Audited consolidated and company annual financial statements

2020

For the year ended 30 September

Transaction Capital

CONTENTS

The group and company accounting policies have been disclosed as part of the relevant notes to the financial statements.

The consolidated and company financial statements have been prepared under the supervision of Sean Doherty CA(SA), chief financial officer.

Directors' responsibility statement

FOR THE YEAR ENDED 30 SEPTEMBER 2020

The directors of Transaction Capital Limited ('Transaction Capital') are responsible for the preparation and fair presentation of the consolidated and company annual financial statements in accordance with International Financial Reporting Standards and the Financial Reporting Guides as issued by the Accounting Practices Board and in the manner required by the Companies Act, 71 of 2008 as amended, of South Africa ('Companies Act').

The directors confirm that Transaction Capital is in compliance with the Companies Act and is operating in conformity with the company's memorandum of incorporation.

The directors' responsibilities include designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these annual financial statements to ensure that they are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. The responsibilities also include maintaining adequate accounting records and an effective system of risk management.

The consolidated and company annual financial statements are prepared on the going concern basis. Nothing has come to the attention of the directors to indicate that the company and group will not remain a going concern in the year ahead.

The auditors are responsible for reporting on whether the consolidated and company annual financial statements are fairly presented in accordance with the applicable financial reporting framework, and their unmodified report appears on page 11.

APPROVAL OF CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS

The annual financial statements on pages 15 to 142 were approved by the board of directors on 24 November 2020, and are signed on their behalf by:

David Hurwitz
Chief executive officer

Sean Doherty
Chief financial officer

Company secretary's certificate

FOR THE YEAR ENDED 30 SEPTEMBER 2020

I hereby certify that, to the best of my knowledge and belief, the company has filed all such returns and notices as is required of a public company in terms of the Companies Act, 71 of 2008 as amended of South Africa ('Companies Act'), with the Companies and Intellectual Property Commission ('CIPC') for the financial year ended 30 September 2020, and that all such returns and notices appear to be true, correct and up to date.

Sharon Nayger
Company secretary
24 November 2020

Directors' report

FOR THE YEAR ENDED 30 SEPTEMBER 2020

NATURE OF BUSINESS

The company is an investment holding company which owns a portfolio of operating subsidiaries, operates a group treasury function and provides a group management function to its divisions. The company's issued ordinary shares are listed on the Johannesburg Stock Exchange, with a secondary listing on A2X Markets.

The group operates in three market verticals: SA Taxi, Transaction Capital Risk Services (TCRS) and We Buy Cars (Pty) Ltd (WeBuyCars). The nature of the business of the main operating subsidiaries and a review of each is set out in the group profile on the company website at www.transactioncapital.co.za. The segment report can be found in note 41 of the consolidated annual financial statements.

FINANCIAL RESULTS

The results of the company and the group are set out in the annual financial statements.

DIRECTORATE AND COMPANY SECRETARY

The names and brief curriculum vitae of the directors and the contact details of the company secretary in office are set out on the company website.

Sharon Wapnick was appointed to the board as an independent non-executive director with effect from 12 March 2020. She was also appointed as a member of the nominations committee with effect from 1 November 2020.

Paul Miller resigned as a non-executive director and as a member of the remuneration committee with effect from 12 March 2020 and was appointed as an alternate director to Roberto Rossi on the same date.

Roberto Rossi, a non-executive director, was appointed as a member of the social and ethics committee with effect from 1 February 2020 and as a member of the remuneration committee with effect from 12 March 2020.

Phumzile Langeni resigned as a member of the audit, risk and compliance (ARC) committee with effect from 30 June 2020 to enable her to better balance her time commitments. Phumzile Langeni continues as an independent non-executive director on the board and as chair of the social and ethics committee.

Further to the above changes, the following changes to the board and board sub-committee composition were effective from 1 November 2020:

- Christopher Seabrooke resigned as a member of the ARC committee.
- Kuben Pillay resigned as lead independent non-executive director of the board.
- Buhle Hanise resigned as a member of asset and liability committee (ALCO).
- Ian Kirk was appointed as an independent non-executive director. He was also appointed as a member of the ARC committee, ALCO and remuneration committee.
- Suresh Kana was appointed as an independent non-executive director. He was also appointed as lead independent non-executive director of the board, chairman of the ALCO, member of the nominations committee, member of the ARC committee and member of the social and ethics committee.
- Theresa Palos resigned as company secretary with effect from 1 November 2020. Sharon Nayger was appointed as company secretary from the same date.

No further appointments or resignations occurred during the year.

Directors' report continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

INTERESTS OF DIRECTORS IN THE COMPANY'S SHARES

The direct and indirect interests of the directors (and their associates) in the ordinary shares of the company at 30 September 2020 are as follows:

	2020		2019	
	Number of shares '000	Shareholding %	Number of shares '000	Shareholding %
Indirect beneficial holdings of directors				
Dovie Trust[1]	**4 877**	**<1**	4 640	<1
Pilatucom Holdings Limited[2]	**36 333**	**5.49**	59 333	9.68
Rutland Trust[3]	**36 333**	**5.49**	59 333	9.68
Sugar Tube Trust[4]	**–**	**–**	59 333	9.68
Sabvest Limited[5]	**10 000**	**1.51**	10 000	2
Direct beneficial holdings of directors				
David Hurwitz	**–**	**–**	343	<1
Mark Herskovits	**1 547**	**<1**	1 471	<1
Roberto Rossi[4]	**36 333**	**5.49**	–	–
Diane Radley	**10**	**<1**	10	<1
Sharon Wapnick[6]	**82**	**<1**	–	–
Total	**12 515**		194 466	
Percentage of issued shares	**18.97%**		31.74%	

1. *David Hurwitz is a discretionary beneficiary of Dovie Trust. The shares have been pledged as security for a finance facility.*
2. *Jonathan Jawno is a discretionary contingent beneficiary of Pilatucom Holdings Limited. The shares have been pledged as security for a finance facility.*
3. *Michael Mendelowitz is a trustee and discretionary contingent beneficiary of Rutland Trust. The shares have been pledged as security for a finance facility.*
4. *Roberto Rossi is a trustee and contingent discretionary beneficiary of the Sugar Tube Trust which held 59 333 334 shares at 30 September 2019. The shares have been pledged as security for a finance facility.*
5. *Christopher Seabrooke is the chief executive of Sabvest Limited.*
6. *Of these, 21 800 shares are held by associates of Sharon Wapnick.*

Other than as indicated above, none of the direct or indirect shareholdings of any of the directors has been encumbered pursuant to security, guarantee, collateral or otherwise.

CHANGES IN INTERESTS OF DIRECTORS

In February 2020, Jonathan Jawno, Michael Mendelowitz and Roberto Rossi (collectively referred to as 'the founders) each sold 23 000 000 Transaction Capital shares through their respective shareholding vehicles, Pilatucom Holdings Limited, Rutland Trust and Sugar Tube Trust via an accelerated bookbuild offering.

In September 2020, the Rossi family's look-through interest of 36 333 334 shares held by Sugar Tube Trust was distributed to Roberto Rossi.

Combined, the founders continue to hold 16.48% of the shares in Transaction Capital via their direct and indirect interests.

In March 2020, David Hurwitz transferred 431 846 shares to his family trust, Dovie Trust.

There have been no changes in the interests of the directors between 30 September 2020 and the date of approval of these annual financial statements.

DIVIDENDS

Transaction Capital's ordinary dividend policy is 2 to 2.5 times cover. After extensive deliberation and in view of the uncertainty around the full impact of COVID-19, the board has opted to retain its capital and not to pay a dividend for the half year ended 31 March 2020 or the full year ended 30 September 2020. The group will return to paying dividends in line with its policy as soon as trends in the operating environment are clear enough to make it feasible.

Directors' report continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

CONSOLIDATED SHARE CAPITAL

The authorised and issued share capital is detailed in note 23 of the annual financial statements.

The following changes took place during the year under review:

	2020		2019	
	Number of shares '000	**Value of shares R'000**	Number of shares '000	Value of shares R'000
Balance at the beginning of the year	**612 655**	**1 103 493**	610 213	1 055 965
Shares issued in settlement of the Transaction Capital Limited Share Schemes (Share Appreciations Rights Plan and Conditional Share Plan obligations)*	**3 596**	**73 756**	3 061	57 992
Shares repurchased in the open market and cancelled**	**(1 976)**	**(41 940)**	(619)	(10 464)
Equity raised through accelerated bookbuild***	**30 754**	**550 491**	–	–
Shares issued to subsidiaries ****	**16 467**	**329 097**	–	–
Balance at the end of the year	**661 496**	**2 014 897**	612 655	1 103 493

* *In terms of specific authority received from shareholders on the adoption of the Transaction Capital Share Appreciation Rights Plan and Transaction Capital Conditional Share Plan, a total of 3 596 599 shares were issued to participants/employees as part of respective vestings at an average price of R20.51 per share.*

** *All shares repurchased and cancelled reverted to authorised unissued shares. The average purchase price of the 1 975 976 shares repurchased on the open market was R21.36 per share.*

*** *On 19 June 2020 Transaction Capital raised equity in the form of 30 754 064 shares through the issue of new ordinary shares to qualifying investors through an accelerated bookbuild. The ordinary shares were priced at R18.20 per share (before share issue costs), a 2.2% premium to 2020. The equity raise was completed under the company's general authority to issue shares for cash approved by Transaction Capital shareholders at the annual general meeting of the company held on 11 March 2020.*

**** *On 11 September 2020 Transaction Capital issued 16 467 000 shares to Transaction Capital Motor Holdco Proprietary Limited at a price of R20.00 per share (before share issue costs) in respect of the We Buy Cars (Pty) Ltd acquisition. The 16 467 000 shares were in turn transferred to We Buy Cars as part of the total purchase consideration of R1.874 billion. Refer to note 12 (equity accounted investments) for further details.*

All Rand value amounts for share capital issued are net of share issue costs.

SPECIAL RESOLUTIONS PASSED

The following special resolutions were approved during the year under review:

- Approval of non-executive directors' and committee members' fees.
- Approval of lead independent non-executive director's fees.
- Authority to provide financial assistance in terms of section 45 of the Companies Act.
- Authority to provide financial assistance in terms of section 44 of the Companies Act.
- General authority to repurchase securities.
- General authority to allot and issue authorised but unissued securities for cash.

BORROWINGS

The memorandum of incorporation of the company does not place any restrictions on the borrowing powers of the company or the group. Details of borrowings at the end of the financial year are set out in note 21 to the consolidated annual financial statements.

LITIGATION

There are no current or pending legal proceedings against the group which are anticipated to materially affect its financial position.

SUBSIDIARIES

Details of subsidiaries and of changes in holdings are set out in note 20 to the company financial statements.

Directors' report continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

SUBSEQUENT EVENTS

No events which would have a material impact on either the financial position or operating results of the company have taken place between 30 September 2020 and the date of release of this report. The group is continuing to monitor the impact of COVID-19 on demand for its services, and has not been significantly impacted, after year-end by the evolving situation surrounding COVID-19.

We are pleased to announce Royal Bafokeng Holdings' (RBH) acquisition of 1.8% (representing 12 million ordinary shares) in Transaction Capital via a secondary purchase of shares in the market. This transaction became effective on 20 November 2020.

EMPLOYEE INCENTIVE SCHEMES

The group operates share incentive initiatives for employees, including directors.

TRANSACTION CAPITAL SHARE APPRECIATION RIGHTS (SAR) PLAN

The SAR plan allows executives and senior managers to participate in the appreciation of Transaction Capital's share price over time. While the SAR plan has been a very successful retention mechanism since vesting, the conditional share plan discussed below is favoured as a more appropriate retention and alignment tool for the purposes of incentivising employees. As such, it is anticipated that no new SAR awards will be granted. All SARs in issue have now vested in terms of the SAR plan with the final vestings taking place during the financial year ended 30 September 2020. Further disclosure relating to the SAR plan is set out in note 31.1 of the consolidated financial statements.

TRANSACTION CAPITAL CONDITIONAL SHARE PLAN (CSP)

The CSP was approved by shareholders at a general meeting held on 20 October 2016. The first issue of CSPs was awarded in November 2016. All awards are subject to remuneration committee approval.

It is believed that the CSP is a superior long-term incentive for Transaction Capital's objectives. The CSP offers participants certainty in that it comprises a fixed number of conditional shares. While its ultimate value will depend on performance, CSP awards will always have a value, unlike the SAR awards. Further disclosure relating to the CSP is set out in note 31.2 of the consolidated financial statements.

Audit, risk and compliance committee report

FOR THE YEAR ENDED 30 SEPTEMBER 2020

The responsibilities of the audit, risk and compliance (ARC) committee are set out in the Companies Act, 71 of 2008 as amended (the 'Act'), Transaction Capital's Memorandum of Incorporation, the King IV Report on Corporate Governance for South Africa, 2016 (King IV) and the JSE Limited Listings Requirements. The ARC committee's terms of reference are reviewed annually and approved by the board.

COMPOSITION

At 30 September 2020, the ARC committee comprised of three independent non-executive directors, all of whom are financially literate and have adequate financial and commercial experience to fulfil their roles as members. The committee meets four times per year, with two members of the ARC committee forming a quorum.

At the date of this report, the committee comprised of:

- Diane Radley (chairman)
- Buhle Hanise
- Suresh Kana (appointed with effect from 1 November 2020)
- Ian Kirk (appointed with effect from 1 November 2020)

Phumzile Langeni resigned as a member of the ARC committee with effect from 30 June 2020 to enable her to better balance her time commitments. Christopher Seabrooke resigned as a member of the ARC committee with effect from 1 November 2020.

The external auditors attend all ARC committee meetings and separate meetings may be held with the ARC committee to afford the external auditors the opportunity to meet with the ARC committee without the presence of management.

Representatives from internal audit attend all ARC committee meetings and are similarly afforded the opportunity of separate meetings with the ARC committee. The group internal audit executive has a functional reporting line to the committee chair and an administrative reporting line to the chief financial officer.

The effectiveness of the ARC committee and its members is assessed on an annual basis.

Members of the ARC committee are elected annually at the company's annual general meeting by shareholders on recommendation from the board and nominations committee. The board may remove members of the ARC committee and must fill vacancies within 40 days.

Access to training is provided on an ongoing basis to assist members in discharging their duties.

ROLES AND RESPONSIBILITIES

The key functions and responsibilities of the ARC committee, as outlined in the ARC committee's terms of reference, include oversight of:

THE PREPARATION OF FINANCIAL REPORTING

- Ensure appropriate financial reporting procedures are established and operating effectively;
- Review of the annual financial statements, accounting practices and policies, internal financial controls and reports; and
- Ensure the integrity of the integrated annual report.

COMBINED ASSURANCE

- Monitor the appropriateness of the combined assurance model to provide a coordinated approach to all assurance activities;
- Review the skills, resources and experience of the company's finance function annually and report the results in the integrated annual report; and
- Review the suitability of the skills and experience of the chief financial officer.

Audit, risk and compliance committee report continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

INTERNAL AUDIT

- Review the independence, performance and effectiveness of the internal audit process and ensure that it has the necessary resources, budget, standing and authority to discharge its functions;
- Ensure that the internal audit function is periodically, but at least every five years, subject to an independent quality review to ensure that it remains effective; and
- Review the suitability of the skills and experience of the internal audit executive.

EXTERNAL AUDIT

- Recommend/nominate the external auditor for appointment by the shareholders;
- Approve the external auditor's engagement terms, including remuneration;
- Monitor the relationship between the external auditor and management;
- Report on the independence of the external auditor in the annual financial statements;
- Define a policy for non-audit services provided by the external auditor and pre-approve contracts for non-audit services outside this policy; and
- Review the performance and effectiveness of the external audit process.

GOVERNANCE

- In liaison with external and internal audit, review the developments in corporate governance and best practices and consider their impact and implication for the businesses' processes and structures;
- Review the disclosure of the role of the committee as included in the integrated annual report;
- Be available at all times to advise the chairman of the board on queries relating to the financial affairs and internal controls; and
- Oversee matters relating to accounting practices, internal control, content or audit of the financial statements, internal financial controls and any related matters.

ACCOUNTING

- Make submissions to the board on accounting policies, financial controls, records and reporting.

RISK

- Oversee the development and annual review of a policy and plan for risk management;
- Monitor implementation of the policy and plan for risk management;
- Ensure that continuous risk monitoring by management takes place within the levels of risk tolerance approved by the board; and
- Oversee the management of:
  - Financial reporting risks;
  - Internal financial controls;
  - Fraud risks relating to financial reporting;
  - Tax risks;
  - Information and technology risks;
  - Compliance risks; and
  - Risks in relation to the group's capital and funding requirements and policies (with direct oversight by the asset and liability committee).

COMPLIANCE

- The ARC committee has oversight of compliance with applicable laws and regulations.

REQUIREMENTS OF THE ACT

- The ARC committee assumes responsibility for all subsidiary companies that do not have their own audit committees. Responsibilities include reviewing the formalised processes and controls followed on behalf of subsidiaries.

The ARC committee confirms that it has adopted appropriate formal terms of reference to discharge its responsibilities, has regulated its affairs and has discharged all of its responsibilities as contained therein.

Audit, risk and compliance committee report continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

ANNUAL CONFIRMATIONS

Having considered, analysed, reviewed and debated information provided by management, internal audit and external audit; the ARC committee confirms that:

- The internal financial controls of the group have been effective in all material aspects throughout the year under review;
- These controls have ensured that the group's assets have been safeguarded;
- The chief financial officer's expertise and experience is deemed appropriate;
- Appropriate financial reporting procedures have been established and are operating effectively;
- The group has complied in all material respects with the implemented risk management policy during the year under review;
- Resources have been utilised efficiently;
- The skills, independence, audit plan, reporting and overall performance of the external auditors are acceptable and it recommends their re-appointment in 2021; and
- It has confirmed the suitability of the appointment of the current audit firm and the designated individual partner with the audit firm, having obtained information as required by the JSE Listings Requirements.

CONCLUSIONS ON ROLES AND RESPONSIBILITIES

FINANCE FUNCTION

The ARC committee has satisfied itself to the appropriateness of the expertise and experience of the chief financial officer and finance function for the year under review.

INTEGRATED ANNUAL REPORT

The ARC committee oversees the integrated annual reporting process. The committee will review the integrated annual report and sustainability report and will recommend its approval thereof to the board.

RISK MANAGEMENT

The ARC committee has satisfied itself to the risk management processes within the group and the effectiveness thereof.

EXTERNAL AUDIT

The external auditors, Deloitte & Touche, have been the auditors of the group for 12 years, with Stephen Munro acting as the new engagement partner for the financial year ended 30 September 2020. The ARC committee has satisfied itself through enquiry and representation that the auditors of the group are independent as defined by the Act.

The ARC committee, in consultation with executive management, agreed to an audit fee for the year under review. The fee is considered appropriate for the work that could reasonably have been foreseen at that time. Audit fees are disclosed in note 28 to the consolidated annual financial statements. In addition, the ARC committee has approved a policy for non-audit services provided by the external auditors and is comfortable that non-audit services performed during the year have been reasonable.

The ARC committee has reviewed the external auditor's report and is satisfied with the performance and effectiveness of the external audit process.

INTERNAL AUDIT

The ARC committee has satisfied itself of the independence, performance and effectiveness of the internal audit process. The ARC committee has considered and recommended the internal audit charter for approval by the board, which has so approved it.

The internal audit function underwent an independent quality review in the 2016 financial year, and the internal audit function was found to generally conform to the International Standards for the Professional Practice of Internal Auditing with no material findings being noted.

The committee is satisfied with the arrangement and level of combined assurance provided by the internal and external audit functions.

Audit, risk and compliance committee report continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

GOING CONCERN

The going concern assertion of the group, as prepared by management, was reviewed by the ARC committee and recommended to the board.

ANNUAL FINANCIAL STATEMENTS

The ARC committee:

- Reviewed the audited annual financial statements after interrogation with management, the external auditors and the internal auditors;
- Reviewed the external auditor's key reports and management's response thereto;
- Reviewed adjustments resulting from external audit queries and accepted any unadjusted audit differences;
- Reviewed the audit report of the external auditors including their key audit matters; and
- Received and considered reports from the internal auditors.

The external audit report meets the requirements of the International Auditing and Assurance Standards Board (IAASB). The audit opinion listed audit matters in which areas of judgement have been applied and areas of significant audit effort, and how these matters have been addressed as part of the audit process. In this regard, the committee has obtained comfort on areas in which management has applied judgement by:

- Interrogating management on methodologies applied to areas of judgement and being kept appraised on changes to methodologies applied (where applicable);
- Reviewing back-tests results on areas of judgement, with satisfying results;
- Receiving detailed feedback from the auditors on their testing performed on areas of judgement; and
- Reviewing disclosure in the annual financial statements with regards to areas of judgement.

The committee concurs with and accepts the external auditor's report on the annual financial statements and has recommended the approval thereof to the board, which has subsequently approved the annual financial statements. These will be open for discussion at the forthcoming annual general meeting.

CONCLUSION

The committee is satisfied that it has fulfilled all its statutory duties, including those prescribed by the Companies Act, and those assigned to it by the board during the year under review in relation to its terms of reference.

Diane Radley
Audit, risk and compliance committee chairman
24 November 2020

Social and ethics committee report

FOR THE YEAR ENDED 30 SEPTEMBER 2020

At 30 September 2020, the social and ethics committee (the 'committee') comprised of four members, including three non-executive directors (two of whom are independent) and one executive director. The committee meets three times per year, with two members of the committee forming a quorum.

At the date of this report, the committee comprised of the following members:

- Phumzile Langeni (chairman)
- David Hurwitz
- Suresh Kana (appointed with effect from 1 November 2020)
- Kuben Pillay
- Roberto Rossi (appointed with effect from 1 February 2020)

The committee has adopted terms of reference as its charter and has regulated its affairs in compliance with this, and has discharged all of the responsibilities set out therein.

The committee was established to assist the board in ensuring that Transaction Capital is and remains a good and responsible corporate citizen, and to perform the statutory functions required of a social and ethics committee in terms of the Companies Act, 71 of 2008 as amended of South Africa ('Companies Act') and the King IV Report on Corporate Governance for South Africa, 2016 (King IV).

The committee monitors relevant legislation and other legal requirements or prevailing codes of best practice, specifically with regard to matters relating to social and economic development, good corporate citizenship, transformation, the environment, health and public safety as well as labour and employment. The committee met three times during this financial year.

Key focus areas for the committee for the year under review included:

- Transformation, and particularly employment equity.
- Implementing the ethics functions across the group.
- Developing and implementing Transaction Capital's environmental, social and economic impact framework, which provides an objective and balanced account of Transaction Capital's sustainability impact and facilitates the communication of its shared value creation to stakeholders.

Phumzile Langeni
Social and ethics committee chairman
24 November 2020

Independent auditor's report

TO THE SHAREHOLDERS OF TRANSACTION CAPITAL LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OPINION

We have audited the consolidated and separate financial statements of Transaction Capital Limited (the Group and Company) set out on pages 15 to 142, which comprise the consolidated and separate statements of financial position as at 30 September 2020, and the consolidated income statement, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Transaction Capital Limited and its subsidiaries as at 30 September 2020, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and Company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have not identified key audit matters in respect of the separate financial statements.

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addresses in the audit</th></tr>
<tr><td colspan="2">Significant estimates and judgements included in the SA Taxi loans and advances credit impairment model</td></tr>
<tr><td>Loans and advances, which represent 49% of total assets, and the associated impairment provisions are significant in the context of the consolidated financial statements.

The determination of impairment provisions for expected credit losses (ECL) requires significant judgement, and we have identified the audit of ECL impairment provisions to be a key audit matter.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus are:
▷ Determination of expected losses: probability of default (PD) and the loss given write-off (LGW). Key aspects of the LGW involving estimation include recovery value after repair costs, time to default (TTD) and time to repossession (TTR); and
▷ Repair cost methodologies in determining cost to repair salvaged vehicles as this impacts both the expected losses and repossessed inventory valuation.

In addition, the COVID-19 pandemic has had a major effect on the South African economy and affected the collections experience at SA Taxi. There is uncertainty as to how the COVID-19 pandemic is likely to impact the forward looking economic influence on the determination of ECL. This requires a higher level of management judgement in considering how the forward looking information (FLI) is taken into account within the models and whether any additional 'out of model adjustments' are required where the models do not cater for all of the potential impact.</td><td>With the support of our internal quantitative and credit modelling specialists, our procedures included:
▷ Assessing the design and implementation of relevant controls and assessed the governance structures in place;
▷ Assessing management's model methodology specific to PD, LGW's, TTD, TTR and repair cost methodologies;
▷ Testing the accuracy of the model by independently recalculating the input parameters;
▷ Testing completeness and accuracy of data used in the model;
▷ Assessing the reasonability of ECL adjustments not incorporated into the base model, taking into account the impact of COVID-19 on FLI; and
▷ Assessing the sufficiency of the disclosures.

We found the model, its inputs and methodology applied to be reasonable and the overall ECL, taking the impact of COVID-19 into account, to be appropriate.

We found the disclosures relating to the expected credit loss on loans and advances, as presented in notes 5, 9, 26 and 37, and the key judgements and estimates applied in the determination thereof, to be appropriate and in accordance with the relevant accounting standards.</td></tr>
</table>

Independent auditor's report continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS continued

KEY AUDIT MATTERS continued

Key Audit Matter	How the matter was addresses in the audit
Re-calibration of the amortised cost model assumptions for Transaction Capital Risk Services	
Within the Transaction Capital Risk Services business, the principal collections business purchases credit impaired assets for subsequent collection. These are classified as Purchased Originated Credit Impaired Assets under IFRS 9 *Financial Instruments* (IFRS 9). IFRS 9 requires that projected future cashflows include FLI with regard to expected, rather than just incurred, credit losses. Management re-calibrate the amortised cost models' assumptions on an ongoing basis, incorporating the most recent available collection data and expectations on macro-economic factors which could impact on future collection levels. There is uncertainty as to how the COVID-19 pandemic is likely to impact the forward looking macro- economic factors, which in turn will influence future collection levels. A higher level of management judgement will be required in considering how the FLI is taken into account within the models and whether any additional 'out of model adjustments' are required where the models do not cater for all of the potential impact. The assumptions relating to the timing and extent of expected future collections, including the impact of COVID-19, are considered to be a key audit matter due to the extent of judgement and/or estimation applied.	With the support of our internal quantitative and credit modelling specialists, our procedures to assess the re-calibration of the amortised cost model assumptions included an assessment of: ▷ The design and implementation of relevant controls and assessed the governance structures in place; ▷ The model methodology in light of IFRS 9 requirements; ▷ The accuracy of the model by independently recalculating the input parameters; ▷ The valuation of the purchased debt portfolios by developing independent estimates using challenger models; ▷ The completeness and accuracy of data used in the model; and ▷ The assumptions applied by management in determining the impact of forward looking macro-economic factors, including the impact of COVID-19, using probability weighted assumptions and scenarios, on the timing and extent of expected future collections. We found the model, its inputs and methodology applied, taking the impact of COVID-19 into account, to be reasonable and appropriate. We also found the assumptions applied by management to FLI to be appropriate. We found the disclosures relating to the financial instruments as presented in notes 5, 10, 27, 28 and 37, and the key judgements and estimates applied in the determination thereof, to be appropriate and in accordance with the underlying accounting standards

Independent auditor's report continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS continued

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the documents titled Transaction Capital Audited Consolidated and Company Annual Financial Statements for the year ended 30 September 2020, which includes the Directors' Report, the Audit, Risk and Compliance Committee's report and the Company Secretary's Certificate, as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Integrated Report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS continued

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS continued

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

We also provide the Audit, Risk and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit, Risk and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Transaction Capital Limited for 12 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Stephen Munro
Partner
24 November 2020
5 Magwa Crescent, Waterfall City, Waterfall

Consolidated statement of financial position

AT 30 SEPTEMBER

	Notes	2020 Rm	2019 Rm
Assets			
Cash and cash equivalents	6	**1 794**	919
Tax receivables		**32**	26
Trade and other receivables	7	**1 522**	1 287
Inventories	8	**1 032**	832
Loans and advances	9	**11 545**	10 991
Purchased book debts	10	**2 520**	2 382
Other loans receivable	11	**55**	45
Equity accounted investments	12	**2 153**	92
Intangible assets	13	**505**	294
Property and equipment	14	**439**	172
Goodwill	15	**1 354**	1 152
Deferred tax assets	16	**344**	271
Assets classified as held for sale	17	**262**	–
Total assets		**23 557**	18 463
Liabilities			
Bank overdrafts	6	**387**	381
Other short-term borrowings		**102**	76
Tax payables		**46**	16
Trade and other payables	18	**686**	709
Provisions	19	**66**	53
Insurance contract liabilities	20	**374**	537
Benefits ceded on insurance contracts relating to inventories	8	**45**	54
Benefits ceded on insurance contracts relating to loans and advances	9	**124**	174
Benefits accruing to insurance contract holders	20	**205**	309
Interest-bearing liabilities	21	**14 639**	10 804
Senior debt		**13 894**	10 287
Subordinated debt		**745**	517
Lease liabilities	22	**417**	2
Deferred tax liabilities	16	**455**	413
Liabilities directly associated with assets held for sale	17	**12**	–
Total liabilities		**17 184**	12 991
Equity			
Ordinary share capital	23	**2 015**	1 103
Other reserves		**322**	179
Retained earnings		**3 481**	3 614
Equity attributable to ordinary equity holders of the parent		**5 818**	4 896
Non-controlling interests	24	**555**	576
Total equity		**6 373**	5 472
Total equity and liabilities		**23 557**	18 463

Consolidated income statement

FOR THE YEAR ENDED 30 SEPTEMBER

	Notes	2020 Rm	2019 Restated* Rm
Interest income	25	**2 555**	2 353
Interest expense	25	**(1 291)**	(1 158)
Net interest income	25	**1 264**	1 195
Impairment of loans and advances	26	**(836)**	(322)
Risk-adjusted net interest income		**428**	873
Non-interest revenue	27	**2 987**	2 602
Net insurance result	27	**440**	364
Insurance revenue		**907**	823
Insurance service expense		**(468)**	(455)
Insurance finance income/(expense)		**1**	(4)
Other non-interest revenue	27	**2 547**	2 238
Operating costs	28	**(3 083)**	(2 425)
Non-operating profit		**5**	7
Equity accounted income	12	**32**	4
Profit before tax		**369**	1 061
Income tax expense	29	**(79)**	(288)
Profit for the year from continuing operations		**290**	773
Discontinued operations			
(Loss)/profit for the year from discontinued operations		**(87)**	14
Profit for the year		**203**	787
Profit for the year from continuing operations attributable to:			
Ordinary equity holders of the parent		**245**	713
Non-controlling interests		**45**	60
(Loss)/profit for the year from discontinued operations attributable to:			
Ordinary equity holders of the parent		**(87)**	14
Non-controlling interests		**–**	–
Earnings per share (cents)			
From continuing operations			
Basic earnings per share	30	**39.3**	116.5
Diluted basic earnings per share	30	**39.2**	115.1
From continuing and discontinued operations			
Basic earnings per share	30	**25.3**	118.8
Diluted basic earnings per share	30	**25.3**	117.4

* *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.*

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 30 SEPTEMBER

	2020 Rm	2019 Restated* Rm
Profit for the year	**203**	787
Other comprehensive income		
Movement in cash flow hedging reserve	**(22)**	1
Fair value (loss)/gain arising during the year	**(31)**	1
Deferred tax	**9**	–
Exchange gain on translation of foreign operations	**145**	5
Total comprehensive income for the year	**326**	793
Total comprehensive income attributable to:		
Ordinary equity holders of the parent	**281**	733
Non-controlling interests	**45**	60

* *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.*

Consolidated statement of changes in equity

FOR THE YEAR ENDED 30 SEPTEMBER

	Number of ordinary shares million	Ordinary share capital Rm	Cash flow hedging reserve Rm	Share based payment reserve Rm	Foreign currency translation reserve Rm	Retained earnings Rm	Equity attributable to ordinary equity holders of the parent Rm	Non-controlling interests Rm	Total equity Audited Rm
Balance at 30 September 2018	610.2	1 056	(6)	57	1	2 647	3 755	59	3 814
Total comprehensive income	–	–	1	–	5	727	733	60	793
Profit for the year	–	–	–	–	–	727	727	60	787
Other comprehensive income	–	–	1	–	5	–	6	–	6
Disposal of subsidiary	–	–	–	–	–	–	–	(3)	(3)
Transactions with non-controlling interests**	–	–	–	100	–	610	710	497	1 207
Grant of share appreciation rights and conditional share plans	–	–	–	45	–	–	45	–	45
Settlement of share appreciation rights and conditional share plans	–	–	–	(24)	–	(27)	(51)	–	(51)
Dividends paid	–	–	–	–	–	(343)	(343)	(37)	(380)
Issue of shares	3.1	58	–	–	–	–	58	–	58
Repurchase of shares	(0.6)	(11)	–	–	–	–	(11)	–	(11)
Balance at 30 September 2019	612.7	1 103	(5)	178	6	3 614	4 896	576	5 472
Adjustment on initial adoption of IFRS 16*	–	–	–	–	–	(51)	(51)	–	(51)
Restated balance at 1 October 2019	**612.7**	**1 103**	**(5)**	**178**	**6**	**3 563**	**4 845**	**576**	**5 421**
Total comprehensive income	**–**	**–**	**(22)**	**–**	**145**	**158**	**281**	**45**	**326**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**158**	**158**	**45**	**203**
Other comprehensive income	**–**	**–**	**(22)**	**–**	**145**	**–**	**123**	**–**	**123**
Grant of share appreciation rights and conditional share plans	**–**	**–**	**–**	**61**	**–**	**–**	**61**	**–**	**61**
Settlement of share appreciation rights and conditional share plans	**–**	**–**	**–**	**(41)**	**–**	**(31)**	**(72)**	**–**	**(72)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(209)**	**(209)**	**(66)**	**(275)**
Issue of shares	**50.8**	**954**	**–**	**–**	**–**	**–**	**954**	**–**	**954**
Repurchase of shares	**(2.0)**	**(42)**	**–**	**–**	**–**	**–**	**(42)**	**–**	**(42)**
Balance at 30 September 2020	**661.5**	**2 015**	**(27)**	**198**	**151**	**3 481**	**5 818**	**555**	**6 373**

* *Refer to note 2 for details relating to the adoption of new and revised standards.*

** *Refer to note 24 for further details on transactions with non-controlling interests.*

Consolidated statement of cash flows

FOR THE YEAR ENDED 30 SEPTEMBER

	Notes	2020 Rm	2019 Restated* Rm
Cash flow from operating activities			
Cash generated by operations	32	**610**	452
Interest received	32	**2 039**	2 153
Interest paid	32	**(1 194)**	(1 190)
Income taxes paid	33	**(115)**	(108)
Dividends paid	34	**(275)**	(380)
Cash flow from operating activities before changes in operating assets and working capital		**1 065**	927
Increase in operating assets		**(1 838)**	(2 592)
Loans and advances	32.1	**(1 118)**	(1 425)
Purchased book debts	32.2	**(720)**	(1 167)
Changes in working capital		**(462)**	(553)
Increase in inventories		**(200)**	(354)
Increase in trade and other receivables		**(76)**	(167)
Increase in other loans receivable		**(25)**	(6)
Decrease in trade and other payables		**(161)**	(26)
Net cash utilised by operating activities		**(1 235)**	(2 218)
Cash flow from investing activities			
Acquisition of property and equipment		**(57)**	(48)
Proceeds on disposal of property and equipment		**4**	3
Acquisition of intangible assets		**(214)**	(57)
Investment into equity accounted investment	12	**(1 604)**	(87)
Acquisition of subsidiary	39	**(175)**	(7)
Proceeds on disposal of subsidiary	40	**30**	8
Net cash utilised by investing activities		**(2 016)**	(188)
Cash flow from financing activities			
Proceeds from interest-bearing liabilities		**10 797**	9 088
Settlement of interest-bearing liabilities		**(7 163)**	(8 101)
Proceeds in other short-term borrowings		**26**	76
Repayment of lease liabilities		**(52)**	–
Additional interest acquired in subsidiary		**–**	(28)
Net proceeds on issue of shares by subsidiary to non-controlling interests		**–**	1 135
Repurchase of shares		**(42)**	(11)
Issue of shares		**550**	–
Net cash generated by financing activities		**4 116**	2 159
Net decrease in cash and cash equivalents		**865**	(247)
Cash and cash equivalents at the beginning of the year	6	**538**	784
Effects of exchange rate changes on the balance of cash held in foreign currencies		**19**	1
Cash and cash equivalents at the end of year**	6	**1 422**	538

* *Restated to present interest received and interest paid separately on the face of the statement of cash flow in line with IAS 7 – Statement of cash flows paragraph 31.*

** *Cash and cash equivalents are presented net of bank overdrafts and includes R15 million of cash transferred as part of assets held for sale. Refer to note 17.*

Notes to the consolidated financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2020

1 BASIS OF PREPARATION

The financial statements of Transaction Capital Limited (the company), and the company and its subsidiaries (the group) are prepared in accordance with International Financial Reporting Standards (IFRS), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the Johannesburg Stock Exchange (JSE) Listings Requirements, the going-concern principle and the requirements of the South African Companies Act, 71 of 2008.

