)*

	2016 R'000	2015 R'000
The exposure of the company's borrowings to an interest rate change of 0.3% at the reporting date will have the following pre-tax impact on 'net interest income' in the statement of comprehensive income over a one year period:		
Borrowings	33	33
The table is based on borrowings with a total value of R 11,0 million (2015: R 11,0 million).		
The borrowings interest rates are linked to prime.		
The exposure of the company's notes (which are linked to JIBAR) to a 3 month JIBAR rate change of 0.3% and the company's note (which is linked to prime) to an interest rate change of 0.3% at the reporting date will have the following pre-tax impact on 'net interest income' in the statement of comprehensive income over a one year period:		
Notes	2,302	2,673
The table is based on notes with a total value of R 767,2 million (2015: R 891 million).		
The class A, class B and class C notes are issued at rates linked to 3 month ZAR-JIBAR. The class D notes are prime linked.		

LIQUIDITY RISK

Management is responsible for the establishment and monitoring of lending and funding policies. It ensures that the statement of financial position is flexible enough to adapt to changing economic conditions and that quality assets are taken on.

The following table presents the cash flows payable by the company under non-derivative financial liabilities in terms of the remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, which is the manner in which the company manges its liquidity risk. Refer to note 7 for the assumptions applied as part of the voluntary amortisation process.

	1-12 months R'000	13-36 months R'000	Over 36 months R'000
As at 31 August 2015			
Due to investors	76,221	126,862	910,750
Other liabilities (including sub-ordinated loan)	3,819	3,192	12,604
Total financial liabilities	80,040	130,054	923,354
Loans receivable	403,290	542,483	123,593
Cash and cash equivalents	46,261	-	-
Trade and other assets	36,375	-	-
Total financial assets	485,926	542,483	123,593
Net liquidity position	405,886	412,429	(799,761)

The liquidity gap in the over 36 month bracket was due to the notes issued that had their legal maturity date during this period. The gap was funded by excess capacity in the other periods which would be reinvested to fund the notes on the legal maturity date.

21. FINANCIAL RISK MANAGEMENT *(continued)*

	1-12 months R'000	13-36 months R'000	Over 36 months R'000
As at 31 August 2016			
Due to investors	358,231	470,867	64,895
Other liabilities (including sub-ordinated loan)	2,720	3,412	12,574
Total financial liabilities	360,951	474,279	77,469
Loans receivable	382,395	486,746	101,009
Cash and cash equivalents	23,537	-	-
Trade and other assets	33,865	-	-
Total financial assets	439,797	486,746	101,009
Net liquidity position	78,846	12,467	23,540

FINANCIAL INSTRUMENTS BY CATEGORY

	Derivatives at fair value R'000	Loans and receivables R'000	Total R'000
Assets as per statement of financial position			
As at 31 August 2015			
Loans receivable	-	882,581	882,581
Cash and cash equivalents	-	46,261	46,261
Trade and other assets	-	36,375	36,375
	-	965,217	965,217
As at 31 August 2016			
Loans receivable	-	794,799	794,799
Cash and cash equivalents	-	23,537	23,537
Trade and other assets	-	33,865	33,865
Derivative financial instruments	178	-	178
	178	852,201	852,379

21. FINANCIAL RISK MANAGEMENT *(continued)*

	Derivatives at fair value R'000	Other financial liabilities at amortised cost R'000	Total R'000
Liabilities as per statement of financial position			
As at 31 August 2015			
Notes issued	-	893,917	893,917
Borrowings	-	11,074	11,074
Trade and other liabilities excluding non-financial liabilities	-	2,223	2,223
Derivative financial instruments	222	-	222
Total	222	907,214	907,436
As at 31 August 2016			
Notes issued	-	770,493	770,493
Borrowings	-	11,087	11,087
Trade and other liabilities excluding non-financial liabilities	-	1,013	1,013
Total	-	782,593	782,593

FAIR VALUE ESTIMATION

Valuation processes

The group's finance department performs the valuations of financial assets and liabilities required for financial reporting purposes. Selecting the most appropriate valuation methods and techniques, in terms of IFRS 13, is an outcome of internal discussions and deliberation between members of the group's finance team. Changes in fair values are analysed at each reporting date.