The consolidated and company financial statements have been prepared on the historical cost basis except for derivative financial instruments, loans and advances for entry-level vehicles and Other Financial Assets which are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability as market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share based payment transactions that are within the scope of IFRS 2 – Share-based payments and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 – Inventories or value in use in IAS 36 – Impairment of assets.

The company and group statements of financial position are presented in order of liquidity. Reference to the current maturities of these financial assets and liabilities are disclosed in the statements of financial position notes and in the analysis of financial assets and liabilities.

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

- Property and equipment are accounted for using the cost model (note 14);
- Intangible assets are accounted for using the cost model (note 13);
- Regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting (note 37); and
- Cumulative gains and losses recognised in other comprehensive income (OCI) in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability (note 37.6).
- Components of other comprehensive income will be subsequently reclassified to profit and loss when specific conditions are met. The translation of foreign operations do not attract any tax.

All monetary information and figures presented in these consolidated financial statements are stated in millions of South African Rand (Rm), unless otherwise indicated.

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies applied in the preparation of the consolidated financial statements are in terms of International Financial Reporting Standards (IFRS) and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except for the adoption of IFRS 16 – Leases, as described below.

2.1 IFRS 16 – LEASES

IFRS 16 introduces a single, on-balance sheet accounting model for lessees, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, other than short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones and printers). In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the group’s consolidated annual financial statements is described below.

The group has adopted IFRS 16 based on the modified retrospective approach from 1 October 2019, with no restatement of comparative information, as permitted under the specific transitional provisions in the standard. The cumulative effect arising from the initial adoption of IFRS 16 is presented as an adjustment to the opening balance of retained earnings as at 1 October 2019.

IMPACT OF THE NEW DEFINITION OF A LEASE

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether the use of an identified asset is controlled by the lessee.

The group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease, will continue to be applied to those leases entered into or modified before 1 October 2019.

The group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 October 2019 (whether it is a lessor or a lessee in the lease contract).

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

2.1 IFRS 16 – LEASES

IMPACT OF LESSEE ACCOUNTING

IFRS 16 introduces significant changes to lease accounting by removing the distinction between operating and finance leases under IAS 17.

The group recognised right-of-use assets to the value of R428 million (refer to note 14.1) and lease liabilities to the value of R532 million for all leases, other than short-term leases and leases of low value assets, on initial adoption of IFRS 16. An adjustment of R33 million was made to the right- of- use assets relating to prior year deferred lease liabilities and the remaining R51 million (net of taxation) was recognised as an adjustment to the opening balance of retained earnings. The election in accordance with IFRS 16 paragraph C8(b) was applied on a lease by lease basis.

Lease liabilities were initially measured at the present value of the future lease payments, discounted using the incremental borrowing rate. The weighted average incremental borrowing rate applied on initial adoption was 10.7%. Subsequently, the lease liabilities are adjusted for interest and lease payments, as well as the impact of lease modifications.

The group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- The application of a single discount rate to a portfolio of leases with similar characteristics.
- The application of the exemption not to recognise right-of-use assets and lease liabilities for leases with a lease term of less than 12 months.
- Leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones and printers).
- The use of hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on financial statements

	1 October 2019 Rm
Operating lease commitments as at 30 September 2019 as disclosed in the group's consolidated annual financial statements (restated)*	503
Adjustments made for the purposes of IFRS 16:	
Recognition exemption for:	283
– short-term leases	(3)
– leases of low-value assets	(1)
– Extension and termination options reasonably certain to be exercised	309
– Variable lease payments based on an index or a rate	(22)
Finance lease liabilities recognised as at 30 September 2019	2
Discounted using the incremental borrowing rate as at 1 October 2019	(256)
Lease liabilities recognised as at 1 October 2019	532

* *Operating lease commitments at 30 September 2019, previously disclosed as R480 million, have been adjusted to an amount of R503 million in order to include an additional R23 million worth of lease commitments (in terms of IAS 17) that was erroneously excluded in the prior year.*

The prior year preliminary assessment impact of IFRS 16 estimated that lease liabilities would be recognised at R478 million (2020: R532 million) and right-of-use assets of approximately R416 million (2020: R428 million) at adoption. The prior year estimates were based on an average of both measurement models of the right-of-use assets in line with IFRS 16 paragraph C8(b) which was different at 1 October 2020 at adoption when applied on a lease by lease basis.

IFRIC 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS

The group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires the group to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

The adoption of IFRIC 23 has not had any material impact on the amounts reported in these financial statements.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

3 NEW AND AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS

NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 3 – BUSINESS COMBINATIONS

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. More acquisitions are likely to be accounted for as asset acquisitions. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process is present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce.

The amendment is effective for the financial year ending 30 September 2021. The amendment is not expected to have a material impact on the group's consolidated financial statements.

IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS AND IAS 8 – ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

- Use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;
- Clarify the explanation of the definition of material; and
- Incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is:
Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendment is effective for the financial year ending 30 September 2021. The amendment is not expected to have a material impact on the group's consolidated financial statements.

REFERENCE TO THE CONCEPTUAL FRAMEWORK (AMENDMENTS TO IFRS 3)

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the IASB adds to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendment is effective for the financial year ending 30 September 2023. The amendment is not expected to have a material impact on the group's consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT – PROCEEDS BEFORE INTENDED USE (AMENDMENTS TO IAS 16)

The IASB decided to amend IAS 16 to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 – Inventories.

The amendment is effective for the financial year ending 30 September 2023. The amendment is not expected to have a material impact on the group's consolidated financial statements.

ONEROUS CONTRACTS—COST OF FULFILLING A CONTRACT (AMENDMENTS TO IAS 37)

The IASB decided to amend IAS 37 by specifying that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendment is effective for the financial year ending 30 September 2023. The amendment is not expected to have a material impact on the group's consolidated financial statements.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

3 NEW AND AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS

NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

ANNUAL IMPROVEMENTS TO IFRS STANDARDS 2018-2020:

The annual improvements applicable for the 2018-2020 cycle include amendments to certain standards, the amendments applicable to the group are:

Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to IFRS 9)

IFRS 9 requires an entity to derecognise a financial liability and recognise a new financial liability when there is an exchange between an existing borrower and the lender of debt instruments with substantially different terms (including a substantial modification of the terms of an existing financial liability or part of it). The terms are substantially different if the discounted present value of the remaining cash flows under the new terms are at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability ('10 per cent' test). The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is effective for the financial year ending 30 September 2023. The amendment is not expected to have a material impact on the group's consolidated financial statements.

4 BASIS OF CONSOLIDATION

SUBSIDIARY COMPANIES AND OTHER CONTROLLED ENTITIES

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

Non controlling interests in subsidiaries are identified separately from the group's equity therein. Those interests of non controlling shareholders that present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition by acquisition basis. Subsequent to acquisition, the carrying amount of non controlling interests is the amount of those interests at initial recognition plus the non controlling interests' share of subsequent changes in equity. Changes in the group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the group's interests and the non controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the company.

SPECIAL PURPOSE ENTITIES

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

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

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

5 MANAGEMENT ESTIMATES

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

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

5.1 IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating unit (CGU) to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. Goodwill is considered for impairment annually.

Factors taken into consideration include the economic viability of the asset itself and, where it is a component of a larger economic unit, the viability of the unit. Refer to note 15 of the consolidated financial statements for further disclosure around goodwill impairment testing.

5.2 BUSINESS MODEL ASSESSMENT

Classification and measurement of financial assets depends on the results of the solely payments of principal and interest (SPPI) and the business model test. The group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

5.3 SIGNIFICANT INCREASE IN CREDIT RISK

As explained in note 37, expected credit losses are measured as an allowance equal to 12-month expected credit losses (ECL) or lifetime ECL. An asset moves to lifetime ECL when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

5.4 IMPAIRMENT OF FINANCIAL ASSETS

The group measures the ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The maximum period considered when measuring ECL is the maximum contractual period (including extension options) over which the group is exposed to credit risk, and not a longer period, even if that period is consistent with business practice.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

5 MANAGEMENT ESTIMATES continued

5.4 IMPAIRMENT OF FINANCIAL ASSETS continued

5.4.1 IMPACTS OF COVID-19

SA TAXI

The outbreak of COVID-19 had a significant impact on the collections performance across all portfolios. Given the restriction on public movement and public transport operation, a large portion of clients were placed under strain in terms of their ability to generate income and service instalment payments on their loans.

In light of this strain, SA Taxi provided its client base interim payment relief for the month of April 2020, to the majority of their client base, provided that the client's account was in good standing and their vehicles had a fully functioning telematics device. Additional payment relief measures were provided over the months of May, June, July and August – however these were provided on an adhoc basis and affected a small number of accounts of the portfolio (those affected by ongoing restrictions).

These relief measures extended the term of the contracts, as it resulted in a partial capitalisation of arrears for the affected accounts in the month where the respective client qualified for payment relief (capitalisation applied to the instalments that were raised during the relief time and did not include all arrears). The interest rate remained unchanged and the term extension did not change the present value of the remaining cash flows.

The collections performance has a significant impact on several of the assumptions driving the loan book provisioning which include the PD, EAD, and LGW. The impact of the adverse collection experience since April (apart from the part capitalisation discussed above), has been considered on our impairment model parameters – (ie. we did not modify arrears and as a result we allowed accounts to age and roll forward without modification). These impairment model parameters have been applied in determining expected cash shortfalls arising from non-payment in the best estimate provision on the loan book as at 30 September 2020.

In addition, whilst our models continue to reflect the customers' financial performance information while on book (including their performance over the period affected by COVID-19) and historical performance remains a strong indicator of future performance. We have also overlaid our current best estimate of the impact of future collection strains on forward looking expected losses to be incurred. This has resulted in an additional impairment charge of R35 million.

Management continues to support the rebuttals of the 30- and 90- day presumptions and the collateral values applied in the modelling. The extent to which the COVID-19 has further impacts on our credit losses going forward, will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration and severity of the outbreak, the actions that may be required to contain the coronavirus or treat its impact and the resulting recovery profile. If the strain on the underlying collections of the portfolio extend past the end of the calendar year, the estimated credit losses and overall results of operations will be adversely affected. In contrast, if the strain on the underlying collections of the portfolio are better than expectation, the estimated credit losses and overall results of operations will be favourably affected.

TRANSACTION CAPITAL RISK SERVICES

The outbreak of COVID-19 had a significant impact on the operations of the business and the debtors from which we collect.

In the immediate weeks following the initial lock-down on the 27th March 2020 the businesses call centres were not able to operate from their physical sites. The rapid and effective mobilisation of a fully functioning remote working capability resulted in 900 call centre agents working from home by the end of April 2020. This capacity has increased to 1 300 agents working from home by the end of the financial year. The effectiveness of the work from home execution has resulted in individual collection agent productivity metrics improving to above pre COVID-19 levels. The success of this forced change from physical to remote working has had a fundamental change on the future operating model of the business. Going forward a balance between work from home and working in physical call centres will be maintained.

The initial disruption of the lock-down and the time taken to build remote collection capability resulted in volume related disruptions across both the agency and principal verticals and an initial drop off in collections. The business have seen collections improve every month to pre COVID-19 levels by 30 September 2020. The impact of adverse collections over the last six months which will be deferred into future periods has been factored into adjusting down the carrying value of our purchased book debts. Additionally, the carrying value of the book has further been adjusted down as we have estimated, through 13 probability weighted scenarios, the future impact of government support being reduced and unemployment increasing in the near term and the knock-on impact on collection activity. Should collection activity return to pre COVID-19 levels sustainably these adjustments will reverse in future periods via reduced amortisation levels.

Refer to note 37 for the accounting policies relating to the impairment of financial assets.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

5 MANAGEMENT ESTIMATES continued

5.5 INSURANCE CONTRACTS

5.5.1 PRESENTATION OF INSURANCE CONTRACT LIABILITIES

Unique to the financed motor comprehensive insurance product offering, is the inclusion of absconsion, violation and credit shortfall cover (AVCS) provided to protect the policyholder in adverse conditions. IFRS 17 paragraph 78 requires that the statement of financial position shall include line items that present, inter alia, groups of contracts within the scope of IFRS 17 that are liabilities.

The group's exposure to the underlying portfolio consists of both credit risk (measured in accordance with IFRS 9) and insurance risk (measured in accordance with IFRS 17). With respect to the measurement of the liability for remaining coverage, credit metrics are used as indicators for the severity of claim. To the extent that the insured event affects the recovery of the underlying asset and given that the assessment of risk and exposure on the underlying portfolio is considered on a group basis, a portion of the liability for remaining coverage relating to the active financed debtors and repossessed vehicle stock portfolios, is presented as part of net loans and advances or inventory (where the repossessed vehicle stock has moved into a repair/realisation channel) as these insurance contract liabilities reduce the group's overall exposure on the 'default' contract sets (for more detail refer to note 20.3.1). These allocations are set out in notes 8, 9 and 20 of the consolidated annual financial statements.

All insurance liabilities relating to remaining coverage or incurred claims are included as part of insurance contract liabilities as required by IFRS17 paragraph 78.

Given that the IFRS 17 and IFRS 9 provisions are inextricably linked, the presentation of these specific insurance contract liabilities with the related loans and advances and inventory balances in note 8 and 9 to the statement of financial position is a more faithful representation of the effects of transactions. Fair presentation in compliance with IFRS 17 and IAS 1 has been achieved by providing additional disclosures, as the specific requirements in IFRS 17 paragraph 78 is insufficient to enable users to understand the impact of the group's application of the standard on the group's financial position.

Ceded insurance contracts are measured and recognised according to IFRS 17. On the face of the statement of financial position, these contracts are shown as part of insurance contract liabilities. The presentation of ceded insurance contracts against net loans and advances and inventory is to enable users to understand the underlying risk that the group is exposed to after considering provisions and liabilities recognised to cover both the credit and insurance risk of the portfolio.

5.5.2 FULFILMENT CASH FLOWS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the group. Such changes are reflected in the assumptions when they occur.

Fulfilment cash flows comprise:

- Estimates of future cash flows;
- An adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows; and
- A risk adjustment for non-financial risk.

The group's objective in estimating future cash flows is to determine the expected value of a range of scenarios that reflects the full range of possible outcomes. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

5 MANAGEMENT ESTIMATES continued

5.5 INSURANCE CONTRACTS continued

5.5.3 ESTIMATES OF FUTURE CASH FLOWS

In estimating future cash flows, the group incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows reflect the group's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices.

When estimating future cash flows, the group takes into account current expectations of future events that might affect those cash flows.

Cash flows within the boundary of a contract relate directly to the fulfilment of the contract, including those for which the group has discretion over the amount or timing. Other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

The timing and uncertainty of cashflows are affected by the following probabilities: policy lapses; probability of death; probability of default and the probability of repair or salvage (given repossession).

In the current financial year, SA Taxi recognised a change in estimate from the probability of default assumption to a probability of repossession assumption. This was driven by the impact of COVID-19 on the probability of default curve which is more reflective of credit risk already incorporated in IFRS 9 provision models. The probability of repossession curve better reflects the insurance risk arising from potential claims.

5.5.4 DISCOUNT RATES

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, plus a liquidity premium where applicable. Risk free rates are determined by reference to the ZAR swap curve. The liquidity premium is determined by reference to observable market rates, including sovereign debt, corporate debt and market swap rates. Refer to note 37.5 of the consolidated annual financial statements for discount rates applied for discounting of future cash flows.

5.5.5 RISK ADJUSTMENT FOR NON-FINANCIAL RISK

The risk adjustment for non-financial risk represents the compensation that the group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts and covers insurance risk, lapse risk and expense risk. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the best estimate amount.

The group has estimated the risk adjustment using a value-at-risk (VaR) approach. The risk adjustment for insurance contracts corresponds to a 65% confidence level (FY19: 65%).

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		2020 Rm	2019 Rm
6	**CASH AND CASH EQUIVALENTS**		
	Bank balances	458	301
	Call deposits	461	65
	Bank balances and call deposits held within securitisation special purpose vehicles*	854	533
	Customer clearance accounts	2	–
	Cash held for insurance operations	19	20
	Total cash and cash equivalents	1 794	919
	Bank overdrafts**	(387)	(381)
	Net cash and cash equivalents	1 407	538
	Total overdraft facilities	698	761

The carrying value of cash and cash equivalents approximates fair value as it is short-term in nature and not subject to material changes in credit risk and fair value.

* *Ceded as part security for securitisation debentures and loans as shown in note 21.*

** *Included in bank overdrafts is a pre-owned vehicle overdraft facility of R100 million (2019: R100 million), carried at a rate linked to prime.*

		2020 Rm	2019 Rm
7	**TRADE AND OTHER RECEIVABLES**		
	Trade receivables*	443	402
	Impairment provision	(23)	(16)
	Net trade receivables	420	386
	Prepayments and other deferrals**	89	207
	Dealer incentive commission	227	181
	Derivative assets (refer to note 7.1)	372	194
	Insurance premiums receivable	73	64
	Other sundry insurance claim receivables	49	81
	Premium debtors	23	7
	VAT receivable	69	50
	Salvage and other sundry debtors	129	117
	Other	71	–
	Total trade and other receivables	1 522	1 287

The carrying value of trade and other receivables approximates fair value as these are short-term in nature and not subject to material changes in credit risk and fair value.

	2020 Rm	2019 Rm
* *Ceded as security for bank overdraft facilities as shown in note 6.*	332	318

** *Included in the prior year prepayments are IT software development costs of R99 million. These costs were reclassified to intangible assets during the current year, refer to note 13 for further detail.*

The group measures the loss allowance for trade receivables at an amount equal to lifetime expected losses. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Movement in impairment provision	2020 Rm	2019 Rm
Balance at the beginning of the year	(16)	(14)
Impairment recognised in profit or loss	(9)	(4)
Utilisation of impairments	2	–
Foreign currency translation difference	–	2
Balance at the end of the year	(23)	(16)

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		2020 Rm	2019 Rm
7	**TRADE AND OTHER RECEIVABLES** continued		
	Trade and other receivables past due but not impaired		
	Amounts 30 days overdue	**19**	33
	Amounts 30 to 60 days overdue	**9**	6
	Amounts 60 to 90 days overdue	**7**	5
	Amounts 90 to 120 days overdue	**10**	4
	Amounts in excess of 120 days overdue*	**51**	57
	Total trade and other receivables past due but not impaired	**96**	105
	Maximum exposure to credit losses of trade receivables	**420**	386
	Carrying value of trade receivables less impairment provision	**420**	386
	Assets held as collateral	**(81)**	(38)
	Residual exposure	**339**	348

* *The trade receivables past due but not impaired all carry a reasonable prospect of collection taking into account past collection experience, the existence of formal payment plans and continued customer engagement.*

		2020 Rm	2019 Rm
7.1	**DERIVATIVE ASSETS**		
	Derivative assets held for risk management		
	Interest rate swaps	**24**	4
	Cross-currency swaps	**348**	190
	Total derivative assets	**372**	194

FAIR VALUE HEDGES OF INTEREST RATE RISK

The group uses interest rate swaps to hedge the interest rate by exchanging fixed rate liabilities for floating rate liabilities.

CASH FLOW HEDGES OF FOREIGN CURRENCY RISK

The group uses cross-currency swaps to hedge the foreign currency risks arising from interest-bearing liabilities denominated in foreign currencies. These interest-bearing liabilities have a carrying value of R2.3 billion (USD 147 million) (2019: R1.6 billion (USD 115 million)). The currency exposure is 100% hedged.

Refer to note 37.8 for disclosure on movements in the cash flow hedging reserve.

8 INVENTORIES

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. Costs include landed cost, freight and clearing costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and costs to be incurred in marketing, selling and distribution. The write down of inventory to net realisable value and the reversal thereof is recognised in profit and loss. The reversals of write downs are limited to the cost of inventory.

VEHICLES IN POSSESSION

Vehicles in possession are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. In establishing a weighted average cost, consideration is given to refurbishment and related costs incurred in bringing such vehicles to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the expected cost of refurbishment and selling expenses. The write down of vehicles in possession to net realisable value, and any subsequent reversal thereof, is recognised in profit and loss. The reversals of the write downs are limited to the reacquired cost of vehicles in possession. Vehicles in possession not yet allocated to the alternative disposal/repair channel (i.e. vehicles which serve as collateral where a borrower has defaulted under the terms of a vehicle finance arrangement) are reported as part of loans and advances and included as a non-financial asset in the IFRS 9 categorised statement of financial position.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		2020 Rm	2019 Rm
8	**INVENTORIES** continued		
	Net hardware	**2**	1
	Hardware stock	**2**	2
	Impairment provision for hardware stock	**–**	(1)
	Components and spares	**132**	123
	Work in progress	**7**	3
	Vehicle sales stock which has entered realisation channels	**118**	86
	Net vehicle stock which has entered realisation channels	**728**	565
	Gross vehicle stock which has entered realisation channels	**773**	619
	IFRS 17 – ceded insurance contract liabilities**	**(45)**	(54)
	Inventories net of benefits ceded on insurance contracts	**987**	778
	IFRS 17 provision – ceded**	**45**	54
	Total inventories*	**1 032**	832

* *Inventories with a value of R102 million (2019: R76 million) have been pledged to secure the floorplan facility. A further R700 million (2019: R546 million) have been ceded as part security for amortising securitising debentures and loans as shown in note 21.*

** *To the extent that the insured event affects the recovery of the underlying asset and given that the assessment of risk and exposure on the underlying portfolio is considered on a group basis, a portion of the liability for remaining coverage relating to insurance contracts that are ceded to the finance provider to cover the repair/realisation costs of the collateral relating to the repossessed vehicle stock portfolios, is presented as part of inventory where the repossessed stock has moved into a repair/realisation channel. Refer to note 20.*

Of the total inventories of R1 032 million (2019: R832 million), inventories to the value of R809 million (2019: R639 million) are carried at net realisable value. The remainder is carried at cost.

		2020 Rm	2019 Rm
9	**LOANS AND ADVANCES**		
	Gross loans and advances	**12 243**	11 373
	Loans and advances* (refer to note 37 for the IFRS 7 – Financial Instruments: Disclosure)	**12 069**	10 649
	Repossessed vehicle stock on hand	**179**	107
	Ceded insurance contract liabilities**	**(5)**	(4)
	Mortgage loans	**–**	18
	Discounted invoices and other instruments	**–**	327
	Other loans and advances	**–**	276
	Impairment provision (refer to note 9.2)	**(822)**	(556)
	Loans and advances (refer to note 37 for the IFRS 7 – Financial Instruments: Disclosure)	**(624)**	(297)
	Repossessed vehicle stock on hand	**(79)**	(48)
	Ceded insurance contract liabilities**	**(119)**	(170)
	Mortgage loans	**–**	(6)
	Discounted invoices and other instruments	**–**	(17)
	Other loans and advances	**–**	(18)
	Loans and advances net of expected credit loss and benefits ceded on insurance contracts* **	**11 421**	10 817
	IFRS 17 provision – ceded**	**124**	174
	Loans and advances net of expected credit loss	**11 545**	10 991

* *R17 million (2019: R19 million) of loans and advances relates to entry-level vehicles carried at fair value.*

** *To the extent that the insured event affects the recovery of the underlying asset and given that the assessment of risk and exposure on the underlying portfolio is considered on a group basis, a portion of the liability for remaining coverage relating to insurance contracts that are ceded to the finance provider in respect of active financed debtors is presented as part of net loans and advances. Refer to note 20.*

*** *R11.4 billion (2019: R10.3 billion) ceded as part security for amortising securitising debentures and loans as disclosed in note 21 of the group consolidated financial statements.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		2020 Rm	2019 Rm
9	LOANS AND ADVANCES continued		
9.1	GROSS LOANS AND ADVANCES BY ASSET TYPE		
	Finance leases (Refer to note 9.1.1)	12 243	10 752
	Mortgage loans	–	18
	Discounted invoices and other instruments	–	327
	Other loans and advances	–	276
	Gross loans and advances	12 243	11 373
9.1.1	**FINANCE LEASES**		
	Gross finance leases including unearned finance charges	17 691	16 047
	Unearned finance charges	(5 448)	(5 295)
	Gross finance leases	12 243	10 752
	Impairment provision	(822)	(515)
	Net finance leases	11 421	10 237
	Maturity analysis of gross finance leases		
	Amounts up to one year	3 054	2 883
	Amounts between one and five years	8 824	7 505
	Amounts in excess of five years	365	364
	Total gross finance leases	12 243	10 752
	Average remaining loan term (months)	50	48
	Average loan term at origination (months)	71	71
9.1.2	**MOVEMENT IN IMPAIRMENT PROVISION**		
	Balance at the beginning of the year	(556)	(474)
	Impairment recognised in profit or loss*	(876)	(328)
	Utilisation of impairment provision** (restated***)	553	246
	Disposal of subsidiary	6	–
	Transferred to assets held for sale	51	–
	Balance at the end of the year	(822)	(556)

* *Includes R13 million (2019: R54 million) related to a change in estimate on insurance contract liabilities and excludes the impact of bad debts recovered of R4 million (2019: R6 million).*
** *Includes R71 million (2019: R91 million) related to insurance contract liabilities.*
*** *Prior year number restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.*

		2020 Rm	2019 Rm
9.1.3	**LOANS AND ADVANCES PAST DUE BUT NOT SPECIFICALLY IMPAIRED******		
	Amounts up to 30 days overdue	1 234	1 236
	Amounts 30 to 60 days overdue	1 312	704
	Amounts 60 to 90 days overdue	1 135	307
	Amounts in excess of 90 days overdue	2 228	950
	Total	5 909	3 197

**** *Refer to note 37.1 for the definition of default.*

The impact of the adverse collection experience since April caused by COVID-19, has been considered on our impairment model parameters – (ie. we did not modify arrears and as a result we allowed accounts to age and roll forward without modification). These impairment model parameters have been applied in determining expected cash shortfalls arising from non-payment in the best estimate provision on the loan book as at 30 September 2020.

In addition, whilst our models continue to reflect the customers' financial performance information while on book (including their performance over the period affected by COVID-19) and historical performance remains a strong indicator of future performance, we have also overlaid our current best estimate of the impact of future collection strains on forward looking expected losses to be incurred. This has resulted in an additional impairment charge of R35 million. The stage distribution of the portfolio has shifted due to the impact of the lockdown on underlying collections activity. Before making any adjustment to this stage distribution going forward, customers will need to demonstrate an extended period of corrective payment behaviour.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

10 PURCHASED BOOK DEBTS

Purchased credit-impaired financial assets (principal book portfolios) are those that, at the date of initial recognition (acquisition), are credit-impaired. The group purchases its portfolios at a deep discount that reflects the incurred credit losses.

Purchased credit-impaired financial assets reflected above include cumulative changes in lifetime expected credit losses since acquisition as a loss allowance. The amount of the change in lifetime expected credit losses is reflected as an impairment gain or loss in profit or loss (reflected as amortisation above). Favourable changes in lifetime expected credit losses (where collections on portfolios outperform those when the portfolios were acquired) are recognised as an impairment gain even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows when acquired.

	2020 Rm	2019 Rm
Principal book portfolios	**2 350**	2 283
Other financial assets	**170**	99
Total purchased book debts	**2 520**	2 382

10.1 PRINCIPAL BOOK PORTFOLIO

	2020 Rm	2019 Rm
Cost	**3 794**	3 181
Accumulated amortisation	**(1 444)**	(898)
Total purchased book debts*	**2 350**	2 283

* *R2 350 million (2019: R2 283 million) ceded as part security for loans as shown in note 21.*

Reconciliation of movements in the year	2020 Rm	2019 Rm
Balance at the beginning of the year	**2 283**	1 325
Additions	**633**	1 078
Disposals of subsidiary	**(16)**	–
Amortisation	**(570)**	(120)
Effect of foreign currency exchange differences	**20**	–
Balance at the end of the year	**2 350**	2 283

10.2 OTHER FINANCIAL ASSETS

	2020 Rm	2019 Rm
Cost	**231**	142
Accumulated fair value adjustments	**(61)**	(43)
Total other financial assets	**170**	99

Reconciliation of movements in the year	2020 Rm	2019 Rm
Balance at the beginning of the year	**99**	49
Additions	**100**	108
Net collections received	**(11)**	(19)
Fair value movements	**(18)**	(39)
Balance at the end of the year	**170**	99

Other financial assets relate to purchased book debt contracts where TCRS does not have title of the underlying portfolio. These purchased book debts are managed on a fair value basis. Refer to note 37.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		2020 Rm	2019 Rm
11	OTHER LOANS RECEIVABLE		
	Gross other loans receivable	**70**	45
	Impairment	**(15)**	–
	Net other loans receivable	**55**	45
	Gross other loans receivable by asset type		
	Loans to employees	**1**	2
	Other loans receivable*	**69**	43
	Gross other loans receivable	**70**	45
	Reconciliation of movements in the year		
	Balance at the beginning of the year	**45**	39
	Loans advanced	**26**	10
	Impairment provision**	**(15)**	–
	Interest	**3**	1
	Loans repaid	**(4)**	(5)
	Balance at the end of the year	**55**	45
	Maturity analysis		
	Within one year	**3**	1
	Greater than one year	**52**	44
	Total other loans receivable	**55**	45

The carrying value of other loans receivable approximates fair value.

Appropriate fringe benefits tax has been levied on low-interest loans.

* *Other loans receivables include an amount of R24 million (2019: R25 million) to a related party; refer to note 38.2 for further information.*

** *A portion of the impairment provision consists of R6 million on loans advanced in the current financial year to a related party. Refer to note 38.5.2.*

12 EQUITY ACCOUNTED INVESTMENTS

An associate is an entity over which the group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 – Impairment of Assets, are applied to determine whether it is necessary to recognise any impairment loss with respect to the group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 – Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 – Impairment of Assets to the extent that the recoverable amount of the investment subsequently increases.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

12 EQUITY ACCOUNTED INVESTMENTS continued

12.1 DETAILS OF THE GROUP'S SIGNIFICANT INVESTMENTS AT SEPTEMBER 2020 ARE AS FOLLOWS:

Name of investments in associate	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest held by the group %
We Buy Cars Pty Ltd (WeBuyCars) (refer to note 12.2)*	**Buying and selling of second-hand motor vehicles**	**South Africa**	**49.9%**
TC Global Finance Limited (TC Global Finance)**	**Distressed debt and Specialised Credit**	**Europe**	**50%**
Lanyana Financial Group Pty Ltd (Lanyana)	**Debt advisory**	**Australia**	**25%**

* *The investment is accounted for as an associate as the group does not have substantive rights sufficient to give it to the ability to control the investment. Refer to note 12.2.4.*

** *The investment is accounted for as an associate as the group does not have the unilateral ability to control, direct or govern how the independent directors may vote on decisions that impact the variable returns of the investment, therefore significant influence exists as opposed to unanimous consent.*

12.2 On 11 September 2020, Transaction Capital Motor HoldCo (Pty) Ltd acquired a 49.9% non-controlling interest in the ordinary share capital of WeBuyCars for a purchase consideration of R1.86 billion. The purchase consideration was comprised of various components, summarised as follows:

	2020 Rm
Consideration paid in cash	**1 122**
Ordinary shares in Transaction Capital Limited (refer to note 12.2.1)	**329**
Vendor finance (refer to note 12.2.2)	**350**
Deferred consideration (refer to note 12.2.3)	**37**
Derivative liability (refer to note 12.2.4)	**22**
Total	**1 860**

12.2.1 16 467 000 ordinary shares in Transaction Capital Limited valued at R20.00 per share.

12.2.2 1 000 preference shares issued by Transaction Capital Motor HoldCo (Pty) Ltd to WeBuyCars. The preference shares bear interest which is payable semi-annually (on 31 May and 30 November). The preference shares have a mandatory redemption date of 12 September 2030, although Transaction Capital Motor HoldCo (Pty) Ltd may voluntarily redeem the preference shares before this time. WeBuyCars may, however, put the preference shares to Transaction Capital Limited from 11 September 2022.

12.2.3 This represents the present value of the deferred consideration of R40 million to be paid by Transaction Capital Motor HoldCo (Pty) Ltd to WeBuyCars on 11 September 2021. R20 million of the deferred consideration will be settled in cash, with the balance of R20 million to be settled in ordinary shares in Transaction Capital Limited.

12.2.4 Transaction Capital Motor HoldCo (Pty) Ltd has provided an equity underpin to WeBuyCars whereby, with respect to the 16 467 000 ordinary shares in Transaction Capital Limited (point 12.2.1 above), should the share price of Transaction Capital Limited decrease below R18.00, Transaction Capital Motor HoldCo will be obliged to pay WeBuyCars an amount equal to the difference between the TC share price and R18.00. The equity underpin expires on the earlier of 11 September 2022 or Transaction Capital Limited procuring an offer for the 16 467 000 ordinary shares that exceeds a price of R20.00 per share.

In addition to the above, there is a put option agreement between Transaction Capital Motor HoldCo (Pty) Ltd and WBC Holdings (Pty) Ltd, in terms of which Transaction Capital Motor HoldCo (Pty) Ltd will, upon exercise of the put option by WBC Holdings (Pty) Ltd, be obliged to subscribe for, subject to the fulfilment of certain conditions including obtaining necessary regulatory approvals, 10% of the shares in WBC Holdings (Pty) Ltd. The put option must be exercised within 5 business days of 11 September 2021. Upon the put option being exercised and implemented (after obtaining regulatory approvals), Transaction Capital Motor HoldCo's shares in WeBuyCars will be exchanged for shares in WBC Holdings (Pty) Ltd, resulting in Transaction Capital Motor HoldCo (Pty) Ltd owning 59.9% of the shares in WBC Holdings (equating to an effective 59.9% investment in WeBuyCars.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

12 EQUITY ACCOUNTED INVESTMENTS continued

There is also a call option agreement between Transaction Capital Motor HoldCo (Pty) Ltd and WBC Holdings, in terms of which, Transaction Capital Motor HoldCo (Pty) Ltd will be entitled, subject to the fulfilment of certain conditions including the necessary regulatory approvals, to subscribe for a further 15% of the ordinary shares of WBC Holdings on 31 October 2023 if the put option (previous point) is exercised and implemented. If the put option (previous point) is not exercised or implemented by WBC Holdings, then Transaction Capital Motor HoldCo (Pty) Ltd will be entitled to subscribe for 25% of the shares in WBC Holdings.

The financial year end of WeBuyCars is 31 March. A change of reporting date will be made in the 2021 financial year to align with the group reporting date of 30 September.

Dividends received from associates below represent the actual amounts attributable and hence received by the group. The other summary information that precedes the reconciliation to the group's carrying amount represents amounts included in the IFRS financial statements of the associate, not the share of these amounts. Furthermore the periods reflected are the 12 months ended 30 September.

Summarised financial information in respect of each of the group's material associates is set out below. The summarised financial information below represents amounts in associates' financial statements prepared in accordance with IFRS Standards.

	WeBuyCars **2020** **Rm**
Current assets	**611**
Non-current assets	**836**
Current liabilities	**(367)**
Non-current liabilities	**(459)**
Equity attributable to owners of the company	**621**
Non-controlling interest	**–**
Non-interest revenue	**923**
Profit for the year	**306**
Other comprehensive income attributable to the owners of the company	**–**
Total comprehensive income	**306**
Dividends received from the associate during the year	**–**

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

12 EQUITY ACCOUNTED INVESTMENTS continued

12.3 CARRYING AMOUNT OF EQUITY ACCOUNTED INVESTMENTS

	WeBuyCars*		TC Global Finance		Lanyana		Total	
	2020 Rm	2019 Rm	**2020 Rm**	2019 Rm	**2020 Rm**	2019 Rm	**2020 Rm**	2019 Rm
Net assets of investment	**621**	–	**368**	44	**26**	16	**1 015**	60
Proportion of the group's ownership interest in the investment (refer to note 12.3.1)	**310**	–	**184**	22	**7**	4	**501**	26
Goodwill	**1 565**	–	**–**	–	**76**	66	**1 641**	66
Shareholder loan	**–**	–	**–**	–	**5**	–	**5**	–
Other adjustments**	**–**	–	**–**	–	**6**	–	**6**	–
Carrying amount of the group's interest in investment	**1 875**	–	**184**	22	**94**	70	**2 153**	92

* *The allocation of the purchase consideration has been determined on a preliminary basis.*
** *Other adjustments include intangible assets and payables raised in terms of IAS 28 – Investment in Associates and Joint Ventures.*

12.3.1 THE CARRYING AMOUNT OF THE GROUP'S INTEREST IN THE INVESTMENT COMPRISES:

	WeBuyCars*		TC Global Finance		Lanyana		Total	
	2020 Rm	2019 Rm	**2020 Rm**	2019 Rm	**2020 Rm**	2019 Rm	**2020 Rm**	2019 Rm
Carrying amount at the beginning of the year	**–**	–	**22**	–	**70**	–	**92**	–
Investment into equity accounted investment	**1 860**	–	**131**	21	**4**	66	**1 995**	87
Share of profit after tax	**15**	–	**8**	1	**9**	3	**32**	4
Dividend received	**–**	–	**–**	–	**(3)**	–	**(3)**	–
Effect of foreign currency exchange difference	**–**	–	**23**	–	**14**	1	**37**	1
Balance at the end of the year	**1 875**	–	**184**	22	**94**	70	**2 153**	92

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

12 EQUITY ACCOUNTED INVESTMENTS continued

12.3 CARRYING AMOUNT OF EQUITY ACCOUNTED INVESTMENTS continued

12.3.2 CASH FLOW FROM INVESTMENT INTO EQUITY ACCOUNTED INVESTMENTS:

The cash flow movement in investment into equity accounted investments is calculated as follows:

	2020 Rm	2019 Rm
Increase in equity accounted investment	**(2 061)**	(92)
Share of profit after tax	**32**	4
Ordinary shares in Transaction Capital Limited (refer to note 12.2)	**329**	–
Deferred consideration (refer to note 12.2)	**37**	–
Derivative liability (refer to note 12.2)	**22**	–
Effect of foreign currency exchange difference	**37**	1
Net cash investment into equity accounted investments	**(1 604)**	(87)

13 INTANGIBLE ASSETS

Intangible assets with finite useful lives are initially recognised at cost if acquired separately or at fair value at the date of acquisition in a business combination and are subsequently carried at cost less accumulated amortisation and accumulated impairment. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets are amortised on the straight-line basis over the estimated economic lives over the following periods:

Internally – generated computer software	5 – 10 years
Other computer and telephony software	2 – 3 years
Customer relationships	4 – 13 years
Brands and trademarks	Indefinite useful life

Useful lives and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being recognised on a prospective basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

13 INTANGIBLE ASSETS continued

	Computer and telephony software Rm	Brands and trademarks* Rm	Customer relationships Rm	Total Rm
Intangible assets				
Cost				
At 30 September 2018	289	51	67	407
Additions	57	–	–	57
At 30 September 2019	**346**	**51**	**67**	**464**
Additions**	**214**	**–**	**–**	**214**
Additions through business combinations	**–**	**21**	**57**	**78**
Disposals	**(1)**	**–**	**–**	**(1)**
Disposal of subsidiary	**(47)**	**–**	**–**	**(47)**
Effect of foreign currency exchange difference	**7**	**4**	**3**	**14**
Transferred to assets held for sale	**(9)**	**–**	**–**	**(9)**
At 30 September 2020	**510**	**76**	**127**	**713**
Accumulated amortisation				
At 30 September 2018	(105)	–	(19)	(124)
Amortisation expense	(34)	–	(12)	(46)
At 30 September 2019	**(139)**	**–**	**(31)**	**(170)**
Disposals	**1**	**–**	**–**	**1**
Amortisation expense	**(38)**	**–**	**(16)**	**(54)**
Disposal of subsidiary	**14**	**–**	**–**	**14**
Impairments	**(2)**	**–**		**(2)**
Effect of foreign currency exchange difference	**(2)**	**–**	**(2)**	**(4)**
Transferred to assets held for sale	**7**	**–**	**–**	**7**
At 30 September 2020	**(159)**	**–**	**(49)**	**(208)**
Net carrying value				
Cost	346	51	67	464
Accumulated amortisation	(139)	–	(31)	(170)
Net carrying value at 30 September 2019	**207**	**51**	**36**	**294**
Cost	**510**	**76**	**127**	**713**
Accumulated amortisation	**(159)**	**–**	**(49)**	**(208)**
Net carrying value at 30 September 2020	**351**	**76**	**78**	**505**

* *Brands and trademarks with indefinite useful lives were acquired through business combinations during the current and prior financial years. The total carrying amount of these intangible assets is R76 million (2019: R51 million). The trademarks and brands relating to the business combinations do not have foreseeable limits to the periods over which the assets are expected to generate net cash inflows for the group. It is management's intention to renew the trademarks associated with these brands for the foreseeable future. There are no anticipated external factors which could lead to a diminishment in the estimated useful lives of these brands.*

** *Included in additions are R170 million of IT software development costs. These costs have been reclassified from prepayments to intangible assets in the period as they now meet the recognition criteria of intangibles. The majority of this addition relates to the development of Sapiens (insurance software) which was expected to go live in the current financial year, however due to integration hurdles the system is now only anticipated to be live and fully operational in the next financial year.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

14 PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Items of property and equipment are depreciated on a component basis to their residual values, on the straight line basis over their estimated economic lives.

Depreciation commences from the date that they are available for use over the following periods:

Vehicles	5 years
Office and computer equipment	2 – 8 years
Machinery and fittings	7 years
Furniture and fittings	4 – 9 years
Right-of-use assets	Shorter period of lease term and useful life of underlying asset
Leasehold improvements	Lesser of lease period or useful life

The residual values estimated useful lives and methods of depreciation of the assets are reviewed at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

	Vehicles Rm	Machinery Rm	Office and computer equipment Rm	Right of use assets – Buildings Rm	Total Rm
14.1 PROPERTY AND EQUIPMENT					
Cost					
At 30 September 2018	47	25	246	–	318
Additions	10	1	37	–	48
Disposals	(2)	–	(7)	–	(9)
At 30 September 2019	**55**	**26**	**276**	**–**	**357**
Additions	**4**	**5**	**48**	**15**	**72**
Disposals	**(1)**	**–**	**(2)**	**(1)**	**(4)**
Disposal of subsidiary	**–**	**–**	**(13)**	**(2)**	**(15)**
Adoption of IFRS 16 (refer to note 2.1)	**–**	**–**	**–**	**428**	**428**
Remeasurement*	**–**	**–**	**–**	**(105)**	**(105)**
Effect of foreign currency exchange difference	**–**	**–**	**7**	**21**	**28**
Transferred to assets held for sale	**–**	**–**	**(9)**	**(8)**	**(17)**
At 30 September 2020	**58**	**31**	**307**	**348**	**744**
Accumulated depreciation					
At 30 September 2018	(18)	(6)	(127)	–	(151)
Depreciation expense	(4)	(3)	(34)	–	(41)
Disposals	1	–	6	–	7
At 30 September 2019	**(21)**	**(9)**	**(155)**	**–**	**(185)**
Depreciation expense	**(5)**	**(4)**	**(36)**	**(68)**	**(113)**
Disposals	**1**	**–**	**1**	**1**	**3**
Disposal of subsidiary	**–**	**–**	**9**	**1**	**10**
Impairment losses	**–**	**–**	**(8)**	**(18)**	**(26)**
Remeasurement*	**–**	**–**	**–**	**(4)**	**(4)**
Effect of foreign currency exchange difference	**–**	**–**	**(3)**	**(2)**	**(5)**
Transferred to assets held for sale	**–**	**–**	**9**	**6**	**15**
At 30 September 2020	**(25)**	**(13)**	**(183)**	**(84)**	**(305)**
Net carrying value					
Cost	55	26	276	–	357
Accumulated depreciation	(21)	(9)	(155)	–	(185)
Net carrying value at 30 September 2019	34	17	121	–	172
Cost	**58**	**31**	**307**	**348**	**744**
Accumulated depreciation	**(25)**	**(13)**	**(183)**	**(84)**	**(305)**
Net carrying value at 30 September 2020	**33**	**18**	**124**	**264**	**439**

* *Remeasurements include changes to underlying lease contracts which included upfront lease incentives and lease modification adjustments.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

15 GOODWILL

The group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

At the acquisition date, goodwill acquired is allocated to cash-generating units (CGUs) that are expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amounts of assets in the unit. Any impairment loss for goodwill is recognised directly in profit or loss and is not reversed in subsequent periods.

On disposal of a subsidiary, associate, jointly controlled entity or a CGU, the amount of goodwill attributable is included in the determination of the profit or loss on disposal.

	2020 Rm	2019 Rm
Balance at the beginning of the year	**1 152**	1 142
Accumulated impairment loss	**(3)**	–
Additions recognised from business combinations:	**145**	9
Net1 Fihrst Holdings (Pty) Ltd (refer to note 39)	**145**	–
Black Elite Benefits Pty (Ltd)	**–**	9
Disposal of subsidiary	**(5)**	–
Effect of foreign currency exchange differences	**65**	1
Carrying value at the end of the year	**1 354**	1 152
Composition of goodwill per cash-generating unit		
SA Taxi	**508**	511
Transaction Capital Risk Services (TCRS) Components:		
TCRS – South Africa	**306**	166
TCRS – Australia	**440**	375
Value Added Services	**100**	100
Total goodwill	**1 354**	1 152

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired. Impairment losses are recognised as part of operating costs in the income statement.

When testing goodwill for impairment, the recoverable amounts of cash-generating units (CGUs) are determined as the lower of value in use and fair value less costs to sell, the lower being the value in use. The CGUs prepare five year forecasts using growth rates based on the specific market segments in which they operate and their expected performance in these markets. The key assumptions for value in use calculations are discount rates, growth rates and expected margins over the determined period. Discount rates reflect management's assessment of risks specific to the CGU as well as current market trends of the time value of money. Growth rates and expected margins are based on industry indicators as well as current and expected business trends.

The group prepared five year cash flow forecasts for each CGU. Terminal values were calculated based on a long-term growth rates of 6.7% (2019: 6.7%) for SA Taxi, 5% (2019: 5%) for TCRS South Africa and Value Added Services and 2.65% (2019: 5%) for TCRS Australia. These rates do not exceed the average long-term growth rate for the relevant markets. The values in use of the CGUs which are lending businesses are determined based on free cash flow to equity, discounted with a cost of equity, and the value in use of CGUs which operate as service businesses are determined based on free cash flows to the firm, discounted with a weighted average cost of capital. The discount rates used in the value in use calculations at year end were 14.3% (2019: 14.3%) for SA Taxi, 17.9% (2019: 17.9%) for TCRS South Africa, 13.15% (2019: 12.5%) for TCRS Australia and 22.5% (2019: 23.0%) for Value Added Services. The valuation method applied is consistent with that of the prior year.

The terminal value growth rate is estimated by the directors of the group based on past performance of the cash-generating units and their expectations of market development. The directors estimate that there is significant headroom in the cash-generating units and a decrease in growth rate would not result in an impairment charge except for the goodwill impairment noted below.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

15 GOODWILL continued

GOODWILL IMPAIRMENT

No indications of impairment were identified, with the exception of Zebra Cabs (Pty) Ltd, which forms part of the SA Taxi CGU. The valuation method applied is consistent with that of the prior period. The goodwill associated with Zebra Cabs (Pty) Ltd arose when the business was acquired by the group in 2016.

During the year, indications of impairment relating to the business arose as a result of the uncertainties surrounding COVID-19, the adverse cash flow effects arising from COVID-19 and the subsequent national lockdown implemented at the end of March 2020. The recoverable amount of Zebra Cabs was determined based on a value in use calculation which used cash flow projections based on approved financial budgets covering a five-year period, and a discount rate of 14.3% per annum (2019: 14.3% per annum).The recoverable amount of the Zebra Cabs cash-generating unit did not support the goodwill value recognised and hence the goodwill value directly associated to Zebra Cabs (Pty) Ltd, amounting to R3 million, was written off.

16 DEFERRED TAX

Deferred tax is calculated using the liability method.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- The initial recognition of goodwill; or
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit or tax loss.

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries and associates, except to the extent that both of the following conditions are satisfied:

- The company is able to control the timing of the reversal of the temporary difference; and
- It is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated using taxation rates that have been enacted or substantially enacted at financial year-end.

The effect on deferred tax of any changes in taxation rates is charged to profit or loss, except to the extent that it relates to items previously charged or credited directly to equity in which case the deferred tax is charged to equity.

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

Deferred tax related to fair value measurement of cash flow hedges, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in profit or loss together with the deferred gain or loss.

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

	2020 Rm	2019 Rm
Deferred tax is presented in the statement of financial position as follows:		
Deferred tax assets	**344**	271
Deferred tax liabilities	**(455)**	(413)
Net deferred tax liabilities	**(111)**	(142)
The movements during the year are analysed as follows:		
Balance at the beginning of the year	**(142)**	42
Recognised in the income statement for the year	**31**	(206)
Recognised in equity for the year	**35**	5
Business combinations	**(20)**	–
Prior year adjustment	**(12)**	18
Translation of foreign operations	**4**	(1)
Transferred to assets held for sale	**(7)**	–
Net deferred tax liabilities at the end of the year	**(111)**	(142)

Deferred tax assets have only been recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The assessments are performed on a continuous basis and if required the deferred tax asset is impaired.

An amount of R2 million (2019: R6 million) has not been recognised as a deferred tax asset during the year.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

16 DEFERRED TAX continued

	Opening balance Rm	Charged to income statement Rm	Charged to equity Rm	Business combinations Rm	Prior year adjustment Rm	Effect of foreign currency exchange differences Rm	Disposal of subsidiary Rm	Transferred to assets held for sale Rm	Closing balance Rm
2020									
Temporary difference									
Assessed loss unutilised	560	82	8	–	(9)	–	–	–	641
Provision for impairment of loans and advances	2	–	–	–	–	–	(1)	(8)	(7)
Prepayments	(67)	(13)	–	–	–	–	–	–	(80)
Creditor provisions	39	(20)	–	–	–	–	–	–	19
Property and equipment	(13)	(4)	–	–	–	–	–	–	(17)
Intangible assets	(2)	2	–	–	–	(1)	–	–	(1)
Deferred income	2	3	–	–	–	(2)	–	–	3
Right of use asset	–	37	(56)	–	–	–	–	–	(19)
Lease liability	2	(28)	76	–	–	–	–	–	50
Timing difference of expenditure	13	–	–	–	–	–	–	–	13
Purchased book debts	(598)	(13)	–	–	–	–	–	–	(611)
Loans and advances	(113)	33	–	–	(13)	–	–	–	(93)
Share appreciation rights	12	6	(1)	–	–	–	–	1	18
Insurance provisions	125	(40)	–	–	–	–	–	–	85
Other provisions	(5)	3	(1)	–	–	3	–	–	–
Other temporary differences	7	–	–	(20)	–	4	–	–	(9)
Cross-currency swap	(10)	–	9	–	11	–	1	–	11
Interest-bearing liabilities	(33)	(3)	–	–	(1)	–	–	–	(37)
Undistributed insurance income	(57)	(14)	–	–	–	–	–	–	(71)
Other	(6)	–	–	–	–	–	–	–	(6)
Total	(142)	31	35	(20)	(12)	4	–	(7)	(111)

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

16 DEFERRED TAX continued

	Opening balance Rm	Charged to income statement Rm	Charged to equity Rm	Business combinations Rm	Prior year adjustment Rm	Transferred to held for sale Rm	Effect of foreign currency exchange differences Rm	Closing balance Rm
2019								
Temporary difference								
Assessed loss unutilised	468	87	5	–	–	–	–	560
Provision for impairment of loans and advances	–	2	–	–	–	–	–	2
Prepayments	(41)	(26)	–	–	–	–	–	(67)
Creditor provisions	43	(4)	–	–	–	–	–	39
Property and equipment	(5)	(8)	–	–	–	–	–	(13)
Intangible assets	(3)	1	–	–	–	–	–	(2)
Deferred income	6	(4)	–	–	–	–	–	2
Operating lease adjustment	2	–	–	–	–	–	–	2
Timing difference of expenditure	14	(1)	–	–	–	–	–	13
Purchased book debts	(366)	(232)	–	–	–	–	–	(598)
Loans and advances	(120)	(9)	–	–	16	–	–	(113)
Share appreciation rights	12	3	(3)	–	–	–	–	12
Insurance provisions	144	(19)						125
Other provisions	(6)	1	–	–	–	–	–	(5)
Other temporary differences	13	(9)	3	–	1	–	(1)	7
Cross-currency swap	(35)	25	–	–	–	–	–	(10)
Interest-bearing liabilities	(40)	7	–	–	–	–	–	(33)
Undistributed insurance income	(38)	(20)	–	–	1	–	–	(57)
Other	(6)	–	–	–	–	–	–	(6)
Total	42	(206)	5	–	18	–	(1)	(142)

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

17 DISCONTINUED OPERATIONS

Cognisant of the higher risk in the small – and medium-sized enterprises (SME) sector, TCBS has proactively curbed gross loans and advances growth to this sector since the second half of 2018. During the financial year, the group took the decision to significantly reduce this exposure. The group is of the view that the capital currently allocated towards TCBS can be applied to achieve better risk-adjusted returns. TCBS is accounted for as a discontinued operation effective 19 March 2020, as its business and assets are available for sale as the group drives various disposal strategies.

The group also entered into a sale agreement to dispose of Principa Decisions (Pty) Ltd (Principa) with an effective date of 17 April 2020. A sale agreement to sell Company Unique Finance (Pty) Ltd (CUF) was signed on 24 March 2020, subject to standard conditions precedent that were met on 1 July 2020. The disposals were effected in order to generate cash flow for the expansion of the group's other businesses.

The results of the discontinued operations, which have been included in the profit for the year, were as follows:

	2020 Rm	2019* Rm
Risk-adjusted net interest income	**12**	70
Non-interest revenue	**43**	86
Operating costs	**(141)**	(137)
Loss on disposal of discontinued operations	**(25)**	–
(Loss)/profit before tax	**(111)**	19
Income tax benefit/(expense)	**24**	(5)
(Loss)/profit for the period from discontinued operations	**(87)**	14

* *Prior year income statement numbers have been restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations with the amounts as disclosed. Refer to note 25, 26, 28 and 29.*

The gain or loss on the measurement to fair value less costs to sell is immaterial as the majority of the assets are carried at amortised cost as per IFRS 9, which falls outside the cope of the IFRS 5 measurement provisions.

During the year, TCBS, Principa and CUF contributed R301 million (September 2019: paid R3 million) to the group's net operating cash flows, paid R7 million (September 2019: R15 million) in respect of investing activities and paid R2 million (September 2019 received: R10 million) in respect of financing activities. The group disposed of Principa on 17 April 2020 and CUF on 1 July 2020.

A loss of R9 million arose on the disposal of Principa and a loss R16 million arose on the disposal of CUF, being the difference between the proceeds of disposal and the carrying amount of the subsidiaries' net assets.

The major classes of assets and liabilities comprising the discontinued operations classified as held for sale are as follows:

	2020 Rm
Cash and cash equivalents	**15**
Trade and other receivables	**1**
Loans and advances	**218**
Intangible assets	**1**
Property and equipment	**2**
Deferred tax assets	**25**
Total assets classified as held for sale	**262**
Trade and other payables	**5**
Provisions	**1**
Lease liabilities	**6**
Total liabilities associated with assets classified as held for sale	**12**
Net assets of disposal group	**250**

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		2020 Rm	2019 Rm
18	**TRADE AND OTHER PAYABLES**		
	Trade payables and accruals	**472**	451
	Revenue received in advance	**50**	56
	Bonus accrual	**72**	132
	Derivative liabilities (refer to note 18.1)	**19**	1
	Deferred lease liabilities	**–**	33
	Deferred consideration*	**38**	–
	Put option derivative*	**16**	–
	VAT payable	**11**	15
	Other	**8**	21
	Trade and other payables	**686**	709

* *The put option derivative and deferred consideration relates to the investment in We Buy Cars (Pty) Ltd made during the current financial year. Refer to note 12 for further details. Fair value adjustments to the put option derivative are reflected in profit and loss, whereas the deferred consideration is measured at amortised cost.*

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates. The group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

		2020 Rm	2019 Rm
18.1	**DERIVATIVE LIABILITIES**		
	Derivative liabilities held for risk management		
	Interest rate swaps	**–**	1
	Cross-currency swaps	**19**	–
	Total derivative liabilities	**19**	1

FAIR VALUE HEDGES OF INTEREST RATE RISK

The group uses interest rate swaps to hedge the interest rate by exchanging fixed rate liabilities for floating rate liabilities.

CASH FLOW HEDGES OF FOREIGN CURRENCY RISK

The group uses cross-currency swaps to hedge the foreign currency risks arising from interest-bearing liabilities denominated in foreign currencies. These interest-bearing liabilities have a carrying value of R2.3 billion (USD 147 million) (2019: R1.6 billion (USD 115 million)). The currency exposure is 100% hedged.

Refer to note 37.8 for disclosure on movements in the cash flow hedging reserve.

		Leave pay provision* Rm	Sundry provision** Rm	Total Rm
19	**PROVISIONS**			
	Balance at 30 September 2019	**53**	**–**	**53**
	Balance acquired in business combination (refer to note 39)	**2**	**–**	**2**
	Additions	**7**	**3**	**10**
	Effect of foreign currency exchange differences	**6**	**–**	**6**
	Reduction arising from payments	**(2)**	**–**	**(2)**
	Disposal of subsidiary	**(2)**	**–**	**(2)**
	Transferred to assets held for sale	**(1)**	**–**	**(1)**
	Balance at 30 September 2020	**63**	**3**	**66**

* *The leave pay provision is paid out on termination of employment and therefore the timing is uncertain.*
** *The sundry provision relates to a provision raised for retrenchment costs raised as part of the business combination in line with IFRS 3. Refer to note 39.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

20 INSURANCE CONTRACTS

20.1 CLASSIFICATION OF INSURANCE CONTRACTS

The group issues insurance contracts in the normal course of business, under which it accepts insurance risk from its policyholders.

Insurance contracts may be issued by the group, or they may be acquired in a business combination or in a transfer of contracts that do not constitute a business. All references in these accounting policies to 'insurance contracts' include contracts issued, initiated or acquired by the group, unless otherwise stated.

20.2 SEPARATING COMPONENTS FROM INSURANCE CONTRACTS

The group assessed the group of contracts as per the requirements of paragraph 11 and 12 of IFRS 17 – Insurance Contracts and did not identify any embedded derivatives or distinct investment components that needed to be separated.

After separating any financial instrument components, the group separates any promises to transfer distinct goods or non-insurance services to policyholders and accounts for them as separate contracts with customers (i.e. not as insurance contracts). A good or service is distinct if the policyholder can benefit from it either on its own or with other resources that are readily available to the policyholder. A good or service is not distinct and is accounted for together with the insurance component if the cash flows and risks associated with the good or service are highly inter-related with the cash flows and risks associated with the insurance component, and the group provides a significant service of integrating the good or service with the insurance component.

Currently, the group's products include a distinct service through the road cover and roadside assistance offering where the policyholder could benefit from these services either on their own or with other resources that are readily available to them. Accordingly, the road cover and roadside assistance components are accounted for separately under IFRS 15, rather than IFRS 17.

IFRS 17 is applied to all remaining components of the insurance contracts.

20.2.1 LEVEL OF AGGREGATION

Where characteristics of onerous contracts are identified, these contracts are separated out of the group of contracts and measured separately according to the fulfilment cashflow model.

20.3 RECOGNITION OF INSURANCE CONTRACTS

The group recognises a group of insurance contracts issued from the earliest of the following:

- The beginning of the coverage period of the group of contracts. The coverage period is the period during which the group provides coverage for insured events in respect of all premiums within the boundary of an insurance contract.
- The date when the first payment from a policyholder in the group becomes due. If there is no contractual due date, then it is considered to be the date when the first payment is received from the policyholder.
- The date when facts and circumstances indicate that the group to which an insurance contract will belong is onerous.

Subsequently, new contracts are added to the group when they are issued or initiated, provided that all contracts in the group are issued or initiated in the same year.

20.3.1 ONEROUS GROUPS OF CONTRACTS

Various facts and circumstances to identify if a group of contracts are onerous taking into account the probability of all claim types in the future are considered. An insurance contract is onerous at the date of initial recognition if the fulfilment cashflows allocated to the contract and any cash flows arising from the contract at the date of initial recognition in total are a net cash outflow. Facts and circumstances which have identified onerous groups of contracts, with respect to the financed portfolio, include both a higher probability weighted expectation of an absconsion, violation and credit shortfall cover ('AVCS') claim (driven by time in default with a warrant) and repair probability, or with respect to the credit life portfolio, based on the age of the insured being 55 years or older.

Onerous contracts are measured according to the fulfilment cash flow model.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

20 INSURANCE CONTRACTS continued

20.3 RECOGNITION OF INSURANCE CONTRACTS continued

20.3.2 CONTRACT BOUNDARIES

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of a contract if they arise from substantive rights and obligations that exist during the reporting period under which the group can compel the policyholder to pay premiums or has a substantive obligation to provide services. A substantive obligation to provide services ends when:

- The group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- The group has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio; and the pricing of the premiums for coverage up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

The contract boundary for groups of contracts is reassessed at each reporting date and, therefore, may change over time.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract are not recognised. Such amounts relate to future insurance contracts.

20.4 MEASUREMENT OF INSURANCE CONTRACTS

20.4.1 MEASUREMENT – CONTRACTS MEASURED UNDER THE PREMIUM ALLOCATION APPROACH (PAA)

Where material insurance acquisition cash flows are incurred, these costs are expensed as incurred in accordance with the guidance contained in IFRS 17 paragraph 59(a).

The group measures the carrying amount of a group of insurance contracts at each reporting period as the sum of: (i) the liability for remaining coverage comprising fulfilment cash flows related to future service allocated to the group at that date and (ii) the liability for incurred claims for the group comprising the fulfilment cash flows related to past service allocated to the group at that date.

20.4.2 INITIAL RECOGNITION

On initial recognition of each group of contracts, the carrying amount of the liability for remaining coverage is measured at the premiums received on initial recognition. As premiums are not received upfront, there is no liability for remaining coverage for the portfolios (other than those identified as onerous).

The liability for incurred claims is the group's obligation to investigate and pay valid claims for insured events that have already incurred, including events that have occurred but for which claims have not been reported.

20.4.3 SUBSEQUENT MEASUREMENT

The group recognises the liability for incurred claims of a group of insurance contracts at the amount of the fulfilment cash flows relating to incurred claims. The group has chosen to adjust the liability for incurred claims to reflect the time value of money and the effect of financial risk.

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the group recognises a loss in profit or loss and increases the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage (including the risk adjustment for non-financial risk) exceed the carrying amount of the liability for remaining coverage. The fulfilment cash flows are adjusted for the time value of money and the effect of financial risk (using current estimates) if the liability for incurred claims is also adjusted for the time value of money and the effect of financial risk.

Fulfilment cash flows comprise unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks, plus a risk adjustment for non-financial risk. The group's objective in estimating future cash flows is to determine the expected value, or the probability-weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort.

The group estimates future cash flows considering a range of scenarios which have commercial substance and give a good representation of possible outcomes. The cash flows from each scenario are probability weighted and discounted using current assumptions.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

20 INSURANCE CONTRACTS continued

20.3 RECOGNITION OF INSURANCE CONTRACTS continued

20.4.3 SUBSEQUENT MEASUREMENT continued

When estimating future cash flows, the group includes all cash flows that are within the contract boundary including:

- Premiums and related cash flows;
- Claims and benefits, including reported claims not yet paid, incurred claims not yet reported and expected future claims;
- Claims handling costs;
- Policy administration and maintenance costs, including recurring commissions that are expected to be paid to intermediaries;
- An allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts; and
- Transaction based taxes.

The group also incorporates, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. The group estimates the probabilities and amounts of future payments under existing contracts based on information obtained, including:

- Information about claims already reported by policyholders;
- Other information about known or estimated characteristics of the insurance contracts;
- Historical data about the group's own experience, supplemented when necessary with data from other sources. Historical data is adjusted to reflect current conditions; and
- Current pricing information.

For groups of contracts assessed as onerous, the group has recognised a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the contractual service margin ('CSM') of the group being zero. A loss component has been established by the group for the liability for remaining coverage for an onerous group depicting the losses recognised.

20.4.4 DE-RECOGNITION AND CONTRACT MODIFICATION

The group derecognises a contract when it is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled.

The group also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the group treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

20.5 PRESENTATION OF INSURANCE CONTRACTS

Groups of insurance contracts that are liabilities are presented separately in the statement of financial position and shown as part of insurance contract liabilities.