Hierarchy of fair value of financial instruments

IFRS 13 defines a hierarchy of valuation techniques, with three levels, for fair value measurements of assets and liabilities. This hierarchy is based on the extent to which the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the company's assessment of what inputs would likely be from the perspective of the market. The company first considers relevant and observable market inputs where these are available. Unobservable inputs are used in the absence of observable inputs. The company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels 1,2 and 3 during the year.

21. FINANCIAL RISK MANAGEMENT *(continued)*

The table below summarises the classification of the company's financial instruments and their fair values, by their IFRS 13 hierarchy.

	Measured at	Carrying amount R'000	Fair value disclosed R'000	Hierarchy of valuation technique
As at 31 August 2015				
Assets				
Loans receivable	Amortised cost	882,581	944,625	Level 3
Cash and cash equivalents (1)	Amortised cost	46,261	46,261	
Trade and other assets (1)	Amortised cost	36,375	36,375	
		965,217	1,027,261	
Liabilities				
Notes issued	Amortised cost	893,917	894,446	Level 2
Borrowings (3)	Amortised cost	11,074	11,074	
Trade and other liabilities excluding non-financial liabilities (1)	Amortised cost	2,223	2,223	
Derivative financial instruments (2)	Fair value	222	222	Level 2
		907,436	907,965	
As at 31 August 2016				
Assets				
Loans receivable	Amortised cost	794,799	799,679	Level 3
Cash and cash equivalents (1)	Amortised cost	23,537	23,537	
Trade and other assets (1)	Amortised cost	33,865	33,865	
Derivative financial instruments (2)	Fair value	178	178	Level 2
		852,379	857,259	
Liabilities				
Notes issued	Amortised cost	770,493	771,260	Level 2
Borrowings (3)	Amortised cost	11,087	11,087	
Trade and other liabilities excluding non-financial liabilities (1)	Amortised cost	1,013	1,013	
		782,593	783,360	

(1) The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms or variable interest rates associated with these instruments.

(2) Interest rate swaps

(3) Contractual agreement value

21. FINANCIAL RISK MANAGEMENT *(continued)*

Loans receivable

The expected present value technique was applied, discounting probability weighted pre-tax cash flows (i.e expected cash flows in Iemas from the underlying assets which take account of life time expected bad debt experience) at Iemas. The equity component of the cost of capital was determined using the capital asset pricing method. The market risk premium was based on recent trade history and includes a marketability discount to address the fact that the underlying assets in Iemas, on a stand-alone basis, are not typically trade over-the-counter or on any formal exchange. The debt component referenced the government R186 as the risk-free rate.

Notes issued

The fair values of the notes issued were calculated using the mark-to-market (MTM) values listed on the Johannesburg Stock Exchange at each prevailing reporting date.

Derivative financial instruments

Derivative financial instruments were valued using the income approach. The derivative comprises a JIBAR/prime interest rate swap that was fair valued on a discounted basis using forward interest rates extracted from an observable yield curve.

CAPITAL RISK MANAGEMENT

The company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns and benefits for stakeholders, as well as to maintain an optimal capital structure in order to reduce the cost of capital. Externally exposed capital is managed according to the various agreements in place. As mentioned in note 7 the company commenced with voluntary early amortisation in May 2016.

The company is specifically established for the purpose of conducting a vehicle asset based securitisation scheme and as such, has various restrictions surrounding its capital, payment of dividends and its operations etc. These restrictive conditions are set out in the company's Memorandum of Incorporation.

The company monitors capital on the basis of the debt to equity ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents (excluding restricted cash). Total equity is calculated as 'equity' as shown in the statement of financial position. Total capital is calculated as equity plus net debt.

Debt to equity ratio at 31 August 2016 and 2015 were as follows:

	2016 R'000	2015 R'000
Total borrowings (note 7 and 8)	781,580	904,991
Less: Cash and cash equivalents (excl. restricted cash) (note 4)	(10,099)	(34,389)
Net debt	771,481	870,602
Equity	73,135	56,784
Debt to equity ratio (%)	91.3	93.9