The group disaggregates amounts recognised in the statement of profit or loss and OCI into (a) an insurance service result, comprising insurance revenue and insurance service expenses, and (b) insurance finance income or expenses.

The group does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result. Insurance revenue is measured as the sum of all the expected premium receipts for providing coverage in the period.

INSURANCE FINANCE INCOME AND EXPENSES

Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance contracts arising from the effects of the time value of money, financial risk and changes therein.

The group presents insurance finance income and expenses for all other contracts in profit or loss. Refer to note 27.6.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

20 INSURANCE CONTRACTS continued

20.5 PRESENTATION OF INSURANCE CONTACTS

ONEROUS CONTRACTS – LOSS COMPONENTS

For contracts not measured under the PAA, the group establishes a loss component of the liability for remaining coverage for onerous groups of insurance contracts. The loss component determines the amounts of fulfilment cash flows that are subsequently excluded from insurance revenue when they occur. When the fulfilment cash flows occur, that are allocated between the loss component and the liability for remaining coverage excluding the loss component on a systematic basis.

The systematic basis is determined by the proportion of the loss component relative to the total estimate of the present value of the future cash outflows plus the risk adjustment for non-financial risk at the beginning of each period (or on initial recognition if a group of contracts is initially recognised in the period.)

Changes in estimates of cash flows relating to future services are allocated solely to the loss component. If the loss component is reduced to zero, then any excess over the amount allocated to the loss component creates a new contractual service margin for the group of contracts.

20.6 INSURANCE CONTRACT LIABILITIES

Insurance contracts liabilities comprise:

	2020 Rm	2019 Rm
Short-term motor comprehensive policy – financed portfolio	**333**	511
Credit life portfolio	**28**	12
Short-term motor comprehensive policy – non-financed portfolio	**13**	14
Other*	**–**	–
Total insurance contract liabilities**	**374**	537
Insurance contracts are presented as follows:		
Benefits ceded on insurance contracts relating to inventories	**45**	54
Benefits ceded on insurance contracts relating to loans and advances	**124**	174
Benefits accruing to insurance contract holders	**205**	309
Total insurance contract liabilities**	**374**	537

* *Other includes the Taxi Owner Protection Plan (TOPP) portfolio which is less than R1 million.*

** *The timing and uncertainty of cashflows are affected by the following probabilities: policy lapses; probability of death, probability of default and the probability of repair or salvage (given repossession). In the current year, SA Taxi recognised a change in estimate from the probability of default assumption to the probability of repossession assumption. Had the probability of default curve been applied in the measurement of cashflows at 30 September 2020, this would have resulted in additional insurance provisions of approximately R200 million, much of which was built through the increase of IFRS 9 credit impairment provision during the current financial year (which is driven largely by the probability of default) (refer to note 9.1.2). Increasing the insurance provisions by this estimate would have been incorrect given no change in the underlying insurance risk that the entity is exposed to. The probability of repossession curve adequately reflects the insurance risk from potential claims.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

20 INSURANCE CONTRACTS continued

20.6 INSURANCE CONTRACT LIABILITIES

20.6.1 RECONCILIATIONS OF THE NET CARRYING AMOUNTS OF INSURANCE CONTRACT LIABILITIES

The following reconciliations indicate how the net carrying amounts of insurance contracts changed during the year as a result of cash flows and the amounts recognised in the income statement.

20.6.1.1 Short-term motor comprehensive policy – financed portfolio

Analysis by remaining coverage and incurred claims

The roll-forward of liability for insurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims is disclosed in the table below.

	2020					2019				
	Liabilities for remaining coverage		Liabilities for incurred claims			Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component Rm	Loss component Rm	Present value of cash flows Rm	Risk adjustment Rm	Total Rm	Excluding loss component Rm	Loss component Rm	Present value of cash flows Rm	Risk adjustment Rm	Total Rm
Insurance contract liabilities – at the beginning of the year	–	404	104	3	511	–	472	109	4	585
Insurance revenue	(629)	–	–	–	(629)	(579)	–	–	–	(579)
Insurance service expenses	133	(140)	286	2	281	51	(69)	305	–	287
Incurred claims and other expenses*	133	(117)	286	2	304	51	(168)	305	–	188
Losses on onerous contracts and reversals of those losses**	–	(23)	–	–	(23)	–	99	–	–	99
Changes to liabilities for incurred claims	–	–	5	(1)	4	–	–	8	(1)	7
Insurance service result	(496)	(140)	291	1	(344)	(528)	(69)	313	(1)	(285)
Insurance finance expenses	–	(3)	–	–	(3)	–	1	2	–	3
Total changes in the statement of profit or loss	(496)	(143)	291	1	(347)	(528)	(68)	315	(1)	(282)
Premium received	629	–	–	–	629	579	–	–	–	579
Claims and other expenses paid	(133)	–	(327)	–	(460)	(51)	–	(320)	–	(371)
Total cash flows	496	–	(327)	–	169	528	–	(320)	–	208
Insurance contract liabilities at the end of the year	–	261	68	4	333	–	404	104	3	511

* *Incurred claims and other expenses on onerous contracts (loss component) recognised in the income statement of R117 million is reflected in note 26 (R71 million (2019: R91 million) and note 27.5 (R46 million (2019: R77 million)).*

** *Losses on onerous contracts (loss component) recognised in the income statement of R23 million is reflected in note 26 (-R13 million (2019: – R54 million) and note 27.5 (R36 million (2019: – R46 million)).*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

20 INSURANCE CONTRACTS continued

20.6 INSURANCE CONTRACT LIABILITIES continued

20.6.1 RECONCILIATIONS OF THE NET CARRYING AMOUNTS OF INSURANCE CONTRACT LIABILITIES continued

20.6.1.2 Credit Life Portfolio

Analysis by remaining coverage and incurred claims

The roll-forward of the net liability for insurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims, is disclosed in the table below:

	2020					2019				
	Liabilities for remaining coverage		Liabilities for incurred claims			Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component Rm	Loss component Rm	Present value of cash flows Rm	Risk adjustment Rm	Total Rm	Excluding loss component Rm	Loss component Rm	Present value of cash flows Rm	Risk adjustment Rm	Total Rm
Insurance contract liabilities at the beginning of the year	–	7	5	–	12	–	7	–	–	7
Insurance revenue	(128)	–	–	–	(128)	(79)	–	–	–	(79)
Insurance service expenses	(13)	(1)	70	–	56	1	–	39	–	40
Incurred claims and other expenses	(13)	–	70	–	57	1	–	39	–	40
Losses on onerous contracts and reversals of those losses	–	(1)	–	–	(1)	–	–	–	–	–
Insurance service result	(141)	(1)	70	–	(72)	(78)	–	39	–	(39)
Insurance finance expenses	–	–	–	–	–	–	–	–	–	–
Total changes in the statement of profit or loss	(141)	(1)	70	–	(72)	(78)	–	39	–	(39)
Premium received	128	–	–	–	128	79	–	–	–	79
Claims and other expenses paid	13	–	(53)	–	(40)	(1)	–	(34)	–	(35)
Total cash flows	141	–	(53)	–	88	78	–	(34)	–	44
Insurance contract liabilities at the end of the year	–	6	22	–	28	–	7	5	–	12

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

20 INSURANCE CONTRACTS continued

20.6 INSURANCE CONTRACT LIABILITIES continued

20.6.1 RECONCILIATIONS OF THE NET CARRYING AMOUNTS OF INSURANCE CONTRACT LIABILITIES continued

20.6.1.3 Short-term motor comprehensive policy – non financed portfolio

Analysis by remaining coverage and incurred claims

The roll-forward of the net liability for insurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims, is disclosed in the table below:

	2020					2019				
	Liabilities for remaining coverage		Liabilities for incurred claims			Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component Rm	Loss component Rm	Present value of cash flows Rm	Risk adjustment Rm	Total Rm	Excluding loss component Rm	Loss component Rm	Present value of cash flows Rm	Risk adjustment Rm	Total Rm
Insurance contract liabilities – at the beginning of the year	–	–	13	1	14	–	–	14	1	15
Insurance revenue	(133)	–	–	–	(133)	(140)	–	–	–	(140)
Insurance service expenses	(1)	–	60	–	59	12	–	58	–	70
Incurred claims and other expenses	(1)	–	60	–	59	12	–	58	–	70
Losses on onerous contracts and reversals of those losses	–	–	–	–	–	–	–	–	–	–
Changes to liabilities for incurred claims	–	–	1	(1)	–	–	–	1	–	1
Insurance service result	(134)	–	61	(1)	(74)	(128)	–	59	–	(69)
Insurance finance expenses	–	–	–	–	–	–	–	1	–	1
Total changes in the statement of profit or loss	(134)	–	61	(1)	(74)	(128)	–	60	–	(68)
Premium received	133	–	–	–	133	140	–	–	–	140
Claims and other expenses paid	1	–	(61)	–	(60)	(12)	–	(61)	–	(73)
Total cash flows	134	–	(61)	–	73	128	–	(61)	–	67
Insurance contract liabilities at the end of the year	–	–	13	–	13	–	–	13	1	14

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

20 INSURANCE CONTRACTS continued

20.6 INSURANCE CONTRACT LIABILITIES continued

20.6.1 RECONCILIATIONS OF THE NET CARRYING AMOUNTS OF INSURANCE CONTRACT LIABILITIES continued

20.6.1.4 OTHER PORTFOLIO

Analysis by remaining coverage and incurred claims

The roll-forward of the net liability for insurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims, is disclosed in the table below:

	2020					2019				
	Liabilities for remaining coverage		Liabilities for incurred claims			Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component Rm	Loss component Rm	Present value of cash flows Rm	Risk adjustment Rm	Total Rm	Excluding loss component Rm	Loss component Rm	Present value of cash flows Rm	Risk adjustment Rm	Total Rm
Insurance contract liabilities at the beginning of the year	–	–	–	–	–	–	–	–	–	–
Insurance revenue	(18)	–	–	–	(18)	(25)	–	–	–	(25)
Insurance service expenses	3	–	5	–	8	4	–	9	–	13
Incurred claims and other expenses	3	–	5	–	8	4	–	9	–	13
Losses on onerous contracts and reversals of those losses	–	–	–	–	–	–	–	–	–	–
Changes to liabilities for incurred claims	–	–	–	–	–	–	–	–	–	–
Insurance service result	(15)	–	5	–	(10)	(21)	–	9	–	(12)
Insurance finance expenses	–	–	–	–	–	–	–	–	–	–
Total changes in the statement of profit or loss	(15)	–	5	–	(10)	(21)	–	9	–	(12)
Premium received	18	–	–	–	18	25	–	–	–	25
Claims and other expenses paid	(3)	–	(5)	–	(8)	(4)	–	(9)	–	(13)
Total cash flows	15	–	(5)	–	10	21	–	(9)	–	12
Insurance contract liabilities at the end of the year	–	–	–	–	–	–	–	–	–	–

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

			2020 Rm	2019 Rm
21	INTEREST-BEARING LIABILITIES			
	Type of loan			
	Securitisation notes, debentures and loans	21.1	**4 966**	3 829
	Loans	21.1	**9 673**	6 975
	Total interest-bearing liabilities		**14 639**	10 804
	Classes of interest-bearing liabilities			
	Senior debt	21.1	**13 894**	10 287
	Subordinated debt	21.1	**745**	517
	Total interest-bearing liabilities		**14 639**	10 804
	Maturity profile			
	Payable within 12 months		**3 384**	2 216
	Payable thereafter		**11 255**	8 588
	Total interest-bearing liabilities		**14 639**	10 804

Given the outbreak of COVID-19 in March 2020 and its impact on the collections of the businesses' portfolios, the capital markets team took several steps to further strengthen our financial position and maintain financial liquidity and flexibility – which included the restructuring of various debt repayments (specifically the deferment of mandatory capital repayments for June and September of 2020 in two structures within the group where these obligations exist as well as the extension of these facilities by 6 months. In addition, a third structure within the group was converted to a pass-through structure.)

In accordance with IFRS 9 – Financial Instruments, these amendments to funding arrangements were assessed to determine whether they represent a modification or extinguishment of debt. In all cases amendments have been assessed as modifications in terms of IFRS 9 resulting in funding costs being amortised over the remaining term of the respective debt.

For further details and assessment of capital and liquidity risk – refer to note 37.3.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

21 INTEREST-BEARING LIABILITIES continued

RESTRICTIVE FUNDING ARRANGEMENTS

During the current and prior year, the group was party to the following restrictive funding arrangements as defined by the JSE listing requirements.

2020

Lender	Borrower	Maturity date	Rm	Restrictive conditions
Ninety One Proprietary Limited	SA Taxi Development Finance Proprietary Limited	16/09/24	**65**	▷ The borrower may not enter into certain corporate actions, activities and/or events without prior written consent of the lender; and ▷ Early settlement of the loan is not permissible.
Ninety One Proprietary Limited	SA Taxi Development Finance Proprietary Limited	15/06/23	**145**	▷ The borrower may not enter into certain corporate actions, activities and/or events without prior written consent of the lender; and ▷ Early settlement of the loan is not permissible.
ABSA Bank Limited	Transaction Capital Limited	31/12/21	**108**	▷ The borrower may not enter into certain corporate actions, activities and/or events without prior written consent of the lender.
Standard Bank of South Africa Limited	Transaction Capital Limited	31/12/21	**108**	▷ The borrower may not enter into certain corporate actions, activities and/or events without prior written consent of the lender.

2019

Lender	Borrower	Maturity date	Rm	Restrictive conditions
Ninety One Proprietary Limited	SA Taxi Development Finance Proprietary Limited	10/12/2020 to 15/03/24	165	▷ The borrower may not enter into certain corporate actions, activities and/or events without prior written consent of the lender; and ▷ Early settlement of the loan is not permissible.
Futuregrowth Asset Management Proprietary Limited	SA Taxi Finance Solutions (RF) Proprietary Limited	02/12/19 to 31/10/19	60	▷ The borrower may not enter into certain corporate actions, activities and/or events without prior written consent of the lender; and ▷ Early settlement of the loan is not permissible.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

21 INTEREST-BEARING LIABILITIES continued

21.1

Type of loan	Description	Date issued	Interest rate	Maturity date	Currency	Carrying value Rm	Other comments
2020							
Securitisation notes, debentures and loans							
Junior	Amortising	28/05/20	3 Month JIBAR plus 7%	28/05/25	ZAR	**85**	Secured by a cession of loans and advances, bank accounts, trade receivables and inventories.
Mezzanine	Amortising	13/11/15 to 08/08/16	3 Month JIBAR plus 6.8%	14/12/20	ZAR	**77**	
Senior	Amortising	13/11/15 to 29/10/19	Fixed rate	14/12/20 to 15/04/24	ZAR	**247**	
Senior	Amortising	13/11/15 to 06/08/20	3 Month JIBAR plus 0.9% to 4.2%	13/10/20 to 28/05/25	ZAR	**4 207**	
Senior	Amortising	11/09/20	Prime less 0.5% multiplied by 1 – South African corporate tax rate for the first 4 years Prime plus 3% thereafter	12/09/30	ZAR	**350**	TCMH issued 1 000 preference shares to We Buy Cars on 11 September 2020 for a consideration of R350 million. The preference shares have a mandatory redemption date of 12 September 2030. TCMH may voluntarily redeem the preference shares before this time.
Total						**4 966**	
Loans							
Mezzanine	Amortising	09/03/17 to 17/08/20	3 Month JIBAR plus 10% to 13.55%	15/02/21 to 16/08/21	USD	**77**	Cash and cash equivalents, purchased book debts and trade receivables are ceded as securities for the loans.
Mezzanine	Bullet	20/02/18 to 22/01/20	3 Month JIBAR plus 4.75% to 6.5%	15/06/23 to 16/09/24	ZAR	**421**	
Mezzanine	Bullet	29/09/2020	3 Month JIBAR plus 8.19%	15/06/2021	USD	**85**	
Senior	Amortising	09/03/17 to 17/08/20	3 Month JIBAR plus 3.595% to 6.827%	16/02/21 to 16/02/26	USD	**2 185**	
Senior	Amortising	09/03/17 to 17/08/20	3 Month JIBAR plus 1% to 5.01%	16/02/21 to 16/02/26	ZAR	**1 666**	
Senior	Amortising	26/09/19	Fixed rate	26/09/2023	ZAR	**46**	
Senior	Amortising	24/08/16 to 02/07/19	Prime less 0.3% to prime plus 1%	15/09/20 to 15/09/24	ZAR	**63**	
Senior	Bullet	19/09/16 to 25/08/20	3 Month JIBAR plus 4% to 5.4%	17/05/21 to 15/12/27	ZAR	**998**	
Senior	Bullet	06/04/20	Fixed rate	06/04/21	ZAR	**50**	
Senior	Revolving Facility	20/03/20 to 21/07/20	3 Month JIBAR plus 2.25% to 4.5%	19/10/20 to 14/03/22	ZAR	**236**	
Senior	Revolving Facility	06/04/20	Prime	06/04/21	ZAR	**1 736**	
Senior	Amortising	24/05/19 to 24/03/20	3 Month JIBAR plus 3.1% to 3.5%	30/05/24 to 31/03/25	ZAR	**1 097**	
Senior	Amortising	21/08/20	Fixed rate	23/11/20	AUD	**97**	
Senior	Bullet	24/05/19	3 Month JIBAR plus 3.3%	05/09/22	ZAR	**50**	
Senior	Revolving Facility	24/05/19 to 16/07/19	Prime minus 0.35% to 0.6%	28/05/21 to 30/05/22	ZAR	**650**	
Senior	Revolving	11/09/20	3 Month JIBAR plus 0.25% to 1.25%	31/12/21	ZAR	**216**	
Total						**9 673**	
Total interest-bearing liabilities						**14 639**	

The group was not during the year or at year end in breach or default of any provisions of the terms or conditions of the agreements governing borrowings that will change the timing or amount of cash flows.

All loans per section 21.1 are subordinated debt, with the exception of senior loans.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

21 INTEREST-BEARING LIABILITIES continued

21.1

Type of loan	Description	Date issued	Interest rate	Maturity date	Currency	Carrying value Rm	Other comments
2019							
Securitisation notes, debentures and loans							
Junior	Amortising	12/02/15	3 Month JIBAR plus 7%	31/03/20	ZAR	**5**	Secured by a cession of loans and advances, bank accounts, trade receivables and inventories.
Junior	Bullet	12/02/15	3 Month JIBAR plus 7%	31/03/20	ZAR	**81**	
Mezzanine	Amortising	13/11/15 to 08/08/16	3 Month JIBAR plus 6.8%	14/12/20	ZAR	**77**	
Senior	Amortising	13/03/19	3 Month JIBAR at 7.9% to 9.82%	14/04/20 to 15/04/24	ZAR	**759**	
Senior	Amortising	17/11/14 to 30/09/19	3 Month JIBAR plus 1.49% to 4.2%	31/12/19 to 30/09/24	ZAR	**2 276**	
Senior	Amortising	13/11/15 to 13/03/19	Fixed at 9.03% to 9.69%	14/12/20 to 15/04/22	ZAR	**220**	
Senior	Amortising	13/02/17	Fixed rate – 10.87%	31/12/21	ZAR	**2**	
Senior	Amortising	10/11/17 to 28/03/19	3 Month JIBAR plus 1.35% to 3.5%	28/01/20 to 02/01/24	ZAR	**349**	
Senior	Bullet	31/10/16 to 30/11/16	6m JIBAR plus 5%	31/10/19 to 02/12/19	ZAR	**60**	
Total						**3 829**	

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

21 INTEREST-BEARING LIABILITIES continued

21.1

Type of loan	Description	Date issued	Interest rate	Maturity date	Currency	Carrying value Rm	Other comments
Loans							
Senior	Amortising	23/11/17 to 27/09/19	BBSY Bid + 2.95%	23/11/20 to 27/09/22	AUD	**62**	Cash and cash equivalents, purchased book debts and trade receivables are ceded as securities for the loans.
Senior	Amortising	24/05/2019	3 Month JIBAR + 3.1% to 3.5%	30/05/2022 to 28/06/2024	ZAR	**768**	
Senior	Revolving	16/07/2019	Prime – 0.6%	28/05/2021	ZAR	**157**	
Senior	Bullet	24/05/19	3 Month JIBAR	05/09/22	ZAR	**50**	
Mezzanine	Amortising	09/03/17 to 26/02/18	3 Month JIBAR plus 11.36%	16/02/21	USD	**103**	
Mezzanine	Bullet	10/06/15 to 20/02/18	3 Month JIBAR plus 6.73% to 6.5%	10/12/20 to 10/06/24	ZAR	**251**	
Senior	Amortising	29/12/15 to 21/08/19	3 Month JIBAR plus 1% to 2.9%	15/12/20 to 21/08/24	ZAR	**835**	
Senior	Amortising	13/06/18	3 Month JIBAR plus 3.77%	15/05/24	USD	**118**	
Senior	Amortising	04/03/15 to 26/09/19	3 Month JIBAR plus 3.8% to 3.85%	15/03/21 to 28/09/23	ZAR	**444**	
Senior	Amortising	29/04/19 to 18/09/19	3 Month JIBAR plus 3.87% to 3.89%	26/04/23 to 15/08/25	USD	**192**	
Senior	Amortising	04/03/15	3 Month JIBAR plus 3.9%	16/03/20	ZAR	**11**	
Senior	Amortising	12/12/18 to 19/06/19	3 Month JIBAR plus 3.97% to 4.07%	15/05/24 to 15/08/25	USD	**411**	
Senior	Amortising	10/06/15 to 30/04/19	3 Month JIBAR plus 4.1% to 4.3%	10/06/20 to 15/06/24	ZAR	**503**	
Senior	Amortising	13/12/17	3 Month JIBAR plus 4.477%	15/05/24	USD	**107**	
Senior	Amortising	23/06/16	3 Month JIBAR plus 4.5%	23/06/21	ZAR	**53**	
Senior	Amortising	26/07/17	3 Month JIBAR plus 4.535%	15/05/24	USD	**100**	
Senior	Amortising	13/12/16 to 04/12/18	3 Month JIBAR plus 4.55% to 4.89%	15/12/21 to 15/12/23	ZAR	**172**	
Senior	Amortising	06/03/15 to 26/02/18	3 Month JIBAR plus 4.94% to 6.28%	16/02/21 to 15/02/22	USD	**574**	
Senior	Amortising	13/10/16	3 Month JIBAR plus 7.5%	13/10/21	ZAR	**131**	
Senior	Amortising	26/09/19	Fixed at 11.5%	26/09/23	ZAR	**44**	
Senior	Amortising	25/05/17	Prime less 0.3%	17/05/21	ZAR	**2**	
Senior	Amortising	24/08/16 to 02/07/19	Prime plus 0.25% to 1%	15/09/20 to 15/07/24	ZAR	**75**	
Senior	Bullet	12/03/18 to 10/06/19	3 Month JIBAR plus 4% to 4.5%	17/05/21 to 17/06/25	ZAR	**400**	
Senior	Revolving	20/10/16	Prime	16/10/20	ZAR	**735**	
Senior	Revolving	18/07/19	Prime less 0.2% to 0.4%	16/10/20	ZAR	**649**	
Senior	Revolving	18/12/18	Prime plus 2%	18/12/19	ZAR	**28**	
Total						**6 975**	
Total interest-bearing liabilities						**10 804**	

The group was not during the year or at year end in breach or default of any provisions of the terms or conditions of the agreements governing borrowings that will change the timing or amount of cash flows.

All loans per section 21.1 are subordinated debt, with the exception of senior loans.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

22 LEASES

22.1 THE GROUP AS LESSEE

The group assesses whether a contract is or contains a lease, at inception of the contract. The group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones and printers). For these leases, the group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

LEASE PAYMENTS INCLUDED IN THE MEASUREMENT OF THE LEASE LIABILITY COMPRISE:

- Fixed lease payments less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

A lease incentive is a payment made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee. Lease incentives received at the commencement of the lease are recognised as an adjustment to the right-of-use asset. When lease incentives are receivable at a later date, they are recognised as a reduction in future lease payments. Lease incentives received during the current financial year include tenant installation allowances on premises.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

During the financial year, certain lease contracts on premises have been renegotiated within the group. The effects of these negotiations have been accounted for as lease modifications to the current lease and has not been accounted for as a separate lease.

On the date of the modification, the carrying amount of the finance lease liability is remeasured to reflect the latest assessment of future cash flows using the incremental borrowing rate applicable at the date of the modification over the remaining lease period. A corresponding adjustment is made to the right-of-use asset. To the extent that the right-of-use asset balance is reduced to zero, any additional adjustments are taken to profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The group has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

In addition, as a result of COVID-19, the group was provided COVID-19-related rent concessions on certain operating premises. In accordance with the amendment to IFRS 16 – Leases, published by the International Accounting Standards Board (IASB) in May 2020, titled Covid-19-Related Rent Concessions, the group has elected not to assess whether a COVID-19-related rent concession is a lease modification, and treat such concessions as variable rental instead where the following conditions are met:

a) The change in lease payments results in a revised considered for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

c) There is no substantive change to other terms and conditions of the lease.

The application of this practical expedient resulted in a reduction of lease liabilities and a corresponding gain in profit or loss of R6 million for the financial year ended 30 September 2020.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as part of property and equipment in the consolidated statement of financial position. The group applies IAS 36 – Impairment of Assets to determine whether a right-of-use asset is impaired.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		2020 Rm	2019 Rm
22	LEASES continued		
22.2	LEASE LIABILITIES		
	Maturity analysis		
	Year 1	**99**	2
	Year 2	**96**	–
	Year 3	**109**	–
	Year 4	**94**	–
	Year 5	**59**	–
	Onwards	**49**	–
	Less: unearned interest	**(89)**	–
	Total	**417**	2

The group does not face significant liquidity risk with regard to its lease liabilities.

The group leases several assets including buildings and computer equipment. No additional leases have been entered into by year end which have not yet commenced.

Options to extend or terminate leases have only been taken into account where it is probable that the option will be exercised by the lessee. There are no residual value guarantees or material restrictions imposed by any lease agreements.

The weighted average expected remaining lease term for the lease of buildings within the scope of IFRS 16 is 4.5 years.

AMOUNTS RECOGNISED IN PROFIT AND LOSS

	2020 Rm
Depreciation expense on right-of-use assets	**66**
Interest expense on lease liabilities	**40**
Expense relating to short-term leases*	**18**
Expense relating to variable lease payments not included in the measurement of the lease liability**	**1**
Expense relating to leases of low value assets	**2**
Income from sub-leasing right-of-use-assets	**3**

* *Included in short-term leases expenses are storage costs of R7 million. Refer to note 28 of the group consolidated financial statements.*

** *Variable lease payment relates to COVID-19 rent concessions.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		2020 Rm	2019 Rm
23	**ORDINARY SHARE CAPITAL**		
	Authorised		
	1 000 000 000 ordinary shares		
	Issued		
	661 496 331 (2019: 612 654 644) ordinary shares		
	Ordinary share capital	**2 015**	1 103
	Ordinary share capital	**2 015**	1 103

		2020		2019	
		Number of shares million	**Share capital Rm***	Number of shares million	Share capital Rm*
23.1	**RECONCILIATION OF ORDINARY SHARE CAPITAL**				
	Balance at the beginning of the year	**612.7**	**1 103**	610.2	1 056
	Shares issued in settlement of the Share Appreciations Rights Plan obligation and Conditional Share Plan (Note 23.1.1)	**3.6**	**75**	3.1	58
	Shares issued to subsidiaries (Note 23.1.2)	**16.5**	**329**	–	–
	Equity raised through accelerated bookbuild (Note 23.1.3)	**30.7**	**550**	–	–
	Shares repurchased in the open market and cancelled (Note 23.1.4)	**(2.0)**	**(42)**	(0.6)	(11)
	Balance at the end of the year	**661.5**	**2 015**	612.7	1 103

* *Net of share issue costs*

23.1.1 In terms of specific authority received from shareholders on the adoption of the Transaction Capital Share Appreciation Rights Plan and Transaction Capital Conditional Share Plan, a total of 3 596 599 shares were issued to participants/employees as part of respective vestings at an average price of R20.51 per share. Refer to note 31 for further details.

23.1.2 On 11 September 2020 Transaction Capital issued 16 467 000 shares to Transaction Capital Motor Holdco Proprietary Limited at a price of R20.00 per share (before share issue costs) in respect of the We Buy Cars acquisition. The 16 467 000 shares were in turn transferred to We Buy Cars as part of the total purchase consideration of R1.86 billion. Refer to note 12 for further details.

23.1.3 On 19 June 2020 Transaction Capital raised equity in the form of 30 754 064 shares through the issue of new ordinary shares to qualifying investors through an accelerated bookbuild. The ordinary shares were priced at R18.20 per share (before share issue costs), a 2.2% premium to the pre-launch 30 business day volume weighted average price of R17.80 as at market close on 17 June 2020. The equity raise was completed under the company's general authority to issue shares for cash approved by Transaction Capital shareholders at the annual general meeting of the company held on 11 March 2020.

23.1.4 All shares repurchased and cancelled reverted to authorised unissued shares. The average purchase price of the 1 975 976 shares repurchased on the open market was R21.36 per share.

PREFERENCE SHARE CAPITAL

Authorised

10 000 000 cumulative, non-participating, non-convertible preference shares of no par value

Issued

Nil (2019: nil) preference shares

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		2020 Rm	2019 Rm
24	NON-CONTROLLING INTERESTS		
	Balance at the beginning of the year	**576**	59
	Dividends paid	**(66)**	(37)
	Share of profit for the year	**45**	60
	Disposal of subsidiary*	**–**	(3)
	Issue of shares by subsidiary to non-controlling interests**	**–**	497
	Balance at the end of the year	**555**	576

Refer to note 20 of the company annual financial statements for information relating to the non-controlling interests.

* *Refer to note 40 for information on the disposal of subsidiary.*

** *In February 2019, an equity partnership transaction was concluded in which the South African National Taxi Council ('SANTACO') subscribed for new shares to the value of R1.7 billion in SA Taxi Finance Holdings Proprietary Limited ('SA Taxi'), acquiring a 25% stake in SA Taxi. The Standard Bank of South Africa Limited and Futuregrowth Asset Management Proprietary Limited (acting as an asset manager on behalf of various persons) co-funded the transaction by way of preference shares to the value of R1.18 billion, with SA Taxi providing R521 million of vendor finance through the issue of a new class of shares called 'Notional Vendor Finance (NVF) shares'. As a result of the ordinary share issue, Transaction Capital Limited holds 81.4% of the ordinary share capital of SA Taxi. The fair value of the NVF shares was determined to be R99.7 million, and were issued to SANTACO for zero consideration. In line with the principles of IFRS 2 – Share-based Payment, the value of NVF shares (R99.7 million) has been recognised as an expense in the statement of profit and loss, refer note 28.*

		2020 Rm	2019 Restated* Rm
25	INTEREST		
	Interest income is earned from:		
	Cash and cash equivalents	**80**	89
	Loans and advances	**2 433**	2 249
	Finance leases	**2 433**	2 249
	Other	**42**	15
	Total interest income	**2 555**	2 353
	Interest expense are paid on:		
	Bank overdrafts and other short term-borrowings	**(21)**	(30)
	Interest-bearing liabilities	**(1 223)**	(1 126)
	Lease liabilities	**(40)**	–
	Other	**(7)**	(2)
	Total interest expense	**(1 291)**	(1 158)
	Interest income	**2 555**	2 353
	Interest expense	**(1 291)**	(1 158)
	Net interest income	**1 264**	1 195

* *Restated for the recognition of discontinued operations in the current year per IFRS – 5 Non – current Assets Held for Sale and Discontinued Operations. Refer to note 17.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

	2020 Rm	2019 Restated* Rm
26 IMPAIRMENT OF LOANS AND ADVANCES		
Impairment comprises:		
Movement in provision for impairment**	**(358)**	32
Fair value movement of loans and advances: entry-level vehicles	**–**	–
Bad debts written off***	**(495)**	(414)
Bad debts recovered	**4**	6
Impairment	**(849)**	(376)
Losses on onerous contracts and reversals of these losses (refer to note 20)	**13**	54
Total impairment	**(836)**	(322)

* *Restated for the recognition of discontinued operations in the current year per IFRS – 5 Non – current Assets Held for Sale and Discontinued Operations. Refer to note 17.*

** *Refer note 37.1.2.3.4 for further detail on the impairment of loans and advances. This balance also includes the recognition of an additional COVID-19 provision of R35 million (2019: Rnil).*

*** *Includes the utilisations of insurance contracts liabilities amounting to R71 million (2019: R91 million). Refer to note 20 .*

27 REVENUE RECOGNITION

27.1 GENERAL POLICY

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

Revenue comprises contractual sales in respect of the sale of goods; fees for rendering of services to customers; collection of amounts due on purchased credit-impaired loan portfolios; and finance charges on loans and suspensive sale credit agreements.

Recognition of revenue accounted for under IFRS 9 as interest income on loans and suspensive sale credit agreements, as well as purchased credit-impaired loan portfolios, is described note 37.

27.2 PURCHASED BOOK DEBTS

Revenue from purchased book debts is recognised when payment is received from the debtors, including amounts in respect of interest and cost recoveries.

27.3 DEBT COLLECTION ACTIVITIES AS AGENT

Commissions and fees receivable for collection of debtors as agent for third parties are recognised on receipt of payments from the debtors.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

27 REVENUE RECOGNITION continued

27.4 SALE OF GOODS AND RENDERING OF SERVICES

The recognition of revenue from the sale of goods and the rendering of services is included in the table below for each significant source of revenue.

The group derives revenue from other insignificant sources not separately specified below. These revenue streams are recognised when the performance obligation is met, either at a point in time or over the period of obligation. The transaction price of these revenue items is priced at their relevant stand-alone prices. There are no significant payment terms as payment is due at the time of invoicing.

PRODUCT AND SERVICE	NATURE, TIMING OF SATISFACTION OF PERFORMANCE OBLIGATIONS
Administration fees [Refer note 27.5 – Fee income]	The identified performance obligation is the ongoing service, should the member be involved in an accident and/or injured in a road related incident. The service is available over the subscription period. Revenue is recognised over time as the customer simultaneously receives and consumes all the benefits provided by the entity as the entity performs.
Consulting and service fees [Refer note 27.5 – Fee-for-service revenue and fee income]	Consulting and service fees are recognised over a period of time as performance obligations are met and the service delivered to clients.
Processing fees [Refer note 27.5 – Fee income]	A service fee based on performance of electronics fund transfers. Revenue is recognised on delivery of the service, being the processing of payments.
Direct sales [Refer note 27.5 – Revenue from sale of goods]	Revenue is recognised when the customer obtains possession of the vehicle and is recognised at a point in time. This usually occurs when the customer signs the new contract and collects the vehicle.
Vehicle tracking [Refer note 27.5 – Commission income]	The group earns commission revenue from the administration and installation of tracking devices. The transaction price is a fixed percentage fee as agreed upon in the commission contract. The tracking revenue is recognised over the period of the financing vehicle agreement and the installation revenue is recognised at a point in time, when the installation is complete.
Panel service income, new parts and salvage sales [Refer note 27.5 – Other income]	The group has a performance obligation to deliver panel services on vehicles for a fee. The performance obligation is satisfied at a point in time as the customer cannot use the vehicle whilst repairs are being performed. Any default on the quality of the service is covered by the warranty product. The group offers the sale of scrap vehicles and vehicle parts. The performance obligations occur at a point in time once the scrap vehicle/parts are handed over or delivered to the customer.

Notes to the consolidated financial statement continued
FOR THE YEAR ENDED 30 SEPTEMBER 2020

27 REVENUE RECOGNITION continued
27.5 NON-INTEREST REVENUE

	2020 Rm	2019 Restated* Rm
Non-interest revenue comprises:		
Net insurance result (refer to note 27.6)	**440**	364
Total other non-interest revenue	**2 547**	2 238
Fee-for-service revenue	**960**	912
Commission income	**72**	75
Fee income	**234**	214
Revenue from purchased book debts**	**1 111**	902
Revenue from sale of goods	**60**	74
Other insurance service related income***	**7**	10
Other income	**103**	51
Total non-interest revenue	**2 987**	2 602

* *Restated for the recognition of discontinued operations in the current year per IFRS – 5 Non – current Assets Held for Sale and Discontinued Operations. Refer to note 17 of the group consolidated financial statements.*

** *Included in revenue from purchased book debts is notional interest income of R590 million (2019: R405 million). This revenue is generated by Transaction Capital Recoveries through the collection of distressed debt. This is a services business and managed as such and the revenue is therefore classified as non-interest revenue.*

*** *Other insurance service related income includes roadside assist and roadcover which is excluded from the net insurance result as they are not considered insurance contracts per IFRS 17.*

27.6 NET INSURANCE RESULT

The net insurance result comprises the following:

	2020 Rm	2019 Rm
Insurance revenue (refer note 27.6.1)	**907**	823
Insurance service expense (refer note 27.6.2)	**(468)**	(455)
Insurance finance (expense)/income (refer note 27.6.3)	**1**	(4)
Net insurance result	**440**	364

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

27 REVENUE RECOGNITION continued

27.6 NET INSURANCE RESULT continued

27.6.1 INSURANCE REVENUE

The table below presents an analysis of the total insurance revenue recognised in the period:

	Short-term motor comprehensive policy – financed portfolio Rm	Credit life portfolio Rm	Short-term motor comprehensive policy – non financed portfolio Rm	Other* Rm	Total Rm
2020					
Contracts measured under the PAA approach	**629**	**128**	**132**	**18**	**907**
Insurance revenue	**629**	**128**	**132**	**18**	**907**

	Short-term motor comprehensive policy – financed portfolio Rm	Credit life portfolio Rm	Short-term motor comprehensive policy – non financed portfolio Rm	Other* Rm	Total Rm
2019					
Contracts measured under the PAA approach	579	79	140	25	823
Insurance revenue	579	79	140	25	823

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

27 REVENUE RECOGNITION continued

27.6 NET INSURANCE RESULT continued

27.6.2 INSURANCE SERVICE EXPENSE

The insurance service expense comprises of the following:

	2020 Rm	2019 Rm
Claims and benefits***	**398**	316
Fees and commissions	**30**	25
Change in estimate – onerous insurance contracts	**(36)**	46
Other**	**76**	68
Insurance service expense	**468**	455

27.6.3 INSURANCE FINANCE (EXPENSE)/INCOME

The table below presents an analysis of the insurance finance (expense)/income from insurance contracts issued:

	Short-term motor comprehensive policy – financed portfolio Rm	Credit life portfolio Rm	Short-term motor comprehensive policy – non financed portfolio Rm	Other* Rm	Total Rm
2020					
Insurance finance expense					
Interest accreted to insurance contracts	**(2)**	**–**	**–**	**–**	**(2)**
Changes in interest rates and other financial assumptions	**3**	**–**	**–**	**–**	**3**
Total insurance finance expense	**1**	**–**	**–**	**–**	**1**

	Short-term motor comprehensive policy – financed portfolio Rm	Credit life portfolio Rm	Short-term motor comprehensive policy – non financed portfolio Rm	Other* Rm	Total Rm
2019					
Insurance finance expense					
Interest accreted to insurance contracts	(3)	<1	(1)	–	(4)
Changes in interest rates and other financial assumptions	<(1)	<(1)	<1	–	<1
Total insurance finance income	(3)	<1	(1)	–	(4)

* *Other includes the Taxi Owner Protection Plan (TOPP) portfolio.*
** *Includes fulfilment cashflows (including an allocation of variable and fixed overheads) as required by IFRS 17 paragraphs B65 and B66.*
*** *Includes the utilisations of IFRS17 insurance contracts liabilities amounting to R46 million (2019: R77 million). Refer to note 20.*

All insurance finance income/(expense) from insurance contracts are recognised in profit or loss.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		2020 Rm	2019 Restated* Rm
28	**OPERATING COSTS**		
	Operating costs comprise:		
	Advertising, marketing and public relations	**(12)**	(19)
	Amortisation of intangible assets	**(53)**	(43)
	Amortisation of principal book portfolio	**(570)**	(120)
	Audit fees**	**(22)**	(18)
	Bank charges	**(23)**	(23)
	Commissions paid	**(35)**	(38)
	Communication costs	**(77)**	(74)
	Consulting fees	**(30)**	(26)
	Depreciation*****	**(109)**	(39)
	Electricity and water	**(29)**	(24)
	Employee expenses	**(1 428)**	(1 249)
	Fair value movements of other financial assets	**(18)**	(39)
	Handling, logistics and storage costs	**(121)**	(100)
	Impairment of goodwill	**(3)**	–
	Impairment of property plant and equipment	**(5)**	–
	Impairment of right of use assets	**(16)**	–
	Information technology	**(62)**	(51)
	Legal agency commissions	**(70)**	(53)
	Maintenance	**(11)**	(11)
	Motor vehicle expenses	**(10)**	(12)
	Non-executive directors' fees	**(7)**	(7)
	Operating lease rentals and storage costs***	**(8)**	(101)
	Origination, processing and transaction fees paid	**(44)**	(36)
	Printing and stationery	**(24)**	(24)
	Professional fees – legal	**(29)**	(22)
	Professional fees – other	**(14)**	–
	Recruitment fees	**(12)**	(14)
	Risk management	**(27)**	(23)
	Share based payment costs****	**–**	(100)
	Staff welfare	**(26)**	(28)
	Training and seminars	**(6)**	(11)
	Travel	**(10)**	(18)
	VAT disallowed	**(38)**	(31)
	Other operating costs	**(134)**	(71)
	Total operating costs	**(3 083)**	(2 425)

** Restated for the recognition of discontinued operations in the current year per IFRS – 5 Non – current Assets Held for Sale and Discontinued Operations. Refer to note 17.*

*** Includes non-audit fees of R2 million (2019: R4 million).*

**** Storage costs of R7 million are included in the short-term lease expenses balance in the current year as a result of the adoption of IFRS16. Prior year numbers have also been aggregated to include storage costs. Refer to lease liabilities note 22.*

***** Share based payment costs relate to the once-off non-cash costs of R100 million in accordance with IFRS 2 relating to SA Taxi's ownership transaction with SANTACO, refer to the non-controlling interest in note 24 for further details.*

****** Current year depreciation includes depreciation on right of use assets in line with the adoption of IFRS 16 – Leases, refer to note 16.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

28 OPERATING COSTS continued

EXECUTIVE COMPENSATION

EXECUTIVE DIRECTORS' REMUNERATION

The following table shows a breakdown of the annual remuneration of directors for the year ended 30 September:

	2020					2019				
	Salary R	Short-term employee benefits* R	Present value of share-based awards**** R	Annual incentive bonus R	Total R	Salary R	Short-term employee benefits* R	Present value of share-based awards**** R	Annual incentive bonus R	Total R
Executive director										
Sean Doherty**	**2 371 092**	**454 409**	**2 267 200**	**–**	**5 092 701**	944 338	153 119	7 202 726	833 333	9 133 516
Ronen Goldstein***	**–**	**–**	**–**	**–**	**–**	1 576 575	184 857	–	700 000	2 461 432
Mark Herskovits	**2 409 396**	**488 010**	**3 013 986**	**–**	**5 911 392**	2 478 398	424 734	1 688 093	3 194 745	7 785 970
David Hurwitz	**3 862 323**	**599 835**	**4 635 135**	**–**	**9 097 293**	3 687 729	584 627	3 632 316	3 501 816	11 406 488
Jonathan Jawno	**3 679 630**	**233 070**	**–**	**–**	**3 912 700**	1 311 813	213 237	–	4 500 000	6 025 050
Michael Mendelowitz	**3 667 820**	**244 880**	**–**	**15 000 000**	**18 912 700**	1 311 813	213 237	–	4 500 000	6 025 050
Prescribed officer										
Terry Kier	**3 429 954**	**1 781 232**	**–**	**–**	**5 211 186**	3 229 775	2 209 440	–	3 152 470	8 591 685
David McAlpin	**3 129 757**	**303 548**	**785 824**	**–**	**4 219 129**	3 319 126	328 099	11 460 166	2 626 190	17 733 581
Total	**22 549 971**	**4 104 984**	**10 702 145**	**15 000 000**	**52 357 101**	17 859 567	4 311 350	23 983 301	23 008 554	69 162 772

* *There were no post employment, other long-term or post termination benefits paid to executive directors.*
** *Appointed as an executive director with effect from 1 June 2019.*
*** *Resigned as an executive director with effect from 31 May 2019.*
**** *Value of the share-based awards made during the financial year*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

28 OPERATING COSTS continued

EXECUTIVE COMPENSATION continued

SHARE APPRECIATION RIGHTS (SAR) PLAN

The following table shows the position for directors in office at 30 September 2020:

	Present value of SAR Present value of R	Number of SARs	Vesting period (years)	Number of SARs vested during the year and not exercised	Number of SARs exercised during the year	Gains on SARs exercised Present value of R
Executive director						
David Hurwitz						
Granted on 26 November 2015	–	–	4	–	250 000	2 061 916
Mark Herskovits						
Granted on 26 November 2015	–	–	4	–	150 000	1 719 895
Prescribed officer						
David McAlpin						
Granted on 26 November 2015	–	–	4	–	200 000	1 649 529

Refer to note 31.1 for further details regarding the SARs.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

28 OPERATING COSTS continued

EXECUTIVE COMPENSATION continued

CONDITIONAL SHARE PLAN (CSP)

The following table shows the position for directors in office at 30 September 2020:

	Component	Present value of CSP R	Number of CSPs	Vesting periods (years)	Number of CSPs exercised during the year	Gain on CSPs exercised R
Executive director						
David Hurwitz						
Granted on 22 November 2016	Group	382 007	30 759	2 to 4	70 304	1 527 706
Granted on 22 November 2017	Group	1 414 535	113 680	2 to 5	18 506	402 135
Granted on 20 November 2018	Group	2 990 230	183 554	2 to 5	–	–
Granted on 26 November 2019	Group	3 632 316	191 007	3 to 5	–	–
Granted on 24 November 2020	Group	4 635 135	255 192	3 to 5	–	–
Mark Herskovits						
Granted on 22 November 2016	SA Taxi	286 679	37 328	2 to 4	85 321	1 367 534
Granted on 29 May 2017	SA Taxi	768 011	164 824	2 to 4	–	–
Granted on 22 November 2017	SA Taxi	715 003	81 253	2 to 5	13 227	212 020
Granted on 20 November 2018	SA Taxi	1 286 537	130 059	2 to 5	–	–
Granted on 26 November 2019	SA Taxi	1 688 093	120 492	3 to 5	–	–
Granted on 24 November 2020	Group	3 013 986	165 938	3 to 5	–	–
Sean Doherty						
Granted on 19 June 2019	Group	5 568 168	323 668	3 to 5	–	–
Granted on 26 November 2019	Group	1 634 558	85 954	3 to 5	–	–
Granted on 24 November 2020	Group	2 267 200	124 823	3 to 5	–	–
Prescribed officer						
David McAlpin						
Granted on 22 November 2016	TCRS	310 817	72 283	2 to 4	1 159 252	8 787 851
Granted on 22 November 2017	TCRS	5 476 644	1 140 402	2 to 5	41 072	311 369
Granted on 25 March 2019	TCRSX	11 460 166	2 196 837	2 to 4	–	–
Granted on 24 November 2020	TCRS	785 824	142 102	3 to 5	–	–

Jonathan Jawno, Michael Mendelowitz and Terry Kier do not participate in the CSP.

Refer to note 31.2 in the annual financial statements for further details on the CSP.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

28 OPERATING COSTS continued

EXECUTIVE COMPENSATION continued

NON-EXECUTIVE DIRECTORS' FEES continued

The fees are paid to non-executive directors quarterly in arrears and determined by the board on a market-related basis as recommended by the remuneration committee.

Board members 2020	C Seabrooke[1] R	P Langeni[2] R	R Rossi[3] R	K Pillay[4] R	D Radley[5] R	P Miller[6] R	B Hanise R	S Wapnick[7] R	Total R
Board chairman (including committee attendance)	1 585 417	–	–	–	–	–	–	–	**1 585 417**
Lead independent director	–	–	–	141 667	–	–	–	–	**141 667**
Director	–	370 917	370 917	370 917	370 917	175 726	370 917	196 293	**2 226 602**
Alternate director	–	–	–	–	–	146 393	–	–	**146 393**
Audit, risk and compliance committee (chairperson)	–	–	–	–	394 875	–	–	–	**394 875**
Audit, risk and compliance committee (member)	–	114 792	–	–	–	–	158 542	–	**273 333**
Asset and liability committee (member)	–	–	–	–	127 000	–	127 000	–	**254 000**
Remuneration committee (chairperson)	–	–	–	263 667	–	–	–	–	**263 667**
Remuneration committee (member)	–	–	66 651	–	–	60 349	–	–	**127 000**
Nominations committee (member)	–	–	127 000	127 000	–	–	–	–	**254 000**
Social and ethics committee (chairperson)	–	263 667	–	–	–	–	–	–	**263 667**
Social and ethics committee (member)	–	–	82 333	127 000	–	–	–	–	**209 333**
Total annual fees	**1 585 417**	**749 375**	**646 901**	**1 030 250**	**892 792**	**382 468**	**656 458**	**196 293**	**6 139 954**

1. *Mr Seabrooke is also the chairman of the nominations committee and a member of the remuneration committee, audit risk and compliance committee and asset and liability committee.*
2. *Resigned as a member of the audit, risk and compliance committee effective 30 June 2020.*
3. *Appointed as a member of the social and ethics committee and the remuneration committee effective 1 February and 12 March 2020 respectively. In addition to the fees received above, Mr Rossi received R3 353 099 for consulting services rendered to Transaction Capital Limited.*
4. *Appointed as lead independent director effective 15 July 2019.*
5. *In addition to the fees received above, Ms Radley received directors' fees of R338 283 excluding VAT for acting as an independent non-executive director of SA Taxi Holdings (Pty) Ltd and Transaction Capital Risk Services Holdings (Pty) Ltd.*
6. *Resigned as a non-executive director effective 12 March 2020 and appointed as an alternate director to Mr Rossi effective the same date.*
7. *Appointed as an independent non-executive director effective 12 March 2020.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

28 OPERATING COSTS continued

EXECUTIVE COMPENSATION continued

NON-EXECUTIVE DIRECTORS' FEES continued

The fees are paid to non-executive directors quarterly in arrears and determined by the board on a market-related basis as recommended by the remuneration committee.

Board members 2019	C Seabrooke[1] R	P Langeni R	R Rossi[2] R	K Pillay R	F Ighodaro[3] R	D Radley[4] R	P Miller R	B Hanise[5] R	Total R
Chairperson (including committee attendance)	1 636 667	–	–	–	–	–	–	–	**1 636 667**
Director	–	382 083	382 083	382 083	61 833	382 083	382 083	289 333	**2 261 581**
Audit, risk and compliance committee (chairperson)	–	–	–	–	66 250	342 625	–	–	**408 875**
Audit, risk and compliance committee (member)	–	163 667	–	–	–	26 500	–	123 917	**314 084**
Asset and liability committee (member)	–	–	–	–	21 200	131 167	–	99 367	**251 734**
Remuneration committee (chairperson)	–	–	–	273 167	–	–	–	–	**273 167**
Remuneration committee (member)	–	–	–	–	–	–	131 167	–	**131 167**
Nominations committee (member)	–	–	131 167	131 167	–	–	–	–	**262 334**
Social and ethics committee (chairperson)	–	273 167	–	–	–	–	–	–	**273 167**
Social and ethics committee (member)	–	–	–	131 167	–	–	–	–	**131 167**
Total annual fees	**1 636 667**	**818 917**	**513 250**	**917 584**	**149 283**	**882 375**	**513 250**	**512 617**	**5 943 943**

1. Mr Seabrooke is also the chairman of the nominations committee and a member of the remuneration committee, audit risk and compliance committee and asset and liability committee.
2. In addition to the fees received above, Mr Rossi received R1 096 667 for consulting services and R7 000 000 for corporate finance and legal services rendered to Transaction Capital Limited.
3. Resigned as a non-executive director effective 30 November 2018.
4. Appointed as chairperson of the audit, risk and compliance committee effective 1 December 2018. In addition to the fees received above, Ms Radley received directors' fees of R323 000 excluding VAT for acting as an independent non-executive director of SA Taxi Holdings (Pty) Ltd and Transaction Capital Risk Services Holdings (Pty) Ltd.
5. Appointed as a non-executive director effective 1 January 2019.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

29 INCOME TAX EXPENSE

29.1 CURRENT TAX

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

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

	2020 Rm	2019 Restated* Rm
29.2 INCOME TAX EXPENSE		
South African normal taxation:		
Current taxation	**(91)**	(100)
Current year	**(108)**	(100)
Prior years	**17**	–
Deferred taxation	**19**	(188)
Current year	**31**	(206)
Prior years	**(12)**	18
Foreign taxation	**(7)**	–
Total income tax expense	**(79)**	(288)
South African tax rate	**28.0%**	28.0%
Tax effects of:		
Income not subject to tax**	**(4.5%)**	(1.4%)
Expenses not deductible for tax purposes***	**2.0%**	3.0%
Prior year taxes****	**(0.2%)**	(0.2%)
Tax not previously recognised	**(1.0%)**	(1.5%)
Permanent differences*****	**(2.4%)**	(0.3%)
Effects of losses/(profits) taxed in different jurisdictions	**(0.5%)**	(0.5%)
Effective tax rate	**21.4%**	27.1%

* *Restated for the recognition of discontinued operations in the current year per IFRS – 5 Non-current Assets Held for Sale and Discontinued Operations. Refer to note 17.*

** *Income not subject to tax consists of share of profits from equity accounted investments; foreign income not subject to tax at 28% and capital receipts that are not taxable.*

*** *Expenses not deductible for tax purposes consists of expenses not incurred in the production of taxable income, depreciation on leasehold assets, interest and penalties, write off of goodwill and other.*

**** *Included in the prior year's taxes is tax on foreign insurance income which is accounted for at an effective tax rate of 22.4% (which includes foreign Mauritius tax at 3%).*

***** *Permanent differences consist of research and development allowances, employment tax incentives, the impact of the adoption of IFRS 9, interest expenses on deferred consideration, fair value adjustment on the put option liability and learnership allowances.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Units	2020	2019 Restated*
30 EARNINGS PER SHARE			
30.1 FROM CONTINUING AND DISCONTINUED OPERATIONS			
Basic earnings per share	cents	**25.3**	118.8
Diluted basic earnings per share	cents	**25.3**	117.4
Headline earnings per share	cents	**33.1**	117.5
Diluted headline earnings per share	cents	**33.0**	116.1
The calculation of earnings per share is based on the following data:			
Earnings			
Earnings for the purposes of basic and diluted basic earnings per share	Rm	**158**	727
Being profit for the year attributable to ordinary equity holders of the parent			
Headline earnings adjustments:		**48**	(8)
Impairment of goodwill	Rm	**2**	–
Impairment of property, and equipment	Rm	**4**	–
Impairment of intangibles	Rm	**1**	–
Impairment of right of use of assets	Rm	**16**	–
Loss/(profit) on disposal of subsidiary	Rm	**25**	(8)
Earnings for the purposes of headline and diluted headline earnings per share	Rm	**206**	719
Number of shares			
Weighted average number of ordinary shares for the purposes of basic and headline earnings per share			
Number of ordinary shares in issue at the beginning of the year	million	**612.7**	610.2
Effect of shares issued during the year	million	**12.1**	2.0
Effect of shares repurchased during the year	million	**(1.4)**	(0.4)
Weighted average number of ordinary shares for the purposes of basic and headline earnings per share	million	**623.4**	611.8
Effect of dilutive potential ordinary shares:			
Shares deemed to be issued for no consideration in respect of Share Appreciation Rights Plan and Conditional Share Plan	million	**0.9**	7.6
Portion of WeBuyCars deferred consideration to be settled in Transaction Capital Limited ordinary shares	million	**1.0**	–
Weighted average number of ordinary shares for the purposes of diluted basic and headline earnings per share	million	**625.3**	619.4

* *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		Units	2020	2019 Restated*
30	EARNINGS PER SHARE continued			
30.2	FROM CONTINUING OPERATIONS			
	Basic earnings per share	cents	**39.3**	116.5
	Diluted basic earnings per share	cents	**39.2**	115.1
	Headline earnings per share	cents	**42.0**	115.2
	Diluted headline earnings per share	cents	**41.9**	113.8
	The calculation earnings per share is based on the following data:			
	Earnings			
	Profit for the year attributable to ordinary equity holders of the parent	Rm	**158**	727
	Adjustments to exclude the loss/(profit) for the period from discontinued operations	Rm	**87**	(14)
	Earnings from continuing operations for the purposes of basic and diluted basic earnings per share excluding discontinued operations	Rm	**245**	713
	Headline earnings adjustments:			
	Impairment of goodwill	Rm	**2**	–
	Impairment of property, and equipment	Rm	**4**	–
	Impairment of right of use of assets	Rm	**11**	–
	Loss/(profit) on disposal of subsidiary	Rm	**–**	(8)
	Earnings from continuing operations for the purposes of headline and diluted headline earnings per share excluding discontinued operations	Rm	**262**	705

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

* *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.*

31 SHARE-BASED PAYMENTS

31.1 SHARE APPRECIATION RIGHTS PLAN

31.1.1 DETAILS OF THE SHARE APPRECIATION RIGHTS PLAN

During the 2013 financial year the group implemented a share appreciation rights plan for executives and senior employees of the company and its subsidiaries. In accordance with the terms of the plan, as approved by shareholders at a general meeting, the grant of share appreciation rights (SARs) will be made on an annual or on an ad hoc basis. The number of SARs granted to an employee will take cognisance of the employees grade, performance, term of employment, retention requirements and market benchmarks. A SAR is a conditional right to acquire shares in the company for no consideration, the number being determined by the appreciation in the value of a share over a fixed period, and the number of SARs granted.

The SAR plan allows executives and senior managers to participate in the appreciation of Transaction Capital's share price over time. Subject to a performance criterion, which is the achievement of continuous growth in group headline earnings per share over a specified benchmark above inflation (measured by CPI), the SARs vest in full after four years from award date and are exercisable for a 12-month period. SAR awards granted until May 2014 were awarded with a three-year vesting period. The share price growth over the SAR period will be settled in Transaction Capital ordinary shares, with the gain subject to income tax. To the extent that the SAR grant price exceeds Transaction Capital's share price at the time of exercise, no gain or cost is realised by participants.

There were no grants in either the current or previous year. Furthermore, there were no share appreciation rights in existence at year end.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

31 SHARE-BASED PAYMENTS continued

31.1 SHARE APPRECIATION RIGHTS PLAN continued

31.1.2 MOVEMENT IN SHARE APPRECIATION RIGHTS DURING THE YEAR

	2020		2019	
	Number of SARs	**Weighted average grant price (cents)***	Number of SARs	Weighted average grant price (cents)*
Balance at the beginning of the year	**3 319 266**	**1 029**	7 565 348	913
Exercised during the year	**(3 319 266)**	**1 029**	(3 984 048)	810
Cancelled during the year	**–**	**–**	(262 034)	1 021
Balance at the end of the year	**–**	**–**	3 319 266	1 029

* *The grant price is equivalent to the exercise price.*

31.1.3 SHARE APPRECIATION RIGHTS EXERCISED DURING THE YEAR

	2020		2019	
	Number of SARs exercised	**Weighted average share price (cents)**	Number of SARs exercised	Weighted average share price (cents)
Granted on 25 November 2014	**–**	**–**	3 104 665	1 880
Granted on 5 May 2015	**348 205**	**2 109**	361 153	2 016
Granted on 26 November 2015	**2 834 944**	**2 088**	461 980	2 101
Granted on 27 May 2016	**136 117**	**1 920**	56 250	1 910
Total SARs exercised during the year	**3 319 266**		3 984 048	

31.1.4 SHARE APPRECIATION RIGHTS EXPENSE RECOGNISED DURING THE YEAR

	2020 Rm	2019 Rm
The expense has been recognised in the income statement under employee costs	**–**	3

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

31 SHARE-BASED PAYMENTS continued

31.2 CONDITIONAL SHARE PLAN

31.2.1 DETAILS OF THE CONDITIONAL SHARE PLAN

The group implemented a conditional share plan for executives and senior employees of the company and its subsidiaries. In accordance with the terms of the plan, as approved by shareholders at a general meeting, the grant of conditional share plans awards (CSPs) will be made on an annual or on an ad hoc basis. The number of CSPs granted to an employee will take cognisance of the employees grade, performance, term of employment, retention requirements and market benchmarks. A CSP is a conditional right to acquire Transaction Capital shares for no consideration, the number of shares being determined by the value of the CSP at vesting date, and the number of CSPs granted. The value of Transaction Capital shares issued will be subject to income tax.

The CSP mechanism is overseen and approved by the remuneration committee. Key executives are awarded CSPs in each member group (SA Taxi, TCRS, TCRSX, Transaction Capital or TCRS Australia) for zero cost based on retention and performance criteria. The CSPs are based on notional shares held in each member group, giving executives direct exposure to the performance of that member group (or based on Transaction Capital's share price for employees of the group executive office). At each date on which a CSP award is made, a valuation of each member group is performed by an independent expert. Transaction Capital executives are awarded CSPs at the prevailing share price of Transaction Capital on the date of the award. An updated valuation of each member group is performed semi-annually by an independent expert.

Vesting periods range between 2 and 5 years and are based on both a retention element (subject to continued employment) and a performance element (subject to continued employment and linked to performance criteria). The performance criteria are based on the achievement of headline earnings per share from continued operations in excess of prescribed CPI thresholds. For CSPs awarded from June 2019 onwards, vesting is based on the performance element only.

Employees are required to remain in the employ of the group to be eligible for CSP vestings (subject to standard good leaver rules). Subject to approval of the remuneration committee, employees may be transferred between member groups with an appropriate adjustment to be made to the number and fair values of CSPs transferred. Employees who resign or are dismissed will forfeit any CSP awards that have not vested.

Due to the nature of the CSP awards, the grant price of each CSP is zero. The fair value of each CSP at grant date is underpinned by the value of the notional share of each member group.

31.2.2 FAIR VALUE OF CONDITIONAL SHARE PLAN AWARDS GRANTED IN THE YEAR

The following Conditional Share Plan awards were in existence at year end:

		Weighted average fair value at grant date (cents)				
	Number	SA Taxi ZAR	Transaction Capital Risk Services ZAR	Transaction Capital Risk Services X ZAR	Transaction Capital Limited ZAR	Transaction Capital Risk Services Australia AUD
Granted on 22 November 2016	1 158 515	781	449	–	1 278	487
Granted on 29 May 2017	263 719	774	–	–	–	–
Granted on 22 November 2017	4 678 719	888	467	–	1 260	487
Granted on 1 January 2018	100 000	–	–	–	–	348
Granted on 25 May 2018	738 277	901	–	–	–	382
Granted on 20 November 2018	4 561 983	989	572	–	1 629	450
Granted on 25 March 2019	2 724 317	–	–	521	–	–
Granted on 19 June 2019	1 953 554	964	567	–	1 720	–
Granted on 26 November 2019	7 653 931	1 402	664	598	1 902	451
Granted on 29 May 2020	301 933	–	–	–	1 479	–

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

31 SHARE-BASED PAYMENTS continued

31.2 CONDITIONAL SHARE PLAN continued

31.2.2 FAIR VALUE OF CONDITIONAL SHARE PLAN AWARDS GRANTED IN THE YEAR continued

The values of CSPs are determined using a present value methodology whereby the unconditional share value is equal to the value of the notional share of each member group less the present value of estimated dividends paid prior to time of exercise. Key input assumptions are therefore expectations of dividend yields and risk-free interest rates. The issue prices, or prices at time of transfer, of the notional shares (of SA Taxi, TCRS, TCRSX and TCRS Australia) and shares (of Transaction Capital) are disclosed below:

	SA Taxi ZAR	Transaction Capital Risk Services ZAR	Transaction Capital Risk Services X ZAR	Transaction Capital Limited ZAR	Transaction Capital Risk Services Australia AUD
Granted on 22 November 2016	814	503	–	1 380	487
Granted on 29 May 2017	814	–	–	–	–
Granted on 22 November 2017	974	563	–	1 445	487
Granted on 1 January 2018	–	–	–	–	400
Granted on 25 May 2018	974	–	–	–	400
Granted on 20 November 2018	1 125	651	–	1 816	464
Granted on 25 March 2019	–	–	569	–	–
Granted on 19 June 2019	1 125	651	–	1 931	–
Granted on 26 November 2019	1 609	761	685	2 181	487
Granted on 29 May 2020	–	–	–	1 656	–

31.2.3 MOVEMENT IN CONDITIONAL SHARE PLAN DURING THE YEAR

	2020 Number of CSPs	2019 Number of CSPs
Balance at beginning of year	**22 473 359**	13 739 551
Granted during the year	**9 422 156**	11 604 000
Exercised during the year	**(3 890 055)**	(1 453 070)
Conversion adjustment arising from transfer between member groups	**(625 623)**	–
Forfeited during the year	**(2 534 211)**	(1 417 122)
Cancelled during the year (arising on disposal of Principa Decisions (Pty) Ltd. Refer to note 40	**(710 678)**	–
Balance at end of year	**24 134 948**	22 473 359

During the current year, to alleviate the adverse impacts of COVID-19, the vesting dates of all CSPs expected to vest in May 2020 and November 2020 were extended by one year, respectively. Applying the valuation principles set out above, the fair values of the affected CSPs, before and after the modification, were determined to assess the incremental fair value. No incremental fair value is attributed to the modification.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

31 SHARE-BASED PAYMENTS continued

31.2 CONDITIONAL SHARE PLAN continued

31.2.4 CONDITIONAL SHARE PLAN EXERCISED DURING THE YEAR

	2020		2019	
	Number of CSPs exercised	**Weighted average share price (cents)**	Number of CSPs exercised	Weighted average share price (cents)
Granted on 22 November 2016	**2 833 843**	**2 168**	1 171 294	1 858
Granted on 29 May 2017	**–**	**–**	80 262	1 997
Granted on 22 November 2017	**663 455**	**2 117**	137 922	2 112
Granted on 25 May 2018	**127 741**	**2 173**	–	–
Granted on 20 November 2018	**265 016**	**1 782**	63 592	2 242
Total CSPs exercised during the year	**3 890 055**		1 453 070	

31.2.5 CONDITIONAL SHARE PLAN EXPENSE RECOGNISED DURING THE YEAR

	2020 Rm	2019 Rm
The expense has been recognised in the income statement under employee costs	**61**	42

	Notes	**2020 Rm**	2019 Restated* Rm
32 CASH GENERATED BY OPERATIONS			
Profit before taxation from contuining operations:		**369**	1 080
Adjusted for:			
Interest income		**(2 555)**	(2 472)
Interest expense		**1 251**	1 193
Interest expense (lease liabilities)		**40**	–
Amortisation of intangible assets		**53**	46
Amortisation of principal book portfolio		**570**	120
Impairment of goodwill		**3**	–
Impairment of property plant and equipment		**5**	–
Impairment of right of use assets		**16**	–
Bad debts written off		**495**	310
Movement in provisions		**8**	(2)
Depreciation (including right-of-use assets)		**109**	41
Fair value adjustment of other financial assets		**18**	39
Decrease in deferred lease liabilities		**–**	(3)
Lease concessions		**(5)**	–
Impairment of loans and advances		**345**	32
Impairment of trade receivables		**7**	2
Impairment of other loans receivable		**15**	–
Movement in share appreciation rights accrual		**61**	145
Share of profit from associate		**(32)**	(4)
Movement in insurance contract liabilities		**(163)**	(70)
Profit on disposal of subsidiary		**–**	(8)
Other non-cash flow movements		**–**	3
Cash generated by operations		**610**	452

* *Restated to present interest received and interest paid separately on the face of the statement of cash flow in line with IFRS 7 – Cash Flows paragraph 31. Refer to note 32.3.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Notes	2020 Rm	2019 Rm
32 CASH GENERATED BY OPERATIONS continued			
32.1 CASH FLOW FROM LOANS AND ADVANCES			
The cash flow movement in loans and advances is calculated as follows:			
Increase in net loans and advances	9	**(554)**	(1 399)
Transferred to assets held for sale (gross of impairment)	17	**(225)**	–
Disposal of subsidiary	40	**(10)**	–
Impairment of loans and advances	26	**(836)**	(336)
Bad debts recovered	26	**(4)**	(6)
Accrued interest		**511**	316
Net increase in loans and advances		**(1 118)**	(1 425)
32.2 CASH FLOW FROM PURCHASED BOOK DEBTS			
The cash flow movement in purchased book debts is calculated as follows:			
Increase in purchased book debts	10	**(138)**	(1 008)
Amortisation of principal book portfolio	28	**(570)**	(120)
Fair value adjustment of other financial assets	28	**(18)**	(39)
Effect of foreign currency exchange difference	17	**22**	–
Disposal of subsidiary	40	**(16)**	–
Net increase in purchased book debts		**(720)**	(1 167)

32.3 PRIOR PERIOD RESTATEMENT

Management has previously not been able to present interest paid and received in accordance with the requirements of IAS 7 - Statement of Cash Flows due to system limitations. In the current period a solution was implemented for the disclosure to be corrected. The cash flow statement has been restated to present interest paid and interest received. Included below is the impact on the relevant presentation and disclosures.

	2019		
	As previously presented Rm	Adjustment Rm	Restated* Rm
Cash generated from operations			
Profit before taxation from continuing operations:	1 080	–	1 080
Adjusted for:			
Other non-cash flow movements	651	–	651
Interest income*	–	(2 472)	(2 472)
Interest expense*	–	1 193	1 193
Cash generated by operations	1 731	(1 279)	452
Cash flow from operating activities			
Cash generated by operations	1 731	(1 279)	452
Interest received*	–	2 153	2 153
Interest paid*	–	(1 190)	(1 190)
Income taxes paid	(108)	–	(108)
Dividends paid	(380)	–	(380)
Cash flow from operating activities before changes in operating assets and working capital	1 243	(316)	927
Cash flow from loans and advances			
The cash flow movement in loans and advances is calculated as follows:			
Increase in net loans and advances	(1 399)	–	(1 399)
Impairment of loans and advances	(336)	–	(336)
Bad debts recovered	(6)	–	(6)
Accrued interest*	–	316	316
Net increase in loans and advances	(1 741)	316	(1 425)
Changes in working capital			
Decrease in trade and other payables**	(26)	–	(26)
Net Cash Utilised By Operating Activities	(2 218)	–	(2 218)

* *Not previously presented.*
** *The impacts of the adjustments offset.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		Notes	2020 Rm	2019 Rm
33	**INCOME TAXES PAID**			
	Amounts receivable at the beginning of the year		**10**	12
	Charged in statement of comprehensive income*		**(79)**	(293)
	Deferred taxation charge in the income statement		**(31)**	206
	Business combinations		**(3)**	–
	Prior year deferred tax		**12**	(18)
	Deferred tax charge to equity		**(35)**	(5)
	Effects of foreign exchange rates		**(3)**	–
	Amounts (receivable)/payable at the end of the year		**14**	(10)
	Income taxes paid		**(115)**	(108)

* *From continuing and discontinued operations.*

		Notes	2020 Rm	2019 Rm
34	**DIVIDENDS PAID**			
	Dividends paid to ordinary equity holders of the parent		**(209)**	(343)
	Dividends paid to non-controlling shareholders		**(66)**	(37)
	Total dividends paid		**(275)**	(380)

After extensive deliberation and in view of the uncertainty around the full impact of COVID-19, the board has opted to retain its capital and not to pay a dividend for the financial year ended 30 September 2020. This cautious and conservative approach to ensure adequate financial capacity and flexibility is aligned to the guidance of the Prudential Authority, in which financial services providers are directed to act prudently in preserving capital and focusing on financial and economic stability. The group will return to paying dividends in line with our policy in the next financial year.

A final dividend of 34 cents per share was declared on 26 November 2019 for payment on 17 December 2019 relating to the 2019 financial year.

Refer to the directors' report on page 03 for additional information.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

	2020 Rm	2019 Rm
35 CONTINGENCIES AND COMMITMENTS		
Capital commitments		
Approved	**72**	80
Contracted	**27**	32
Total capital commitments	**99**	112
Operating lease commitments		
Future minimum payments under non-cancellable operating leases		
Premises*		
Year 1	**8**	95
Year 2	**–**	96
Year 3	**–**	99
Year 4	**–**	84
Year 5	**–**	60
Subsequent to year 5	**–**	69
Total operating lease commitments for premises	**8**	503

* *Operating lease commitments at 30 September 2019, previously disclosed as R480 million, have been adjusted to an amount of R503 million in order to include an additional R23 million worth of lease commitments (in terms of IAS 17) that was erroneously excluded in the prior year.*

Future minimum payments under other operating lease commitments are in aggregate R1 million (2019: R1 million) and are therefore not separately disclosed.

Comparative information has been provided based on IAS 17. The group adopted IFRS 16 on 1 October 2019 (refer to note 2) and therefore current period disclosure above is provided excluding IFRS16 (applies only to leases on small assets and leases shorter than 12 months). For commitments and contingencies for leases applying IFRS16 refer to note 22.

	2020 Rm	2019 Rm
Contingent liabilities		
Customer claims**	**–**	1
Guarantees issued***	**17**	13
Total contingent liabilities	**17**	14

** *A guarantee relating to customer claims has been issued by Company Unique Finance Proprietary Limited (CUF) to Hollard Life Insurance Company Limited. This guarantee provides for the safeguarding of premiums received by independent intermediaries on behalf of the registered insurer. Uncertainty arises due to the claims only being made as and when premiums are unpaid. CUF has been disposed of in the current financial year, refer to note 40.*

*** *Recoveries Corporation has a contingent liability in respect of guarantees issued by bankers for facilities in the normal course of business to the extent that they are utilised.*

	Number of shareholders	Number of shares (million)	Number of shares (%)
36 SHAREHOLDER SPREAD AT 30 SEPTEMBER 2020			
Non-public			
Directors of Transaction Capital and its subsidiaries and their associates	**36**	**127**	**19**
Sub-total	**36**	**127**	**19**
Public			
Old Mutual Investment Group South Africa Proprietary Limited	**1**	**67**	**10**
Public Investment Corporation	**1**	**98**	**15**
Remaining institutional shareholders	**145**	**326**	**49**
Retail Investors	**1 180**	**43**	**7**
Sub-total	**1 327**	**534**	**81**
Total	**1 363**	**661**	**100**

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT

The group's operations expose it to a number of financial risks, including market risk (interest rate risk), credit risk and liquidity risk. A risk management programme has been established to protect the group against the potential adverse effects of these financial risks.

The board is responsible for risk management and the setting of the risk management framework. Oversight of risk management is the responsibility of two board sub-committees; the asset and liability committee (ALCO) and the audit, risk and compliance (ARC) committee. ALCO monitors risks associated with liquidity and funding, interest rates, counterparties, currency exposures and capital adequacy. The ARC committee monitors risks associated with financial reporting, accounting policies, internal control and IT governance. The ARC committee is responsible for risk management including setting the risk management framework, setting risk appetite and monitoring the group's management of risk including credit and compliance.

The responsibility for day to day management of risks falls to each of the respective subsidiary's chief executive officers and their executive committees. Risk management is managed at subsidiary level through the divisional executive committees and reviewed by each of the respective subsidiary boards. Group oversight is the responsibility of the group chief financial officer.

37.1 CREDIT RISK

Credit risk is the risk of loss arising from the failure of a client or counterparty to discharge an obligation to the group. The primary credit risks that the group are exposed to arise from finance leases to minibus taxi operators. SA Taxi has strict policies for granting credit. Loans and advances comprise a large number of accounts which are secured by minibus taxis. Collections of instalments are made through a combination of cash and debit order collections, with 86% of the portfolio being cash payers. The nature of SA Taxi's services does not result in significant concentration risks in unsecured credit. The portfolio of purchased book debts exposes the group to credit risk if they fail to perform in accordance with estimated net future cash flows. It is not the group's strategy to avoid credit risk, but rather to manage credit risk within the group's risk appetite and to earn an appropriate risk-adjusted return.

The group limits its counterparty exposure arising from money market instruments by dealing only with well established financial institutions of high credit standing. Deposits are limited to the big five banks within South Africa.

CREDIT RISK MANAGEMENT AND MEASUREMENT

Each subsidiary is responsible for the identification, measurement, management, control and reporting of credit risk within their business units. Exposure to credit losses is managed by assessing customers' affordability and their ability to repay loans and advances, a customer's risk profile, employment status and stability, earnings potential in the case of taxis and collectability in the case of purchased book debts. Each of the group's lending businesses tends to have homogeneous or similar asset portfolios within their respective businesses. Impairments are monitored and provided for using statistical techniques including experiential and behavioural models. These models are based on customers' financial performance information while on book and assume that recent performance is a strong indicator of future performance. In the case of key asset classes, independent models are developed to monitor the robustness of the primary models relative to actual performance and to optimise their effectiveness. Models are either developed internally or by expert external advisors. In the case of secured lending asset classes, the realisable/fair value of the underlying security is taken into consideration in arriving at a final impairment.

The group assumes that the credit risk on a financial instrument has not increased significantly if the financial instrument is determined to have a low credit risk at the reporting date.

MEASUREMENT OF EXPECTED CREDIT LOSSES (ECL)

The group measures ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The maximum period considered when measuring ECL is the maximum contractual period (including extension options) over which the group is exposed to credit risk, and not a longer period, even if that period is consistent with business practice.

The measurement of ECL is a function of the probability of default (PD),loss given write-offs (LGW) and exposure at default (EAD). The assessment of the probability of default and loss given write-offs is based on historical data adjusted by forward-looking information as described above.

As for the EAD for financial assets, this is represented by the assets' gross carrying amount at the reporting date and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the group in accordance with the contract and all the cash flows that the group expects to receive, discounted at the original effective interest rate.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.1 CREDIT RISK continued

CREDIT RISK MANAGEMENT AND MEASUREMENT continued

MODIFIED FINANCIAL ASSETS

If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, the group assesses whether there has been a significant increase in the credit risk of the financial instrument by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of default occurring at initial recognition (based on the original, unmodified contractual terms).

Quantitative analysis has proven that the modifications do not exhibit significantly higher risk than non-modified accounts. The value of these modified accounts is immaterial, relative to the book size. Modifications (term extensions) are provided to clients who have shown proven payment performance and have had operational issues with the vehicle (e.g. mechanical breakdown or accident). Although the term of a contract can be extended, the interest rate applicable for the contract remains unchanged and therefore term extensions do not have any effect on the net present value (NPV) of the financial asset. Due to the fact that a vehicle is an income-producing asset, the group understands that the client is unable to pay if the vehicle is out of operation, however the group does not proactively restructure distressed clients in the normal course of business.

SA TAXI

Method of provisioning and fair valuing

The credit committee is responsible for providing executive management and oversight over all credit risk arising within and impacting the SA Taxi balance sheet. Credit committee meetings are attended by the company chief executive officer, chief financial officer, chief risk officer and executive director of capital management.

The credit policy is designed to ensure that SA Taxi's credit process is efficient for the applicant while providing SA Taxi with the necessary details to make informed credit decisions. SA Taxi takes the following into consideration in granting credit to prospective customers:

- Vehicle type;
- Validity of the taxi route;
- Client's ability to pay using a route calculator (affordability check); and
- Verification of details and credit history against two independent credit bureaus.

The expected loss model is developed using statistical techniques based on actual historical data. The expected loss is calculated for each active account, using parameter estimates including the probability of default (PD), exposure at default (EAD) and loss given write-off's (LGWs). The segmentation ensures homogenous risk buckets. The LGW is calculated on an explicit basis per account, taking into consideration the settlement balance, market value, repair cost, discount rates and discount periods. The group determines whether the credit risk of financial instruments has increased significantly since initial recognition based on the contractual delinquency (CD) state (aging and recency). If the account is in stage 1 then the 12-month expected credit loss is calculated, otherwise, for stage 2 & 3, the lifetime expected loss is calculated.

The group determines significant increases in credit risk using both arrears aging and recency of payments for an account. Due to the nature of the business and higher risk appetite, compared to other Tier 1 financiers, it is the expectation that a client who is 30 days past due is not a significant risk. Most of the SA Taxi clients are cash payers because the taxi industry collects fares in cash from commuters. Recency is included in the definition of default as it is an indicator that the minibus taxi is operational as a cash generating unit and therefore indicative of a customers' ability to make payment on the underlying loan. The group has therefore rebutted the 30-day past due presumption for significantly increased credit risk. This rebuttal is based on a quantitative analysis of account performance relative to expectation at initial recognition as well as alignment to operation collections processes. The group's rebuttal is on segments that are never expected to be very large but which are appropriate for the business. The group has therefore defined stage 2 as an account in arrears that did make a qualifying payment in the last month. A qualifying payment is defined as a payment made which is more than 50% of the instalments due during the reference period.

The group has defined default as 75 days past due (more than 2.5 missed instalments), with no qualifying payment received in the past 3 months. The 90-day presumption was rebutted based on a quantitative analysis of the PDs and alignment to operational collection processes.

The definition of credit-impaired financial assets aligns to the default definition described above. Applying this approach ensures consistency between the accounting application, impairment modelling and internal credit risk management practices. The write-off of an asset occurs at the point of sale of the vehicle, following repossession.

Once a vehicle has been repossessed, refurbished and ultimately sold, any difference between the net recovery value and the outstanding amount of the underlying asset is written off. Amounts written off in the current year still subject to enforcement activity total R496 million (2019: R412 million). Refer to note 26.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.1 CREDIT RISK continued

CREDIT RISK MANAGEMENT AND MEASUREMENT continued

TRANSACTION CAPITAL BUSINESS SOLUTIONS

Exposure to credit losses is managed by assessing customers' affordability and their ability to repay loans and advances, customers' risk profile and collectability of invoices discounted. The realisable/fair value of the underlying security is taken into consideration in arriving at a final impairment. The credit committee assesses all applications for credit and will approve a facility based on the risk profile of the customer and an assessment of the collectability of its trade receivables. Ongoing risk management and collections are handled by experienced credit controllers.

Impairments are monitored and provided for on a customer spesific basis and based on an assessment of the probability of obligations being met. This assessment is based on direct exposure where there is a probability of non-recovery, taking into account the realisable/fair value of any underlying security.

TRANSACTION CAPITAL RECOVERIES

Investment process

Before the acquisition of purchased book debts there is a defined investment process that is followed in accordance with guidelines as determined by an investment committee. Purchased book debts are acquired from various sectors. Valuation of these books is determined by analysis of the historic underlying payment history as well as other parameters which are ultimately presented to the investment committee to decide on a fair price that the company is willing to offer.

Collections process

The business knowledge team continually develops and evolves strategies which are implemented by operations to collect the outstanding debt. Methods include tracing, letters, SMSs and direct calling both in call centres and legal operations.

Method of provisioning and fair valuing

Principal book portfolios are classified as purchased credit-impaired financial assets (stage 3) on initial recognition based on the assumption that events that have a detrimental impact on the estimated future cash flows of these financial assets have occurred before initial recognition. The classification of the debt portfolio does not change subsequent to initial recognition, even in the unlikely event of the expected cash flows returning to full contractual terms.

Any changes in lifetime ECL are recognised in profit or loss. The group recognises favourable changes in lifetime ECL as an impairment gain, even if lifetime ECL are less than the amount of ECL that were included in the estimated cash flows on initial recognition.

Transaction Capital Recoveries utilises statistical techniques to value the principal book portfolio on a monthly basis. Each matter is modelled on a 12 month period based on the collection activity applied to it. A combination of inflows for each matter and cost projections are used to determine a net cash flow which is discounted to the present value using a credit-adjusted effective interest rate, being the amortised cost for that matter at the end of the month.

Transaction Capital Recoveries performed a detailed statistical analysis on a multitude of macro-economic factors, namely prime interest rate, unemployment rate, petrol price, USD/ZAR exchange rate, GDP and CPI. Regression analysis shows that the economic factors do not add explanatory information to the model as there is no significant correlation, hence they are not included.

The Transaction Capital Recoveries amortised cost model takes into account the lifetime of expected cash flows on the portfolio by estimating the cash flows over the lifetime of each book included in the portfolio. A loss allowance is recognised equal to the expected future credit losses, discounted at the credit-adjusted effective interest rate of the principal book portfolio.

Due to the nature of the credit-impaired financial assets, no contractual terms exist without activation by Transaction Capital Recoveries at the date of purchase. Any changes in expected cash flows will not be treated as a modification and will therefore not result in a change to the credit risk.

Other financial assets, recognised within the principal book portfolio, include a receivables balance measured at fair value. The valuation technique calculates the present value of future expected cashflow.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.1 CREDIT RISK continued

37.1.2 FINANCIAL INSTRUMENTS

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

The group recognises financial assets and financial liabilities at the trade date when it becomes a party to the contractual provisions of the instrument.

37.1.2.1 INITIAL RECOGNITION

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial instruments are grouped into classes that are appropriate taking into account the characteristics and risks of those financial instruments. Classes of financial instruments have been determined by referring to the nature and extent of risks arising from the financial instruments and how these are managed.

The group generally does not reclassify financial instruments between different categories subsequent to initial recognition.

37.1.2.2 CLASSIFICATION

A financial asset is measured at amortised cost if:

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

A financial asset is measured at fair value through other comprehensive income if:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit and loss unless it is measured at amortised cost or at fair value through other comprehensive income. In certain instances the business model is not to collect contractual cash flows, nor to sell the asset and in these cases the financial asset is held at fair value through profit and loss.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at fair value through profit or loss (FVTPL).

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.1 CREDIT RISK continued

37.1.2 FINANCIAL INSTRUMENTS continued

37.1.2.3 FINANCIAL ASSETS

37.1.2.3.1 Financial assets at fair value through profit or loss

Financial assets that are held at fair value through profit and loss include loans and advances for entry-level vehicles and certain purchased credit-impaired loan portfolios that are either managed on a fair value basis or that do not meet the requirements to be measured at amortised cost (refer to other financial assets in note 10.2 of the consolidated annual financial statements).

Realised and unrealised gains and losses arising from changes in the fair value of financial assets classified at fair value through profit or loss are included in profit or loss in the period in which they arise.

37.1.2.3.2 Financial assets at fair value through other comprehensive income

Financial assets that are held at fair value through other comprehensive income include the effective portion of derivative financial instruments designated as cash flow hedging instruments.

37.1.2.3.3 Amortised cost and effective interest method

These instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets which have been classified as loans and receivables include cash that does not meet the definition of cash as defined in IAS 7- Statement of Cash Flows, trade and other receivables, loans and advances, purchased credit-impaired loan portfolios and other loans receivable.

Loans and receivables (including trade and other receivables, bank balances and cash) are initially recognised at fair value. Subsequently, loans and receivables are carried at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated by taking into account any transaction costs on acquisition and fees and costs that are an integral part of the effective interest rate.

Purchased credit-impaired loan portfolios are portfolios of written-off consumer debts purchased at prices below the nominal receivable amounts. Purchased credit-impaired loan portfolios, other than those at fair value through profit and loss (referred to as other financial assets in note 10.2 of the consolidated annual financial statements), are reflected at amortised cost on a portfolio basis. Cost includes amounts payable to the vendor and other direct acquisition costs.

Purchased credit-impaired financial assets are those which are credit-impaired on initial recognition.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased credit-impaired financial assets, the group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the interest income line item (note 25 of the consolidated annual financial statements).

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.1 CREDIT RISK continued

37.1.2 FINANCIAL INSTRUMENTS continued

37.1.2.3 FINANCIAL ASSETS continued

37.1.2.3.4 Impairment

The group recognises a loss allowance for expected credit losses (ECL) on financial assets that are measured at amortised cost, at fair value through other comprehensive income , contracts or loan commitments and financial guarantee contracts.

The loss allowance for a financial instrument is measured at the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. The group only recognises cumulative changes in lifetime expected losses since initial recognition on purchased credit-impaired assets such as purchased credit-impaired loan portfolios.

When calculating the expected cash flows at initial recognition (to determine the credit-adjusted effective interest rate), and for subsequent measurement of the loans (to determine the loss allowance), the group has elected to include those forecast incremental collection costs that are directly attributable to the recovery of cash flows, as a reduction in the future expected cash flows.

The impairment requirements result in the recognition of lifetime ECL for all financial instruments for which there have been significant increases in credit risk since initial recognition, whether assessed on an individual or collective basis, considering all reasonable and supportable information, including that which is forward looking. If at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL. This does not apply to purchased credit-impaired assets on which the group only recognises cumulative changes in lifetime expected losses since initial recognition as an impairment gain or loss and are disclosed as part of amortisation in operating expenses.

12 month ECL are the portion of the lifetime ECL that represent the ECL that result from default events on a financial instrument that are possible within 12 months after reporting date. For loan commitments and financial guarantee contracts, the date that the group becomes party to the irrevocable commitment is considered the date of initial recognition for the purposes of applying the impairment requirements.

If the group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that there is no longer a significant increase in credit risk since initial recognition, the loss allowance is measured at an amount equal to 12 month ECL at the current reporting date. Impairment losses or reversals are recognised in profit or loss.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.1 CREDIT RISK continued

37.1.2 FINANCIAL INSTRUMENTS continued

37.1.2.3 FINANCIAL ASSETS continued

37.1.2.3.5 Financial assets subject to risk

	Loans and advances* Rm	Other loans receivable Rm	Trade and other receivables** Rm	Purchased book debts Rm	Total Rm
2020					
Neither past due nor impaired	**3 015**	**55**	**1 039**	**–**	**4 109**
Past due but not impaired	**5 908**	**–**	**95**	**–**	**6 003**
Impaired	**3 146**	**–**	**26**	**–**	**3 172**
Purchased credit-impaired financial assets	**–**	**–**	**–**	**2 520**	**2 520**
Impairment allowance	**(624)**	**–**	**(23)**	**–**	**(647)**
Performing loans and advances	**(119)**	**–**	**(1)**	**–**	**(120)**
Non-performing loans and advances	**(505)**	**–**	**–**	**–**	**(505)**
Non-performing trade and other receivables	**–**	**–**	**(22)**	**–**	**(22)**
Carrying value of financial assets	**11 445**	**55**	**1 137**	**2 520**	**15 157**

	Loans and advances* Rm	Other loans receivable Rm	Trade and other receivables** Rm	Purchased book debts Rm	Total Rm
2019					
Neither past due nor impaired	6 209	45	756	–	7 010
Past due but not impaired	3 198	–	105	–	3 303
Impaired	1 855	–	4	–	1 859
Purchased credit-impaired financial assets	–	–	–	2 382	2 382
Impairment allowance	(336)	–	(16)	–	(352)
Performing loans and advances	(67)	–	–	–	(67)
Non-performing loans and advances	(269)	–	–	–	(269)
Non-performing trade and other receivables	–	–	(16)	–	(16)
Carrying value of financial assets	10 926	45	849	2 382	14 202

* *IFRS 7 disclosures relate to loans and advances and exclude the impact of repossessed vehicles on hand and ceded insurance contract liabilities. Refer to note 9 for more detail. Comparative information has been restated accordingly.*

** *Dealer incentive commission, prepayments and VAT receivables are not financial assets and therefore have been excluded from trade and other receivables.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.1 CREDIT RISK continued

37.1.2 FINANCIAL INSTRUMENTS continued

37.1.2.3 FINANCIAL ASSETS continued

37.1.2.3.6 Valuation of collateral

The group typically holds vehicles (taxis), bonds over residential property and debtor books in the case of invoice discounting as collateral against secured advances. Any security taken as part of the credit decision is valued according to the applicable credit policies at the time of credit approval and at regular intervals thereafter. The group uses a number of approaches for the valuation of collateral, including:

- SA Taxi values collateral at the expected pre-owned sales value minus costs to repair; and
- Valuations of property held as security over mortgage loans take into account market conditions, area where the property is situated, the condition of the property and comparable sales within the geographical area.
- The outbreak of COVID-19 has had no impact on our average collateral values applied.

Due to the specialised nature of the group's businesses, a certain degree of concentration in the collateral underpinning the various portfolios cannot be avoided. At the statement of financial position date, the group did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

	2020 Rm	2019* Rm
Related credit risk exposure and enhancements		
Maximum exposure to credit risk of loans and advances	**12 069**	11 262
Impairment allowance	**(624)**	(336)
Maximum exposure to credit losses of loans and advances	**11 445**	10 926
Ceded insurance contract liabilities	**(124)**	(174)
Maximum exposure to credit losses of loans and advances (after the effect of ceded insurance contract liabilities)	**11 321**	10 752
Credit risk exposure mitigated through unguaranteed residual asset values held as collateral		
Total	**16 724**	16 188
Vehicles	**16 324**	14 971
Properties	**400**	469
Discounted invoices	**–**	748
Total	**16 724**	16 188
Fair value of collateral held for impaired financial assets	**3 449**	1 841
Fair value of collateral held for financial assets past due but not specifically impaired	**8 295**	4 783
Fair value of collateral held for financial assets neither past due nor impaired	**4 880**	9 504
Fair value of collateral held for impaired non financial assets	**100**	60
Collateral attached comprises vehicles and properties		

* *Collateral values are shown excluding the impact of ceded insurance contract liabilities. The 2019 amounts have been restated to ensure comparability with the current period.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.1 CREDIT RISK continued

37.1.2 FINANCIAL INSTRUMENTS continued

37.1.2.3 FINANCIAL ASSETS continued

37.1.2.3.7 Loans and advances that are neither past due nor impaired

	2020 Rm	2019* Rm
Carrying amount of loans and advances that are neither past due nor impaired	**3 141**	6 209
Credit quality		
High	**1 128**	3 506
Medium	**635**	1 317
Low	**1 378**	1 386

* *During the current year, the credit application scorecard were redeveloped. In line with best practice, application scorecards were recalibrated to ensure the scorecards remain statistically accurate at ranking and predicting default risk. Comparative information has therefore been restated to align to the revised credit scoring methodology. The change in scorecard had no impact on the CD state distribution of the portfolio, it simply represents management's view of credit quality. In addition, credit quality disclosures for the prior year have been restated to remove the impact of ceded insurance contract liabilities. Comparative information has therefore been adjusted to align to the revised credit scoring methodology.*

The credit quality of loans and advances is determined as follows:

SA Taxi

SA Taxi, in conjunction with TransUnion, has developed a bespoke application scorecard to assess credit quality when granting loans. The scorecard uses demographic, vehicle, route and credit bureau information to determine the risk of the deal. A detailed affordability assessment is also performed to mitigate risk.

Transaction Capital Business Solutions

The credit committee assesses all applications for credit and will approve a facility based on the risk profile of the applicant and an assessment of the collectability of the trade receivables and realisable value of other tangible security. Ongoing risk management and collections are handled by experienced credit controllers.

In addition to the loans and advances disclosed above, other loans receivables have been assessed as having no significant increased credit risk based on the nature of the counterparty and the recent payment history. Similarly, trade and other receivables have been deemed to not have significant increased credit risk as all the debtors are on standard terms with minimal write-off's and limited concentration to individual debtors. Also refer note 37.1 for details on the assessment of the credit quality of the purchased book debts in the "Transaction Capital Recoveries: Method of provisioning and fair valuing" section.

37.1.2.3.8 Financial assets that are past due but not impaired

Financial assets that are past due but not impaired are assets where contractual interest or principal payments are past due, but the group believes that impairment is not appropriate. Recent payment history and the level of collateral available, if any, are key considerations in determining whether an asset is impaired.

Credit impaired financial assets are determined considering both ageing and recency of payments. SA Taxi customers are mostly cash payers given that they earn their fares from commuters in cash. Recency enables us to understand the cashflow that is generated from the underlying asset which is indicative of a customer's ability to make payment on the underlying loan. The impairment provision calculated on loans and advances disclosed as past due but not impaired are measured applying lifetime expected credit losses. Of the R1.46 billion (2019: R700 million) reflected as part of past due but not impaired, a qualifying payment was received on accounts reflecting an exposure balance of R1.0 billion (68%) (2019: R409 million (59%)) in the most recent month, with the remaining 32% (2019: 41%) being collected in the two months prior to the most recent month.

The impact of the adverse collection experience since April caused by COVID-19, has been considered on our impairment model parameters – (ie. we did not modify arrears and as a result we allowed accounts to age and roll forward without modification). These impairment model parameters have been applied in determining expected cash shortfalls arising from non-payment in the best estimate provision on the loan book as at 30 September 2020.

In addition, whilst our models continue to reflect the customers' financial performance information while on book (including their performance over the period affected by COVID 19) and historical performance remains a strong indicator of future performance, we have also overlaid our current best estimate of the impact of future collection strains on forward looking expected losses to be incurred. This has resulted in an additional impairment charge of R35 million.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.1 CREDIT RISK continued

37.1.2 FINANCIAL INSTRUMENTS continued

37.1.2.3 FINANCIAL ASSETS continued

37.1.2.3.8 Financial assets that are past due but not impaired

The ageing of loans and advances and trade and other receivables that are past due but not impaired is as follows:

	Past due up to 1 month Rm	Past due up to 1 – 2 months Rm	Past due up to 2 – 3 months Rm	Past due up to 3 – 4 months Rm	Past due older than 4 months Rm	Total Rm
2020						
Loans and advances	**1 234**	**1 312**	**1 135**	**763**	**1 465**	**5 909**
Trade and other receivables	**19**	**9**	**7**	**10**	**51**	**96**
Financial assets that are past due but not impaired	**1 253**	**1 321**	**1 142**	**773**	**1 516**	**6 005**
2019						
Loans and advances*	1 236	704	307	251	699	3 197
Trade and other receivables	33	6	5	4	57	105
Financial assets that are past due but not impaired	1 269	710	312	255	756	3 302

* *IFRS 7 disclosures relate to loans and advances and exclude the impact of repossessed vehicles on hand and ceded insurance contract liabilities. Refer to note 9 for more detail. Comparative information has been restated accordingly to remove the impact of ceded insurance contracts.*

37.1.2.3.9 Impairment provision reconciliation

Loans and advances	12 month expected credit losses Rm	Lifetime expected credit losses Rm	Credit impaired financial assets Rm	Total Rm
2020				
Balance at the beginning of the year	**24**	**84**	**228**	**336**
Originations	**15**	**37**	**59**	**111**
Existing book movements	**4**	**26**	**261**	**291**
Write-offs	**(3)**	**(12)**	**(41)**	**(56)**
Derecognition (settlements in the ordinary course of business)	**(1)**	**–**	**(1)**	**(2)**
Transferred to assets held for sale	**–**	**(50)**	**–**	**(50)**
Disposal of subsidiary	**(6)**	**–**	**–**	**(6)**
Balance at the end of the year*	**33**	**85**	**506**	**624**
2019				
Balance at the beginning of the year	23	86	217	326
Originations	12	28	25	65
Existing book movements	(5)	(10)	76	61
Write-offs	(5)	(20)	(89)	(114)
Derecognition (settlements in the ordinary course of business)	(1)	–	(1)	(2)
Balance at the end of the year*	24	84	228	336

* *IFRS 7 disclosures relate to loans and advances and exclude the impact of repossessed vehicles on hand and ceded insurance contract liabilities. Refer to note 9 for more detail. Comparative information has been restated accordingly to remove the impact of ceded insurance contracts.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.1 CREDIT RISK continued

37.1.2 FINANCIAL INSTRUMENTS continued

37.1.2.3 FINANCIAL ASSETS continued

37.1.2.3.9 Impairment provision reconciliation continued

The maximum exposure to credit risk of loans and advances at the financial year-end is analysed further as follows:

Loans and Advances	12 month expected credit losses Rm	Lifetime expected credit losses Rm	Credit impaired financial assets Rm	Total Rm
2020				
Neither past due nor impaired	**3 004**	**11**	**–**	**3 015**
Past due not impaired	**1 065**	**4 843**	**–**	**5 908**
Impaired	**–**	**–**	**3 146**	**3 146**
Impairment allowance	**(36)**	**(83)**	**(505)**	**(624)**
Performing loans and advances	**(36)**	**(83)**	**–**	**(119)**
Non-performing loans and advances	**–**	**–**	**(505)**	**(505)**
Carrying value of financial assets*	**4 033**	**4 771**	**2 641**	**11 445**
2019				
Neither past due nor impaired	6 188	21	–	6 209
Past due not impaired	894	2 304	–	3 198
Impaired	–	44	1 811	1 855
Impairment allowance	(17)	(52)	(267)	(336)
Performing loans and advances	(17)	(50)	–	(67)
Non-performing loans and advances	–	(2)	(267)	(269)
Carrying value of financial assets*	7 065	2 317	1 544	10 926

* *IFRS 7 disclosures relate to loans and advances and exclude the impact of repossessed vehicles on hand and ceded insurance contract liabilities. Refer to note 9 for more detail. Comparative information has been restated accordingly to remove the impact of ceded insurance contracts.*

37.2 INTEREST RATE RISK

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

The group is exposed to interest rate risk associated with the effects of fluctuations in the prevailing levels of market rates on future cash flows of a financial instrument and the fair value of the financial instrument based on changes in market interest rates.

37.2.1 RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The table below summarises the net exposure of the group to interest rate risk through grouping assets and liabilities that are affected by floating rates.

	Floating rate liabilities Rm	Floating rate assets Rm	Net floating rate assets Rm
2020			
Total	**14 198**	**11 372**	**(2 826)**
2019			
Total	10 540	10 777	237

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.2 INTEREST RATE RISK continued

37.2.2 WEIGHTED AVERAGE INTEREST RATES

The table below summarises the weighted interest rate of bank balances and borrowings.

	2020		2019	
	Bank balances %	Bank Borrowings %	Bank balances %	Bank Borrowings %
Total	**4.0**	**9.6**	6.2	11.1

37.2.3 INTEREST RATE SENSITIVITY ANALYSIS

The group's exposure to interest rate risks is set out below:

	Effect on profit before tax of 1% change in rates Rm	Total carrying value of assets and liabilities Rm
30 September 2020		
Assets		
Loans and advances*	114	11 445
Fixed rate loans and advances	–	73
Floating rate loans and advances	114	11 372
Purchased book debts	25	2 520
Other loans receivable	–	55
Trade and other receivables**	11	1 137
Cash and cash equivalents	18	1 794
Total	**168**	**16 951**
Liabilities		
Interest-bearing liabilities	142	14 639
Fixed rate liabilities	–	441
Floating rate liabilities	142	14 198
Trade and other payables***	6	553
Other short-term borrowings	1	102
Bank overdrafts	4	387
Total	**153**	**15 681**
Net exposure	**15**	**1 270**

* *IFRS 7 disclosures relate to loans and advances and exclude the impact of repossessed vehicles on hand and ceded insurance contract liabilities. Refer to note 9 for more detail. Comparative information has been restated accordingly to remove the impact of ceded insurance contracts.*

** *Dealer incentive commission, prepayments and VAT receivables are not financial assets and therefore have been excluded from trade and other receivables.*

*** *Revenue received in advance, deferred lease liabilities, VAT payables and bonus accruals are not financial liabilities and therefore have been excluded from trade and other payables.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.2 INTEREST RATE RISK continued

37.2.3 INTEREST RATE SENSITIVITY ANALYSIS

	Effect on profit before tax of 1% change in rates Rm	Total carrying value of assets and liabilities Rm
30 September 2019		
Assets		
Loans and advances*	108	10 926
Fixed rate loans and advances	–	149
Floating rate loans and advances	108	10 777
Purchased book debts	24	2 382
Other loans receivable	–	45
Trade and other receivables**	8	849
Cash and cash equivalents	9	919
Total	149	15 121
Liabilities		
Interest-bearing liabilities	105	10 806
Fixed rate liabilities	–	266
Floating rate liabilities	105	10 540
Trade and other payables***	5	473
Other short-term borrowings	1	76
Bank overdrafts	4	381
Total	115	11 736
Net exposure	34	3 385

* *IFRS 7 disclosures relate to loans and advances and exclude the impact of repossessed vehicles on hand and ceded insurance contract liabilities. Refer to note 9 for more detail. Comparative information has been restated accordingly to remove the impact of ceded insurance contracts.*

** *Dealer incentive commission, prepayments and VAT receivables are not financial assets and therefore have been excluded from trade and other receivables.*

*** *Revenue received in advance, deferred lease liabilities, VAT payables and bonus accruals are not financial liabilities and therefore have been excluded from trade and other payables.*

The group uses a sensitivity analysis technique that measures the estimated change to profit or loss of an instantaneous change in market interest rates. The sensitivity analysis is prepared based on financial instruments that are recognised at the end of the reporting period. This is the case even where those exposures did not exist for the entire period or where the exposure changed materially during the period. The company is mainly exposed to fluctuations in the following market interest rates: prime, JIBAR, BLR and LIBOR rates. The sensitivity that is applied is the amount that could reasonably be expected to occur, and has been determined as 1% (100 basis points) up or down. The effect of a 1% change in interest rates is shown above. As the group has no control over rate movements, it cannot predict the effect of future rate movements, if any.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.3 LIQUIDITY RISK MANAGEMENT

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

The monitoring and reporting of liquidity risk takes the form of, as a minimum, cash flow projections to settlement of longest dated funding obligations by subsidiary or securitisation vehicle, an analysis of the group's borrowing facilities and utilisation thereof, borrowing facilities under discussion, maturity profile and concentration of liability by counterparty, asset maturities and borrowing facility obligations and special conditions.

The group's capital markets (CM) team is responsible for executing on fund raising mandates given to it by subsidiaries in support of the respective business models. This includes the ongoing assessment and evaluation of various funding sources designed to grow and diversify the group's funding base to achieve an optimal funding profile and sound liquidity. The CM team is also responsible for the ongoing monitoring of asset portfolio performance and its obligations to funders, including covenants.

It is the responsibility of each subsidiary to manage the daily cash flow requirements, to ensure funding covenants are maintained, to produce financial projections to monitor the impact of business trends on future funding requirements and covenants and to notify the CM team of any changes to the business environment that may impact funding requirements.

Given the outbreak of COVID-19 and its impact on the collections of the businesses portfolios, the capital markets team has taken several steps to further strengthen the financial position and maintain financial liquidity and flexibility, including:

- The restructuring of various debt repayments (specifically the deferment of mandatory capital repayments for June and September in two structures within the group where these obligations exist as well as the extension of these facilities by 6 months);
- Conversion of a third structure within the group from an amortising structure to a pass-through structure; and
- Confirmation on our ability to continue drawing down on available facilities as well as securing further liquidity facilities (to be utilised for general corporate purposes) to cover us through a prolonged period of time.

In accordance with IFRS 9, these amendments to funding arrangements were assessed to determine whether they represent a modification or extinguishment of debt. In all cases amendments have been assessed as modifications in terms of IFRS 9 resulting in funding costs being amortised over the remaining term of the respective debt.

Throughout all engagements, funders have been fully supportive of management's strategies. Along with the additional measures implemented to preserve liquidity in response to COVID-19, we have sufficient liquidity and financial flexibility to support underlying business operations as at 30 September 2020.

The group's balance sheet is well capitalised and liquid at a holding company level, underpinned by our conservative capital strategy. Along with the additional measures implemented in response to COVID-19, it provides ample liquidity and flexibility to support the divisions as the pandemic runs its course and recessionary conditions intensify.

Our capital strategy remains appropriately conservative in the current conditions, with undrawn facilities of approximately R1 billion (at 24 November 2020) to be allocated to the accelerated acquisition of NPL Portfolios in South Africa, Australia and selected international markets. At a holding company level, we have invested approximately R500 million into subsidiaries to mitigate any short-term operational cashflow disruption from COVID-19.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.3 LIQUIDITY RISK MANAGEMENT continued

The table below analyses financial liabilities at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	On demand Rm	Within 1 year Rm	From 1 – 5 years Rm	More than 5 years Rm	Total Rm
2020					
Liabilities					
Bank overdrafts	**387**	**–**	**–**	**–**	**387**
Other short-term borrowings	**102**	**–**	**–**	**–**	**102**
Trade and other payables*	**185**	**427**	**16**	**–**	**628**
Interest-bearing liabilities	**50**	**4 050**	**11 694**	**978**	**16 772**
Lease liabilities (refer to note 22 in the group consolidated financial statements)	**–**	**99**	**358**	**49**	**506**
Financial liabilities	**724**	**4 576**	**12 068**	**1 027**	**18 395**
Non-financial liabilities	**369**	**769**	**5**	**–**	**1 143**
Total liabilities	**1 093**	**5 345**	**12 073**	**1 027**	**19 538**

	On demand Rm	Within 1 year Rm	From 1 – 5 years Rm	More than 5 years Rm	Total Rm
2019					
Liabilities					
Bank overdrafts	381	–	–	–	381
Other short-term borrowings	76	–	–	–	76
Trade and other payables*	214	268	–	–	482
Interest-bearing liabilities	41	3 290	9 327	193	12 851
Financial liabilities	712	3 558	9 327	193	13 790
Non-financial liabilities	108	510	–	–	618
Total liabilities	820	4 068	9 327	193	14 408

* *Revenue received in advance, deferred lease liabilities (prior year), VAT payables and bonus accruals are not financial liabilities and therefore have been excluded from trade and other payables and included in the non-financial liabilities.*

The group has access to financing facilities as described below, of which R1 811 million were unused as at 30 September 2020 (2019: R2 550 million). The group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

	2020 Rm	2019 Rm
Unsecured bank overdraft facility, reviewed annually and payable on demand:		
Amount used	**185**	1
Amounts unused	**15**	199
Total	**200**	200
Secured bank overdraft and other short term facilities:		
Amount used	**305**	457
Amounts unused	**246**	167
Total	**551**	624
Secured bank loan facilities with various maturity dates through to 30 September 2021 and which may be extended by mutual agreement:		
Amount used	**3 889**	2 599
Amounts unused	**1 550**	2 184
Total	**5 439**	4 783

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.4 CAPITAL RISK

The objective of the group's capital management strategy is to maximise shareholder value. To achieve this the group considers the capital required to support growth in its operating divisions, to maintain credit ratings in group entities, to comply with borrowing covenants and for unexpected shocks.

The group defines capital as equity, group loans and subordinated and structurally subordinated debt.

Equity comprises permanent paid up capital, revenue and other reserves.

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

CAPITAL MANAGEMENT – INSURANCE CONTRACTS

The group is required by Solvency Assessment and Management (SAM) to hold an excess of its assets over its insurance contract liabilities calculated on a regulatory basis. The requirement aims to ensure that the group is able to meet its obligations over the next 12 months. Breaching this requirement – the solvency capital requirements (SCR) – would result in supervisory intervention by the lead regulator and remedial actions designed to restore the SCR level of capital.

The SAM approach to the measurement of capital adequacy is primarily based on monitoring the relationship of the SCR to regulatory capital. The group complied with all externally imposed capital requirements during 2020 and 2019.

37.5 INSURANCE RISK

Insurance risk is the risk assumed under any insurance contract that the insured event occurs. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected and that the group does not charge premiums appropriate for the risks accepted. By the very nature of an insurance contract, this risk is random and unpredictable. The exposure to insurance risk is limited through an underwriting strategy, underwriting limits, adopting appropriate risk assessment techniques and management of the cost of claim. These actions are described below.

UNDERWRITING STRATEGY

The group's underwriting strategy seeks to attract SA Taxi's financed clients as well as non-financed clients. Strict underwriting guidelines for acceptance of new policies are maintained. Adequacy of the pricing structure is monitored through regular review of claims ratios.

PRESENTATION OF INSURANCE CONTRACT LIABILITIES

The group's exposure to the underlying portfolio consists of both credit risk (measured in accordance with IFRS 9) and insurance risk (measured in accordance with IFRS 17). With respect to the measurement of the liability for remaining coverage, credit metrics are used as indicators for the severity of claim. To the extent that the insured event affects the recovery of the underlying asset and given that the assessment of risk and exposure on the underlying portfolio is considered on a group basis, a portion of the liability for remaining coverage relating to the active financed debtors and repossessed vehicle stock portfolios, is allocated to net loans and advances or inventory (where the repossessed vehicle stock has moved into a repair/ realisation channel) on the face of the statement of financial position as these insurance contract liabilities reduce the group's overall exposure on the 'default' contract sets. These allocations are also set out in notes 8, 9 and 20 of the consolidated annual financial statements.

POLICIES FOR MITIGATING THE RISK OF FRAUDULENT CLAIMS

SA Taxi is exposed to the risk of false, invalid and exaggerated claims. Fraud detection measures are put in place to improve the group's ability to proactively detect fraudulent claims.

CLAIMS DEVELOPMENT AND MANAGEMENT

Appointment of authorised assessors and repair centres, as well as different excess structures are monitored and maintained. Management continues to manage the cost of claim effectively through product mix, operational efficiencies in the procurement of parts as well as through the significant investment in SA Taxi Auto Parts during the current financial year.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.5 INSURANCE RISK continued

DISCOUNT RATES

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, plus a liquidity premium where applicable. Risk-free rates are determined by reference to the ZAR swap curve. The liquidity premium is determined by reference to observable market rates, including sovereign debt, corporate debt and market swap rates.

The weighted average discount rate applied for discounting of future cash flows is listed below:

	Portfolio duration 12 months	
	2020	2019
Insurance contracts issued	**3.3%**	6.7%

* *The liquidity premium that is added to the risk free rate is 83 bps at 30 September 2020 (83 bps at 30 September 2019).*

37.5.1 SENSITIVITIES ON SIGNIFICANT UNOBSERVABLE PARAMETERS APPLIED INCLUDE:

The insurance claim liabilities are sensitive to the key assumptions as per the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. The analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. The method used for deriving sensitivity information and significant assumptions as accordance with Short-Term Insurance Regulations.

Potential effect recorded directly in profit and loss

		2020		2019	
Significant unobservable parameters applied*	**Change in assumption**	**Favourable Rm**	**Unfavourable Rm**	Favourable Rm	Unfavourable Rm
Short-term motor comprehensive policy – financed portfolio					
Discount rate	100bps	<1	(<1)	<1	(<1)
Probability of repossession/probability of default	10%	20	(13)	33	(8)
Premiums charged	10%	3	(4)	3	(3)
Insurance perils	10%	3	(3)	2	(2)
Salvage recovery value	10%	3	(3)	6	(6)
Credit life portfolio					
Discount rate	100bps	<1	(<1)	<1	(<1)
Probability of defaults	10%	<1	(<1)	<1	(2)
Premiums charged	10%	<1	(<1)	2	(2)
Mortality rates	10%	<1	(<1)	2	(3)
Short-term motor comprehensive policy – financed and non-financed					
Discount rate	100bps	<1	(<1)	<1	(<1)
Ultimate loss rate gross claims	1%	3	(3)	3	(3)
Salvage value	10%	<1	(<1)	1	(1)
Development factor	Smoothed	<1	(<1)	21	(21)

* *These represent the significant unobservable parameters applied in the actuarial model.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.5 INSURANCE RISK continued

37.5.2 MATURITY ANALYSIS FOR INSURANCE CONTRACT LIABILITIES

The following table summarises the maturity profile of groups of insurance contracts issued that are liabilities of the group based on the estimates of the undiscounted future cash flows expected to be paid out in the periods presented:

2020	Up to 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	> 5 years Rm	Total Rm
Short-term motor comprehensive policy – financed portfolio	**329**	**4**	**1**	**<1**	**–**	**–**	**334**
Credit life portfolio	**27**	**–**	**–**	**–**	**–**	**–**	**27**
Short-term motor comprehensive policy – non financed portfolio	**13**	**1**	**–**	**–**	**–**	**–**	**14**
Total	**369**	**5**	**1**	**<1**	**–**	**–**	**375**

2019*	Up to 1 year Rm	1 – 2 years Rm	2 – 3 years Rm	3 – 4 years Rm	4 – 5 years Rm	> 5 years Rm	Total Rm
Short-term motor comprehensive policy – financed portfolio	468	5	<1	<1	–	–	473
Credit life portfolio	10	–	–	–	–	–	10
Short-term motor comprehensive policy – non financed portfolio	13	1	–	–	–	–	14
Total	491	6	<1	<1	–	–	497

* *Prior year numbers have been restated to fully remove the impact of discounting.*

Amounts less than R500 000 are reflected as "<1".

37.6 CURRENCY RISK

Currency risk is the possibility of incurring a financial loss as a consequence of the depreciation in the measurement currency relative to a foreign currency prior to payment of a commitment in that foreign currency or the strengthening of the measurement currency prior to receiving payment in a foreign currency.

The foreign currencies to which the group has material exposure are Australian Dollars and US Dollars Where the timing of future cash flows can be predicted with relative certainty, this risk is managed by entering into forward exchange contracts at the time the risk arises.

The following significant exchange rates were applied during the year:

	Average rate		Reporting date closing rate	
	2020	2019	**2020**	2019
US Dollar	**16.2**	14.4	**17.0**	15.2
Euro	**20.7**	16.5	**21.7**	16.5
Pula	**1.3**	1.3	**1.4**	1.4
Australian Dollar	**11.0**	10.1	**12.1**	10.3
Fijian Dollar	**7.2**	6.7	**7.8**	6.9

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.6 CURRENCY RISK continued

37.6.1 THE CARRYING AMOUNTS OF THE GROUP'S FOREIGN CURRENCY DENOMINATED MONETARY ASSETS AND MONETARY LIABILITIES AT THE END OF THE REPORTING PERIOD ARE AS FOLLOWS:

	Liabilities		Assets	
	2020 Rm	2019 Rm	**2020 Rm**	2019 Rm
Foreign amounts included in the financial statements at the end of the financial year:				
US Dollar	**2 127**	1 605	**–**	8
Pula	**–**	1	**4**	5
Australian Dollar	**186**	126	**353**	139
Fijian Dollar	**2**	1	**7**	49

Currency risk arising from exposure to US Dollars currencies has been effectively managed through cross-currency swaps that exactly hedge the contractual cash flows over the life of the foreign currency funding. Refer to note 37.8 for hedge accounting disclosure.

37.6.2 FOREIGN CURRENCY SENSITIVITY ANALYSIS

The following table details the group's sensitivity to a 10% increase and decrease in the Rand against the relevant foreign currencies (excluding USD foreign currencies which are fully hedged). 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the group where the denomination of the loan is a currency other than the functional currency of the lender or the borrower. A negative number below indicates a decrease in profit or equity where the Rand strengthens 10% against the relevant currency. For a 10% weakening of the Rand against the relevant currency, there would be a equal and opposite impact on the profit or equity, and the balances below would be positive.

	2020 Rm	2019 Rm
Profit or loss*	**(16)**	(1)
Equity	**(16)**	(1)

* *Attributable to the net monetary assets of AUD 13.7 million (2019: AUD 1.3 million) in TCRS Australia, providing a natural hedge due to its denomination in the local currency.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.7 FAIR VALUE DISCLOSURE

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit and loss. Specifically loans and advances for entry-level vehicles and certain purchased book debts that are managed on a fair value basis.

The value of the purchased book debts managed on a fair value basis may change over time through the collection of underlying amounts that did not form part of the initial ring-fenced purchased book debt. The quantum of the return is also impacted by the quality of the collection services performed, rather than services associated with normal lending arrangements. On this basis, therefore, the cash flows collected on these books do not present solely payments of principal and interest on the principal amount outstanding.

The entry-level vehicle book is managed differently to the premium book. Entry-level vehicles do not meet the requirement to be measured at amortised cost as they are not held within a business model whose objective is to collect contractual cash flows but rather held to realise value from the underlying collateral of the vehicle itself.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date.

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

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

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

Level 2 Valuation techniques using market observable inputs, including:

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

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

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

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.7 FAIR VALUE DISCLOSURE continued

	Carrying value 2020 Rm	Total fair value 2020 Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Carrying value 2019 Rm	Total fair value 2019 Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
Assets										
Loans and advances*	11 445	11 436	–	–	11 436	10 926	10 917	–	–	10 917
Purchased book debts	2 520	2 520	–	–	2 520	2 382	2 382	–	–	2 382
Other loans receivable	55	55	–	–	55	45	45	–	–	45
Trade and other receivables**	1 137	1 137	–	–	1 137	1 030	1 030	–	–	1 030
Cash and cash equivalents	1 794	1 794	1 794	–	–	919	919	919	–	–
Total	16 951	16 942	1 794	–	15 148	15 302	15 293	919	–	14 374
Liabilities										
Interest-bearing liabilities***	14 639	14 858	–	350	14 508	10 804	11 195	–	–	11 195
Fixed rate liabilities	441	351	–	–	351	266	279	–	–	279
Floating rate liabilities	14 198	14 507	–	350	14 157	10 538	10 916	–	–	10 916
Trade and other payables****	553	556	–	56	500	473	473	–	–	473
Other short-term borrowings	102	102	–	–	102	76	76	–	–	76
Bank overdrafts	387	387	387	–	–	381	381	381	–	–
Total	15 681	15 903	387	406	15 110	11 734	12 125	381	–	11 744
Net exposure	1 270	1 039	1 407	(406)	38	3 568	3 168	538	–	2 630

* *IFRS 7 disclosures relate to loans and advances and exclude the impact of repossessed vehicles on hand and ceded insurance contract liabilities. Refer to note 9 for more detail. Comparative information has been restated accordingly.*

** *Dealer incentive commission, prepayments and VAT receivables are not financial assets and therefore have been excluded from trade and other receivables.*

*** *Lease liabilities are excluded from the scope of IFRS 13 – Fair value measurement.*

**** *Revenue received in advance, deferred lease liabilities (prior year), VAT payables and bonus accruals are not financial liabilities and therefore have been excluded from trade and other payables.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.7 FAIR VALUE DISCLOSURE continued

VALUATION METHODS AND ASSUMPTIONS:

Loans and advances for premium vehicles entered into at variable interest rates approximate fair value as the estimated future cash flows are already considered in the expected loss model. The fair value of loans and advances for premium vehicles at fixed interest rates, which is a small component of the loan book, is determined by adjusting the discount rate from the effective interest rate of the contract to a current effective lending rate. Loans and advances for entry-level vehicles are carried at fair value.

Purchased book debt is held at amortised cost. The balance at year end is calculated based on the expected future cash flows which are adjusted for risk as it takes historical cash flows into account to predict forecasted cash flows. The fair value of purchased book debt is determined by adjusting the discount rate from the credit-adjusted effective interest rate to a current market related discount rate and adjusting the expected cash flows for risk, therefore the carrying value approximates the fair value.

The fair value of interest-bearing liabilities is calculated based on future cash flows, discounted using a forward rate curve plus a valuation margin. The valuation margin is a consensus margin at which deals with similar remaining cash profiles could be secured in the market at the valuation date.

The carrying value of trade and other receivables, cash and cash equivalents, trade and other payables and bank overdrafts approximates fair value as they are short-term in nature and not subject to material changes in credit risk and fair value.

37.8 HEDGE ACCOUNTING

The group applies hedge accounting to represent the economic effects of its interest and currency risk management strategies.

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The group uses derivative financial instruments to manage its exposure to foreign exchange and interest rate risk. The group does not hold or issue derivative financial instruments for trading purposes. The group designates certain derivatives in respect of foreign currency risk as cash flow hedges and interest rate risk as fair value hedges in line with IFRS 9.

Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the group applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation, as appropriate to the risks being hedged.

CASH FLOW HEDGES OF FOREIGN CURRENCY RISK

The group uses cross-currency swaps to hedge the foreign currency risks arising from interest-bearing liabilities.

Hedge accounting is used for derivatives designated in this way, provided specific criteria are met. The group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Foreign exchange risk arises when the assets and liabilities are not denominated in the functional currency of the transacting entity. The group's policy is that such exposures should be hedged subject to a review of the specific circumstances of the exposure. The currency exposure under such funding has been hedged through a series of cross-currency swaps that match the timing and amount of each periodic cash flow obligation in terms of the currency funding.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset. Hedge accounting is discontinued when the group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

The ineffective portion of fair value movements of hedging instruments for 2020 was nil (2019:nil).

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.8 HEDGE ACCOUNTING continued

FAIR VALUE HEDGES OF INTEREST RATE RISK

The group uses interest rate swaps exchanging fixed rate interest for floating rate liabilities.

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Fair value gains and losses arising on the pre-measurement of both the hedging instrument and the hedged item are recognised in profit and loss, for so long as the hedging relationship is effective.

The group policy is to borrow funds at floating rates of interest as, over the longer term, this is considered by management to give a natural hedge as funds are lent to customers at floating rates. In certain circumstances, the group uses interest rate swap contracts to manage its exposure to interest rate movements on a portion of its existing debt.

Any hedge ineffectiveness is recognised in profit and loss in non-interest revenue. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair-value hedge accounting, or the designation is revoked, then hedge accounting is discontinued.

During the year, the fair value hedges were determined to be effective in hedging the fair value exposure to interest rate movements. As a result of the hedging relationship, the fair value hedge movement is adjusted to the underlying liabilities to the value of R25 million (2019: R3 million). The nominal value is equal to the capital amount of the hedged item.

	2020 Rm	2019 Rm
Derivative assets held for risk management		
Interest rate swaps	**24**	4
Cross-currency swaps	**348**	190
Total	**372**	194
Derivative liabilities held for risk management		
Interest rate swaps	**–**	1
Cross-currency swaps	**19**	–
Total	**19**	1

CASH FLOW HEDGING RESERVE

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

	2020 Rm	2019 Rm
Balance at the beginning of the year	**(5)**	(6)
Loss (net of tax) arising on changes in fair value of hedging instruments entered into for cash flow hedges	**100**	48
Cross-currency swaps	**100**	48
Gain (net of tax) arising on changes in fair value of hedging instruments reclassified to profit or loss	**(122)**	(47)
Cross-currency swaps	**(122)**	(47)
Balance at the end of the year	**(27)**	(5)

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.8 HEDGE ACCOUNTING continued

The time periods in which the hedged cash flows are expected to occur and affect the consolidated statement of comprehensive income are as follows:

	< 1 Year Rm	1 – 5 years Rm	> 5 years Rm	Total Rm
2020				
Cash outflows	–	–	–	–
Cash inflows	137	224	5	366
Total cash flows*	**137**	**224**	**5**	**366**

	< 1 Year Rm	1 – 5 years Rm	>5 years Rm	Total Rm
2019				
Cash outflows	–	–	–	–
Cash inflows	74	117	5	196
Total cash flows*	74	117	5	196

* *In line with IFRS 7 paragraph 23B(a), the disclosure reflects the timing of the nominal amount of the hedging instrument only.*

HEDGING INSTRUMENTS PER RISK CATEGORY

	Notional amount**		Carrying amount of hedging instrument		
2020	Nominal amount (USD-millions)	Local currency (ZAR-millions)	Assets Rm	Liabilities Rm	Hedge ineffectiveness Rm
Cash flow hedges					
Foreign exchange risk					
Cross-currency swaps	147	2 127	348	(19)	–
Fair value hedges					
Interest rate risk					
Interest rate swaps	n/a	433	24	<1	–

	Notional amount**		Carrying amount of hedging instrument		
2019	Nominal amount (USD–millions)	Local currency (ZAR–millions)	Assets Rm	Liabilities Rm	Hedge ineffectiveness Rm
Cash flow hedges					
Foreign exchange risk					
Cross-currency swaps	115	1 605	190	–	–
Fair value hedges					
Interest rate risk					
Interest rate swaps	n/a	433	4	(1)	

** *This represents the gross notional amounts of all outstanding contracts at year end.*

Amounts less than R500 000 are reflected as "<1".

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.9 STATEMENT OF FINANCIAL POSITION CATEGORIES

	At fair value through profit and loss* Rm	At fair value through other comprehensive income Rm	Financial assets carried at amortised cost Rm	Financial liabilities carried at amortised cost Rm	Non financial liabilities or non financial assets Rm	Equity Rm	Total Rm
2020							
Assets							
Cash and cash equivalents	–	–	1 794	–	–	–	1 794
Tax receivables	–	–	–	–	32	–	32
Trade and other receivables	24	348	765	–	385	–	1 522
Inventories**	–	–	–	–	1 032	–	1 032
Loans and advances**	17	–	11 428	–	100	–	11 545
Purchased book debts	170	–	2 350	–	–	–	2 520
Other loans receivable	–	–	55	–	–	–	55
Equity accounted investments	–	–	–	–	2 153	–	2 153
Intangible assets	–	–	–	–	505	–	505
Property and equipment	–	–	–	–	439	–	439
Goodwill	–	–	–	–	1 354	–	1 354
Deferred tax assets	–	–	–	–	344	–	344
Assets classified as held for sale	–	–	–	–	262	–	262
Total assets	211	348	16 392	–	6 606	–	23 557
Equity and liabilities							
Liabilities							
Bank overdrafts	–	–	–	387	–	–	387
Other short-term borrowings	–	–	–	102	–	–	102
Tax payables	–	–	–	–	46	–	46
Trade and other payables	16	19	–	518	133	–	686
Provisions	–	–	–	–	66	–	66
Insurance contract liabilities**	–	–	–	–	374	–	374
Interest-bearing liabilities	–	–	–	14 639	–	–	14 639
Lease liabilities	–	–	–	417	–	–	417
Deferred tax liabilities	–	–	–	–	455	–	455
Liabilities directly associated with assets held for sale	–	–	–	5	7	–	12
Total liabilities	16	19	–	16 068	1 081	–	17 184
Equity							
Ordinary share capital	–	–	–	–	–	2 015	2 015
Other reserves	–	–	–	–	–	322	322
Retained earnings	–	–	–	–	–	3 481	3 481
Equity attributable to ordinary equity holders of the parent	–	–	–	–	–	5 818	5 818
Non-controlling interest	–	–	–	–	–	555	555
Total equity	–	–	–	–	–	6 373	6 373
Total equity and liabilities	16	19	–	16 068	1 081	6 373	23 557

* *Loans and advances and purchased book debts at fair value through profit and loss have been designated as at fair value through profit and loss at initial recognition. Trade and other payables at fair value through profit and loss have been mandatorily designated as at fair value through profit and loss.*

** *IFRS 7 disclosures relate to loans and advances and exclude the impact of repossessed vehicles on hand and ceded insurance contract liabilities. Refer to note 9: Loans and advances of the group consolidated financial statements for more detail. Comparative information has been updated accordingly.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.9 STATEMENT OF FINANCIAL POSITION CATEGORIES continued

	At fair value through profit and loss* Rm	At fair value through other comprehensive income Rm	Financial assets carried at amortised cost Rm	Financial liabilities carried at amortised cost Rm	Non financial liabilities or non financial assets Rm	Equity Rm	Total Rm
2019							
Assets							
Cash and cash equivalents	–	–	919	–	–	–	919
Tax receivables	–	–	–	–	26	–	26
Trade and other receivables	4	190	655	–	438	–	1 287
Inventories**	–	–	–	–	832	–	832
Loans and advances**	19	–	10 914	–	58	–	10 991
Purchased book debts	99	–	2 283	–	–	–	2 382
Other loans receivable	–	–	45	–	–	–	45
Equity accounted investments	–	–	–	–	92	–	92
Intangible assets	–	–	–	–	294	–	294
Property and equipment	–	–	–	–	172	–	172
Goodwill	–	–	–	–	1 152	–	1 152
Deferred tax assets	–	–	–	–	271	–	271
Total assets	122	190	14 816	–	3 335	–	18 463
Equity and liabilities							
Liabilities							
Bank overdrafts	–	–	–	381	–	–	381
Other short-term borrowings	–	–	–	76	–	–	76
Tax payables	–	–	–	–	16	–	16
Trade and other payables	1	–	–	472	236	–	709
Provisions	–	–	–	–	53	–	53
Insurance contract liabilities**	–	–	–	–	537	–	537
Interest-bearing liabilities	–	–	–	10 804	–	–	10 804
Lease liabilities	–	–	–	2	–		2
Deferred tax liabilities	–	–	–	–	413	–	413
Total liabilities	1	–	–	11 735	1 255	–	12 991
Equity							
Ordinary share capital	–	–	–	–	–	1 103	1 103
Other reserves	–	–	–	–	–	179	179
Retained earnings	–	–	–	–	–	3 614	3 614
Equity attributable to ordinary equity holders of the parent	–	–	–	–	–	4 896	4 896
Non-controlling interest	–	–	–	–	–	576	576
Total equity	–	–	–	–	–	5 472	5 472
Total equity and liabilities	1	–	–	11 735	1 255	5 472	18 463

* *Loans and advances and purchased book debts at fair value through profit and loss have been designated as at fair value through profit and loss at initial recognition. Trade and other payables at fair value through profit and loss have been mandatorily designated as at fair value through profit and loss.*

** *IFRS 7 disclosures relate to loans and advances and exclude the impact of repossessed vehicles on hand and ceded insurance contract liabilities. Refer to note 9: Loans and advances of the group consolidated financial statements for more detail. Comparative information has been updated accordingly.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.10 LEVEL DISCLOSURE

2020	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets at fair value through profit and loss				
Loans and advances: entry-level vehicles	–	–	17	17
Other Financial Assets	–	–	170	170
Derivatives**	–	24	–	24
Financial assets at fair value through other comprehensive income				
Derivatives	–	348	–	348
Total financial assets	–	372	187	559
Financial liabilities at fair value through profit and loss				
Derivatives***	–	16	–	16
Interest bearing liabilities (vendor finance)*	–	350	–	350
Deferred consideration*	–	40	–	40
Financial liabilities at fair value through other comprehensive income				
Derivatives**	–	19	–	19
Total financial liabilities	–	425	–	425

2019	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets at fair value through profit and loss				
Loans and advances: entry-level vehicles	–	–	19	19
Other Financial Assets	–	–	99	99
Derivatives	–	4	–	4
Financial assets at fair value through other comprehensive income				
Derivatives	–	190	–	190
Total financial assets	–	194	118	312
Financial liabilities at fair value through profit and loss				
Derivatives	–	1	–	1
Total financial liabilities	–	1	–	1

* *The deferred consideration and vendor finance relate to the investment into WeBuyCars. Refer to note 12 for further details.*

Derivatives:

** *The group enters into derivative financial instruments with different counterparties. Interest rate swaps and cross-currency swaps are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including the foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves.*

*** *The group provided an equity underpin to WeBuyCars (refer to note 12) which has been valued using the Black-Scholes model.*

VALUATION METHODS AND ASSUMPTIONS:

Loans and advances for entry-level vehicles: The fair value was calculated using an income approach (estimating and discounting future cashflow) as well as the average collateral value. These represent the significant unobservable parameters applied in the fair value model. The expected cash flows were estimated using a lifetime expected loss model which is consistent with the IFRS 9 provision methodology. The expected cashflows were then discounted at the market related discount rate of 25% to yield a fair value of the total loans and advances for entry level-vehicles. The outbreak of COVID-19 has had no impact on the average collateral values applied.

Other Financial Assets: The valuation of Other Financial Assets is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. These represent the significant unobservable parameters applied in the fair value model. The group estimates the expected cash flows by considering all the contractual terms of the financial instrument. The discount rate applied to the expected future cash flows reflects specific risk premiums relating to the asset. This includes government risk, single project customer, no previous experience with client and small stock premium for valuations less than R250 million. The discount rate applied to the additional purchase price is based on the current South African prime interest rate.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.10 LEVEL DISCLOSURE continued

RECONCILIATION OF LEVEL 3 FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS

2020	Fair value through profit or loss Rm	Fair value through other comprehensive income Rm	Total Rm
Opening balance	**118**	**–**	**118**
Total gains or losses			
In profit or loss	**(18)**	**–**	**(18)**
Other movements*	**87**	**–**	**87**
Closing balance of fair value measurement	**187**	**–**	**187**

2019	Fair value through profit or loss Rm	Fair value through other comprehensive income Rm	Total Rm
Opening balance	72	–	72
Total gains or losses			
In profit or loss	(39)	–	(39)
Other movements*	85	–	85
Closing balance of fair value measurement	118	–	118

* *Other movements include charges on accounts less collections received and write-off's on loans for entry-level vehicles as well as movements in Other Financial Assets.*

SENSITIVITY ANALYSIS OF VALUATIONS USING UNOBSERVABLE INPUTS

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

Movement in fair value given the 10% change in significant assumptions.

	2020		2019	
Loans and advances: entry-level vehicles	**10% Favourable Rm**	**10% Unfavourable Rm**	10% Favourable Rm	10% Unfavourable Rm
Significant unobservable input and description of assumption				
Average collateral value	**1**	**(1)**	1	(1)
Discount rate: the rate used to discount projected future cash flows to present value	**<1**	**<(1)**	1	(1)
Total	**1**	**(1)**	2	(2)

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

37 FINANCIAL RISK MANAGEMENT continued

37.10 LEVEL DISCLOSURE continued

SENSITIVITY ANALYSIS OF VALUATIONS USING UNOBSERVABLE INPUTS

	2020		2019	
Other financial assets	10% Favourable Rm	10% Unfavourable Rm	10% Favourable Rm	10% Unfavourable Rm
Significant unobservable input and description of assumption				
Cash flows: change in the expected revenue	**9**	**(9)**	4	(4)
Cash flows: change in expected costs	**1**	**(1)**	<1	(<1)
Discount rate: the rate used to discount projected future cash flows to present value	**4**	**(4)**	2	(2)
Total	**14**	**(14)**	6	(6)

Amounts less than R500 000 are reflected as "<1"

	2020 Rm	2019 Rm

38 RELATED PARTIES*

38.1 TRANSACTIONS WITH KEY MANAGEMENT

Blend Properties 17 (Pty) Ltd (Blend) owns properties occupied by certain group subsidiaries. JM Jawno, MP Mendelowitz and R Rossi, who are directors of Transaction Capital Limited, are directors of Blend. Their family trusts each own 19.4% (2019: 19.4%) of the issued share capital of Blend (58.1% in aggregate).

Transactions during the year	2020 Rm	2019 Rm
Rent paid	**23**	31

38.2 LOANS TO KEY MANAGEMENT

Terry Kier (CEO of SA Taxi) holds a direct investment in SA Taxi Holdings (Pty) Ltd of 1.2% as at 30 September 2020 (2019: 1.2%).

Terry owes a wholly-owned subsidiary of Transaction Capital an amount of R24 million as at 30 September 2020 (2019: R25 million). The loan was granted on an interest-free basis and will be repaid from dividends and proceeds from the shares or upon certain pre-determined events. Appropriate fringe benefits tax has been levied on the interest-free loan. The loan is secured by a cession over all of Terry Kier's rights, title and interest in and to the SA Taxi Holdings Proprietary Limited shares.

	2020 Rm	2019 Rm
Loan owed by key management at period end	**24**	25

38.3 REMUNERATION OF KEY MANAGEMENT PERSONNEL

Refer to note 28 where the remuneration of all key management is disclosed.

38.4 INVESTMENT IN EQUITY ACCOUNTED INVESTMENT

During the 2019 financial year Transaction Capital, through its wholly-owned subsidiary, Transaction Capital Risk Services Holdings (Pty) Ltd, entered into an arrangement with Genki Group Limited, a company owned by the respective trusts of Transaction Capital directors, Jonathan Jawno, Michael Mendelowitz and Roberto Rossi, in order to invest in European non-performing loan portfolios and special credit situations (collectively referred to as distressed debt) through TC Global Finance Limited.

	2020 Rm	2019 Rm
Value of the equity accounted investment at period end	**184**	22

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

		2020 Rm	2019 Rm
38	RELATED PARTIES* continued		
38.5	TRANSACTIONS WITH MINORITY SHAREHOLDERS		
38.5.1	Apex Partners (Pty) Ltd (Apex Partners) holds a 25% interest in Transaction Capital Specialised Finance (Pty) Ltd, a subsidiary of Transaction Capital Limited.		
	Transactions during the year		
	Shareholder loan owing to Apex Partners	**–**	1
	Interest paid to Apex Partners	**–**	<1
	Management fees paid to Apex Partners	**–**	2
	In addition to the transactions noted above, Principa was sold to Apex Partners for R36 million on 17 April 2020. Refer to the disposal of subsidiaries note 40 for further details.		
38.5.2	SANTACO holds a 17.3% effective interest in SA Taxi, a subsidiary of Transaction Capital Limited.		
	Transactions during the year		
	Loans advanced	**6**	–
	Impairment provision (Refer to note 11)	**(6)**	–
	Balance at the end of the year	**–**	–

Refer to note 27.3 of the company financial statements for further detail.

* *Intercompany transactions have been eliminated upon consolidation and are therefore not disclosed above.*

Amounts less than R500 000 are reflected as "<1"

39 BUSINESS COMBINATIONS

Business combinations are accounted for in accordance with the acquisition method of accounting. Subsidiaries are consolidated from the date on which the group acquires effective control of the entity. Consolidation ceases from the date control no longer exists. On acquisition the identifiable assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values. The cost of an acquisition is the fair value of the assets given, liabilities incurred or assumed and equity instruments issued. Any costs directly relating to the acquisition are expensed to profit and loss.

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

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

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

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

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

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

39 BUSINESS COMBINATIONS continued

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

Premiums or discounts arising on the acquisition of subsidiaries are treated in terms of the group's accounting policy for goodwill.

SUBSIDIARY ACQUIRED

Subsidiary	Acquirer	Principal activity	Date of acquisition	Proportion of voting equity interests acquired %	Consideration transferred Rm
Net1 Fihrst Holdings (Pty) Ltd (Fihrst)	Transaction Capital Payment Solutions (Pty) Ltd (TCPS)	Third Party Payment Provider (TPPP)	2019/12/01	**100**	**175**

TCPS acquired 100% of the voting equity in Fihrst during the current year. Fihrst is a South African payments solutions company specialising in third party payments. Fihrst has the potential to unlock value through synergies with TCPS to be realised from cost efficiencies and revenue uplift from interest income, gaining access to a client base of approximately 480 clients which are new to the group. Fihrst is a well recognised brand and can be leveraged to win additional clients as well as penetrate the existing client base with TCPS product offerings.

CONSIDERATION FOR IFRS 3 PURPOSES

	Rm
Cash	**187**
Total consideration	**187**

ASSETS ACQUIRED AND LIABILITIES RECOGNISED AT THE DATE OF ACQUISITION

	Rm
Current assets	
Cash and cash equivalents	**12**
Trade and other receivables	**5**
Prepayments	**1**
Non-current assets	
Property, plant and equipment	**<1**
Intangible assets	**<1**
Deferred taxation	**<1**
Current liabilities	
Trade and other payables	**(4)**
Provisions	**(2)**
Net assets acquired and liabilities recognised	**13**

Amounts less than R500 000 are reflected as "<1".

The initial accounting for the acquisition of Fihrst has been provisionally determined at the end of the financial year. For tax purposes, the tax values of certain Fihrst assets are required to be reset based on market values of the assets at the date of the acquisition. At the date of finalisation of these consolidated year-end results, the necessary market valuations and other calculations from a tax perspective had not been finalised and have therefore only been provisionally determined based on the directors' best estimate of the likely tax values.

The receivables acquired in this transaction have a fair value of R5 million. The receivables acquired compromise principally of trade receivables with a gross contractual amount of R5 million with no contractual cash flows not expected to be collected.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

39 BUSINESS COMBINATIONS continued

ASSETS ACQUIRED AND LIABILITIES RECOGNISED AT THE DATE OF ACQUISITION continued

GOODWILL ARISING ON ACQUISITION

	Rm
Consideration for IFRS 3 purposes	187
Less: intangible assets identified from business combinations	(78)
Plus: deferred tax on intangible assets identified from business combinations	20
Plus: contingent liabilities raised in terms of IFRS 3 (included as part of trade and other payables. Refer to note 18 of the group consolidated financial statements)	23
Plus: other payables raised in terms of IFRS 3	6
Less: fair value of identifiable net assets recognised	(13)
Goodwill arising on acquisition	**145**

The consideration transferred for the business combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development and the assembled workforce of Fihrst. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

NET CASH OUTFLOW ON ACQUISITION OF SUBSIDIARY

	Rm
Consideration paid in cash	187
Less: cash and cash equivalents balance acquired	(12)
Net cash outflow	**175**

IMPACT OF ACQUISITION ON THE RESULTS OF THE GROUP

Included in profit attributable to ordinary shareholders of the group for the year ended 30 September 2020 is R10 million attributable to Fihrst. Revenue for the period includes R45 million in respect of Fihrst.

Had the business combination been effected at 1 October 2019, revenue for the group would have been R5 551 million, and the total profit for the year attributable to ordinary equity holders of the group from continuing operations would have been R247 million. The directors consider these pro forma numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

40 DISPOSAL OF SUBSIDIARIES

The group disposed of Principa Decisions (Pty) Ltd (Principa) on 17 April 2020, Company Unique Finance (Pty) Ltd (CUF) on 1 July 2020 and TC Property Mezz Partners on 30 September 2020. The group disposed of The Beancounter on 1 November 2018 in the previous financial year.

The net assets of these subsidiaries at the date of disposal were as follows:***

	2020 Principa Rm	2020 CUF Rm	2020 Total Rm	2019 The Beancounter Rm
Net assets derecognised:				
Cash and cash equivalents	(3)	–	(3)	(2)
Trade and other receivables	(28)	(3)	(31)	(1)
Goodwill	(5)	–	(5)	–
Loans and advances	–	(10)	(10)	–
Purchased book debts	–	(16)	(16)	
Intangible assets	(33)	–	(33)	(1)
Deferred tax assets	–	(1)	(1)	–
Property and equipment	(5)	–	(5)	(1)
Interest-bearing liabilities	2	–	2	–
Trade and other payables	23	–	23	–
Provisions	2	–	2	–
Deferred tax liabilities	2	–	2	–
Total	(45)	(30)	(75)	(5)
Profit/(loss) on disposal of subsidiary*				
Consideration received	36	14	50	10
Net assets disposed of	(45)	(30)	(75)	(5)
Non-controlling interest	–	–	–	3
Total	(9)	(16)	(25)	8
Total consideration was satisfied by:				
Cash and cash equivalents	19	14	33	10
Deferred consideration**	17	–	17	–
Net cash inflow arising on disposal				
Consideration received in cash and cash equivalents	19	14	33	10
Less: cash and cash equivalents disposed of	(3)	–	(3)	(2)
Total	16	14	30	8

* *The (loss)/gain on the disposal is included in "(loss)/profit from discontinued operations" in the consolidated income statement. Also refer to note 17 of the group consolidated financial statements.*

** *The deferred consideration will be settled in cash by the purchaser on or before 31 October 2021.*

*** *Amounts relating to the disposal of TC Property Mezz Partners are all less than R500 000 and are therefore not separately disclosed.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

41 SEGMENT REPORT

The group is organised on the basis of products and services and the segments have been identified on this basis as reported to the chief executive officer (considered the chief operating decision maker). The principal business units in the group are as follows:

SA TAXI

- A vertically integrated taxi platform incorporating a unique blend of vehicle procurement, retail, repossession and refurbishment capabilities with asset-backed developmental finance and insurance competencies for focused vehicle types.
- Revenue is mainly derived from interest earned on financing of vehicles and non-interest revenue streams, including revenue from the sale of vehicles, telematics services and insurance products.

TRANSACTION CAPITAL RISK SERVICES

- Transaction Capital Risk Services acts both as an agent on an outsourced contingency or fee-for-service (FFS) basis, and as a principal in acquiring and then collecting on credit-impaired loan portfolios.
- Revenue from credit-impaired loans comprises payments received from debtors including amounts in respect of interest and cost recoveries.
- To support the broader working capital life cycle of Small and Medium-Sized Enterprises (SMEs), Transaction Capital Risk Services (TCRS) also provides payment solutions, payroll-related services and financing solutions.
- Value-added services generate a stable source of subscription income, whilst providing access to greater market depth.

Transaction Capital Business Solutions (TCBS), Principa Decisions (Principa) and Company Unique Finance (CUF) were classified as discontinued operations during the current year. Refer to note 17 for further detail on discontinued operations.

WEBUYCARS

- Transaction Capital Motor HoldCo (Pty) Ltd holds a 49.9% non-controlling interest in WeBuyCars.
- Buyer, distributor and retailer of vehicles, which also offers financial and other allied products.
- Revenue comprises mainly of risk adjusted gross margin on vehicle sales (vehicle margin), with additional gross margin earned on add-on products (product margin). The latter includes agency fees earned from finance, insurance related and allied products (F&I products) sold on behalf of major banks providing asset-backed and unsecured vehicle finance, leading insurance providers as well as vehicle tracking businesses.

GROUP EXECUTIVE OFFICE

- The group executive office provides an efficient capital management and treasury function for entities within the group, in addition to administrative and management services.
- Revenue comprises mainly of interest income and management fees from subsidiaries, the majority of which is eliminated on group consolidation.

The composition of reportable segments changed during the current financial year. TC Global Finance and TC Property Mezz Partners, previously reported as part of Transaction Capital Risk Services, are now reported as part of the Group Executive Office (GEO) segment. Comparative data has been restated accordingly. TC Property Mezz Partners was disposed of as at 30 September 2020. Refer to note 40 for further detail.

Specialised credit, and the related allocation of capital, is considered to be a key long-term strategic initiative of the group. As TC Global Finance continue to gain traction in the market, the decision has therefore been taken to further nurture this business within GEO, where capital deployment remains a vital initiative.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

41 SEGMENT REPORT continued

	SA Taxi		Transaction Capital Risk Services		WeBuyCars*****		Group executive office***		Intergroup eliminations		Group	
	2020 Rm	2019 Rm	2020 Rm	2019 Restated* Rm	2020 Rm	2019 Rm	2020 Rm	2019 Restated* Rm	2020 Rm	2019 Rm	2020 Rm	2019 Restated** Rm
Summarised income statement For the year ended 30 September												
Net interest income/(expense)	**1 358**	1 217	**(158)**	(97)	**(1)**	–	**65**	75	**–**	–	**1 264**	1 195
Impairment of loans and advances	**(836)**	(322)	**–**	–	**–**	–	**–**	–	**–**	–	**(836)**	(322)
Non-interest revenue	**609**	584	**2 385**	2 018	**–**	–	**4**	–	**(11)**	–	**2 987**	2 602
Operating costs****	**(850)**	(896)	**(2 180)**	(1 512)	**–**	–	**(64)**	(17)	**11**	–	**(3 083)**	(2 425)
Non-operating profit	**–**	–	**–**	7	**5**	–	**–**	–	**–**	–	**5**	7
Equity accounted income/(loss)	**–**	–	**9**	3	**15**	–	**8**	1	**–**	–	**32**	4
Profit before tax	**281**	583	**56**	419	**19**	–	**13**	59	**–**	–	**369**	1 061
Profit for the year from continuing operations	**219**	419	**40**	312	**19**	–	**12**	42	**–**	–	**290**	773
Discontinued operations (Loss)/profit for the period from discontinued operations	**–**	–	**(87)**	14	**–**	–	**–**	–	**–**	–	**(87)**	14
Profit for the year	**219**	419	**(47)**	326	**19**	–	**12**	42	**–**	–	**203**	787

* Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations and a change in the composition of reportable segments per IFRS 8 – Segment Reporting.
** Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.
*** Group executive office numbers are presented net of group consolidation entries.
**** Impairment on goodwill of R3 million was recognised as part of operating costs in the SA Taxi income statement.
***** Profit before tax from WeBuyCars comprises:

	2020 Rm
Share of operating profit after tax (11 September 2020 to 30 September 2020)	**10**
Share of mark-to-market of 16 467 000 Transaction Capital ordinary shares******	**5**
Mark-to-market of derivative liability******	**5**
Interest expense on preference share liability (vendor finance) and deferred consideration******	**(1)**
Profit before tax	**19**

****** Refer to note 12.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

41 SEGMENT REPORT continued

	SA Taxi		Transaction Capital Risk Services		WeBuyCars		Group executive office**		Intergroup eliminations		Group	
	2020 Rm	2019 Rm	2020 Rm	2019 Restated* Rm	2020 Rm	2019 Rm	2020 Rm	2019 Restated* Rm	2020 Rm	2019 Rm	2020 Rm	2019 Restated** Rm
Summarised statement of financial position												
At 30 September												
Assets												
Cash and cash equivalents	1 425	693	332	194	–	–	37	32	–	–	1 794	919
Trade and other receivables	1 185	965	335	317	–	–	17	19	(15)	(14)	1 522	1 287
Inventories	1 030	831	2	1	–	–	–	–	–	–	1 032	832
Loans and advances	11 545	10 412	–	579	–	–	–	–	–	–	11 545	10 991
Purchased book debts	–	–	2 520	2 382	–	–	–	–	–	–	2 520	2 382
Equity accounted investments	–	–	94	70	1 875	–	184	22	–	–	2 153	92
Other assets	1 112	885	1 833	1 036	–	–	3 751	2 727	(3 705)	(2 688)	2 991	1 960
Total assets	16 297	13 786	5 116	4 579	1 875	–	3 989	2 800	(3 720)	(2 702)	23 557	18 463
Liabilities												
Bank overdrafts	186	99	201	282	–	–	–	–	–	–	387	381
Trade and other payables	304	275	266	396	54	–	75	49	(13)	(11)	686	709
Insurance contract liabilities	374	537	–	–	–	–	–	–	–	–	374	537
Interest-bearing liabilities	12 334	9 929	2 208	1 799	350	–	216	–	(469)	(924)	14 639	10 804
Senior debt	11 435	9 249	1 893	1 038	350	–	216	–	–	–	13 894	10 287
Subordinated debt	745	517	–	–	–	–	–	–	–	–	745	517
Group loans	154	163	315	761	–	–	–	–	(469)	(924)	–	–
Lease liabilities	162	–	255	2	–	–	–	–	–	–	417	2
Other liabilities	210	192	470	361	–	–	2	4	(1)	1	681	558
Total liabilities	13 570	11 032	3 400	2 840	404	–	293	53	(483)	(934)	17 184	12 991
Total equity	2 727	2 754	1 716	1 739	1 471	–	3 696	2 747	(3 237)	(1 768)	6 373	5 472

* *Restated for a change in the composition of reportable segments per IFRS 8 – Segment Reporting.*
** *Group executive office numbers are presented net of group consolidation entries.*

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

41 SEGMENT REPORT continued

GEOGRAPHICAL INFORMATION

The group operated in three principal geographical areas, South Africa, Australia and Europe. The group's total revenue by location and non-current assets by location are detailed below:

	Total revenue		Non-current assets	
	2020 Rm	2019 Restated* Rm	**2020 Rm**	2019 Rm
South Africa	**4 744**	4 384	**18 062**	14 648
Australia	**798**	571	**931**	730
Europe	**–**	–	**184**	21
Total	**5 542**	4 955	**19 177**	15 399

* *Restated for the recognition of discontinued operations in the current year per IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.*

42 GOING CONCERN

The annual financial statements were prepared on a going concern basis. Based on their assessment, the directors have no reason to believe that the company will not continue as a going concern in the foreseeable future. This assessment included an assessment of the relevance of its business models; the nature of the primary assets and the cash-flows generated from these assets as well as the company's balance sheet and the increased flexibility provided by additional liquidity measures implemented in response to COVID-19.

BUSINESS MODEL RELEVANCE

Most South Africans rely on public transport, with the minibus taxi industry being the largest and most vital service in the integrated public transport network. More commuters choose minibus taxis over bus or rail services due to competitive pricing, convenience and accessibility, with the industry providing more than 15 million trips a day. Over the past few months, COVID-19 has highlighted the indispensable nature of the minibus taxi industry as the dominant form of public transport. Spending on minibus taxi transport is non-discretionary for most South Africans, making this a defensive industry with minibus taxi operators remaining resilient in challenging economic conditions.

TCRS supports the effective functioning of consumer credit markets, the rehabilitation of indebted consumers and the freeing up of operational capacity and capital within its client-base to enable the ongoing advancement of consumer-credit. The TCRS business model, which operationalises this social contract, is highly relevant in the post-COVID-19 environment. With disposable income coming under pressure and escalated consumer debt levels becoming more prevalent, more consumers in South Africa and Australia will experience acute hardship. TCRS's clients will consequentially experience larger NPL flows combined with operational challenges arising from COVID-related restrictions and practicalities. TCRS's extensive collections infrastructure, including its comprehensive remote-working capability and scalable data and analytics platforms, positions it well to secure and grow agency collections and to acquire NPL Portfolios as the economic impact of COVID-19 unfolds and matures into the NPL space.

Refer to note 5.5.1 (Management Estimates) for the impact of COVID-19 on the group.

NATURE OF PRIMARY ASSETS

The absolute value of the primary balance sheet asset, gross loans and advances and the amount of cash to be collected will be preserved even if there is a need to collect on these assets over an extended period. This is evidenced by (i) the useful life of a minibus taxi which is in excess of nine years (108 months) versus an average loan term at origination of six years (72 months), and (ii) the fact that the company has an operational ability to further extend this life through its refurbishment capabilities.

Similarly, the absolute amount of cash emanating from our purchased book debts (PBDs) will not diminish but rather be collected over an extended period as short term collections are anticipated to reduce.

BALANCE SHEET AND LIQUIDITY

Along with the additional measures implemented to preserve liquidity in response to COVID-19, the group has sufficient liquidity and financial flexibility to support underlying business operations as at 30 September 2020.

Refer to the liquidity risk management in note 37.3.

Notes to the consolidated financial statement continued

FOR THE YEAR ENDED 30 SEPTEMBER 2020

43 SUBSEQUENT EVENTS

43.1 We are pleased to announce Royal Bafokeng Holdings' (RBH) acquisition of 1.8% (representing 12 million ordinary shares) in Transaction Capital via a secondary purchase of shares in the market. This transaction became effective on 20 November 2020.

43.2 No other events which would have a material impact on either the financial position or operating results of the company have taken place between 30 September 2020 and the date of release of this report. The group is continuing to monitor the impact of COVID-19 on demand for its services, and has not been significantly impacted, after year-end by the evolving situation surrounding COVID-19. Refer to note 42 for the business model relevance.

Company statement of financial position

AT 30 SEPTEMBER

	Notes	2020 Rm	2019 Rm
Assets			
Cash and cash equivalents	1	**1**	1
Tax receivables		**3**	–
Trade and other receivables	2	**5**	6
Investments in subsidiaries	3	**3 248**	1 774
Group loans		**588**	913
Total assets		**3 845**	2 694
Liabilities			
Tax payables		**–**	2
Trade and other payables	4	**11**	1
Interest-bearing liabilities	5	**215**	–
Senior debt		**215**	–
Group loans		**7**	7
Total liabilities		**233**	10
Equity			
Ordinary share capital	6	**2 028**	1 116
Other reserves		**99**	78
Retained earnings		**1 485**	1 490
Equity attributable to ordinary equity holders of the parent		**3 612**	2 684
Total equity		**3 612**	2 684
Total equity and liabilities		**3 845**	2 694

Company statement of comprehensive income

FOR THE YEAR ENDED 30 SEPTEMBER

	Notes	2020 Rm	2019 Rm
Interest income	7	**52**	83
Interest expense	7	**–**	(24)
Net interest income	7	**52**	59
Non-interest revenue	8	**201**	300
Other non-interest revenue	8	**201**	300
Operating costs	9	**(44)**	(33)
Profit before tax		**209**	326
Income tax expense	10	**(5)**	(11)
Profit for the year		**204**	315
Other comprehensive income		**–**	–
Total comprehensive income for the year		**204**	315

Company statement of changes in equity

FOR THE YEAR ENDED 30 SEPTEMBER

	Number of ordinary shares million	Ordinary share capital Rm	Share based payment reserve Rm	Retained earnings Rm	Total equity Rm
Balance at 30 September 2018	610.2	1 069	57	1 518	2 644
Total comprehensive income	–	–	–	315	315
Profit for the year	–	–	–	315	315
Grant of share appreciation rights and conditional share plans	–	–	45	–	45
Settlement of share appreciation rights	–	–	(24)	–	(24)
Dividends paid	–	–	–	(343)	(343)
Issue of shares	3.1	58	–	–	58
Repurchase of shares	(0.7)	(11)	–	–	(11)
Balance at 30 September 2019	**612.6**	**1 116**	**78**	**1 490**	**2 684**
Total comprehensive income	**–**	**–**	**–**	**204**	**204**
Profit for the year	**–**	**–**	**–**	**204**	**204**
Grant of share appreciation rights and conditional share plans		**–**	**61**	**–**	**61**
Settlement of share appreciation rights and conditional share plans		**–**	**(40)**	**–**	**(40)**
Dividends paid	**–**	**–**	**–**	**(209)**	**(209)**
Issue of shares	**50.9**	**954**	**–**	**–**	**954**
Repurchase of shares	**(2.0)**	**(42)**	**–**		**(42)**
Balance at 30 September 2020	**661.5**	**2 028**	**99**	**1 485**	**3 612**

Company statement of cash flows

FOR THE YEAR ENDED 30 SEPTEMBER

	Notes	2020 Rm	2019 Restated* Rm
Cash flow from operating activities			
Cash generated by operations	11	**(35)**	(24)
Interest received		**52**	83
Interest paid		**–**	(24)
Income taxes paid	12	**(10)**	(9)
Dividends received		**193**	293
Dividends paid	13	**(209)**	(343)
Cash flow from operating activities before changes in operating assets and working capital		**(9)**	(24)
Changes in working capital		**11**	(17)
Decrease/(increase) in trade and other receivables		**1**	(6)
(Decrease)/increase in trade and other payables		**10**	(11)
Net cash utilised by operating activities		**2**	(41)
Cash flow from investing activities			
Settlement of group loans owing from subsidiaries		**323**	491
Net cash utilised by investing activities		**323**	491
Cash flow from financing activities			
Proceeds from interest-bearing liabilities		**215**	–
Settlement of interest-bearing liabilities		**–**	(378)
Additional investments in subsidiaries		**(1 122)**	(119)
Repurchase of shares		**(42)**	(11)
Issue of shares		**624**	58
Net cash generated by financing activities		**(325)**	(450)
Net decrease in cash and cash equivalents		**–**	–
Cash and cash equivalents at the beginning of the year	1	**1**	1
Cash and cash equivalents at the end of year*	1	**1**	1

* *Restated to present interest received and interest paid separately on the face of the statement of cash flow in line with IAS 7 – Statement of Cash Flow paragraph 31.*

Notes to the company financial statements

FOR THE YEAR ENDED 30 SEPTEMBER

		2020 Rm	2019 Rm
1	CASH AND CASH EQUIVALENTS		
	Bank balances	**1**	1
	Net cash and cash equivalents	**1**	1
	Total overdraft facilities	**–**	–
	Ceded as part security for loans as shown in note 5.		
2	TRADE AND OTHER RECEIVABLES		
	Trade receivables	**2**	–
	Prepayments	**2**	6
	VAT receivable	**1**	–
	Total trade and other receivables	**5**	6
	The carrying value of trade and other receivables approximates fair value as these are short-term in nature and not subject to material changes in credit risk and fair value.		
3	INVESTMENT IN SUBSIDIARIES		
	Shares at carrying value	**3 248**	1 774
	Total investments in subsidiaries	**3 248**	1 774
	Refer to note 15 for a schedule of subsidiaries, detailing movement in investments in subsidiaries from prior year.		
4	TRADE AND OTHER PAYABLES		
	Trade payables and accruals	**11**	1
	Trade and other payables	**11**	1

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. For most suppliers no interest is charged on the trade payables for the first 30 days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates. The group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

		Notes	2020 Rm	2019 Rm
5	**INTEREST-BEARING LIABILITIES**			
	Type of loan			
	Loans	5.1	**215**	–
	Total interest-bearing liabilities		**215**	–
	Classes of interest-bearing liabilities			
	Senior debt	5.1	**215**	
	Total interest-bearing liabilities		**215**	
	Maturity profile			
	Payable within 12 months		**–**	–
	Payable thereafter		**215**	–
	Total interest-bearing liabilities		**215**	–

RESTRICTIVE FUNDING ARRANGEMENTS

During the current and prior year, the group was party to the following restrictive funding arrangements as defined by the JSE listing requirements.

Lender	Borrower	Maturity date	Rm	Restrictive conditions
2020				
ABSA Bank Limited	Transaction Capital Limited	2021/12/31	108	▷ The borrower may not enter into certain corporate actions, activities and/or events without prior written consent of the lender.
Standard Bank of South Africa Limited	Transaction Capital Limited	2021/12/31	108	▷ The borrower may not enter into certain corporate actions, activities and/or events without prior written consent of the lender.

5.1	Type of loan	Description	Date issued	Interest rate	Maturity date		Carrying value Rm
	2020						
	Loans						
	Senior	Revolving	2020/09/11	3 Month JIBAR plus 0.25% to 1.25%	2021/12/31	ZAR	**108**
	Senior	Revolving	2020/09/11	3 Month JIBAR plus 0.25% to 1.25%	2021/12/31	ZAR	**108**
	Total						**215**
	Total interest-bearing liabilities						**215**

5.1	Type of loan	Description	Date issued	Interest rate	Maturity date	Carrying value Rm
	2019					
	Loans					
	Total					
	Total interest-bearing liabilities					

The company was not during the year or at year end in breach or default of any provisions of the terms or conditions of the agreements governing borrowings that will change the timing or amount of cash flows.

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

		2020 Rm	2019 Rm
6	ORDINARY SHARE CAPITAL		
	Authorised		
	1 000 000 000 ordinary shares		
	Issued		
	661 496 331 (2019: 612 654 644) ordinary shares		
	Ordinary share capital	**2 028**	1 116
	Ordinary share capital	**2 028**	1 116

		2020		2019	
		Number of shares million	Share capital Rm	Number of shares million	Share capital Rm
6.1	RECONCILIATION OF ORDINARY SHARE CAPITAL				
	Balance at the beginning of the year	**612.6**	**1 116**	610.2	1 069
	Shares issued in settlement of the Share Appreciations Rights Plan obligation and Conditional Share Plan (Note 6.1.1)	**3.5**	**74**	3.1	58
	Shares issued to subsidiaries (Note 6.1.2)	**16.5**	**329**	–	–
	Equity raised through accelerated bookbuild (Note 6.1.3)	**30.9**	**551**	–	–
	Shares repurchased in the open market and cancelled (Note 6.1.4)	**(2.0)**	**(42)**	(0.7)	(11)
	Balance at the end of the year	**661.5**	**2 028**	612.6	1 116

6.1.1 In terms of specific authority received from shareholders on the adoption of the Transaction Capital Share Appreciation Rights Plan and Transaction Capital Conditional Share Plan, a total of 3 596 599 shares were issued to participants/employees as part of respective vestings at an average price of R20.51 per share.

6.1.2 On 11 September 2020 Transaction Capital issued 16 467 000 shares to Transaction Capital Motor HoldCo Proprietary Limited at a price of R20.00 per share (before share issue costs) in respect of the WeBuyCars acquisition. The 16 467 000 shares were in turn transferred to WeBuyCars as part of the total purchase consideration of R1.86 billion. Refer to note 12 (equity accounted investments of the consolidated annual financial statements) for further details.

6.1.3 On 19 June 2020 Transaction Capital raised equity in the form of 30 754 064 shares through the issue of new ordinary shares to qualifying investors through an accelerated bookbuild. The ordinary shares were priced at R18.20 per share (before share issue costs), a 2.2% premium to the pre-launch 30 business day volume weighted average price of R17.80 as at market close on 17 June 2020. The equity raise was completed under the company's general authority to issue shares for cash approved by Transaction Capital shareholders at the annual general meeting of the company held on 11 March 2020.

6.1.4 All shares repurchased and cancelled reverted to authorised unissued shares. The average purchase price of the 1 975 976 shares repurchased on the open market was R21.36 per share.

All Rand value amounts for share capital issued is net of share issue costs.

PREFERENCE SHARE CAPITAL

Authorised

10 000 000 cumulative, non-participating, non-convertible preference shares of no par value

Issued

Nil (2019: nil) preference shares

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

		Notes	2020 Rm	2019 Rm
7	**INTEREST**			
	Interest income is earned from:			
	Cash and cash equivalents		**4**	5
	Other		**48**	78
	Total interest income		**52**	83
	Interest expense are paid on:			
	Interest-bearing liabilities		**–**	(22)
	Other		**–**	(2)
	Total interest expense		**–**	(24)
	Interest income		**52**	83
	Interest expense		**–**	(24)
	Net interest income		**52**	59
8	**NON-INTEREST REVENUE**			
	Non-interest revenue comprises:			
	Total other non-interest revenue		**201**	300
	Fee income		**8**	7
	Dividends received – subsidiaries		**193**	293
	Total non-interest revenue		**201**	300
9	**OPERATING COSTS**			
	Operating costs comprise:			
	Audit fees		**(1)**	(1)
	Bank charges		**(1)**	(1)
	Management fees – Intergroup*		**(20)**	(16)
	Non-executive directors' fees		**(6)**	(6)
	Professional fees – legal		**(1)**	(2)
	Other operating costs		**(15)**	(7)
	Total operating costs		**(44)**	(33)

* Management fees paid to group companies are based on certain costs and services incurred by subsidiary companies on behalf of the company.

		Notes	2020 Rm	2019 Rm
10	**INCOME TAX EXPENSE**			
	South African normal taxation:			
	Current taxation		**(5)**	(11)
	Current year		**(5)**	(11)
	Total income tax expense		**(5)**	(11)
	Tax rate reconciliation			
	Profit before tax from continuing operations		**209**	326
	South African tax		**(5)**	(11)
	Tax effects of:			
	Income not subject to tax*	Rm	**(54)**	(82)
	Expenses not deductible for tax purposes**	Rm	**–**	2
	Effective tax		**(59)**	(91)
	South African tax rate		**28.0%**	28.0%
	Tax effects of:			
	Income not subject to tax*		**25.8%**	(25.2%)
	Expenses not deductible for tax purposes**		**0.0%**	0.6%
	Effective tax rate		**2.2%**	3.4%

* Income not subject to tax consists dividends received.
** Expenses not deductible for tax purposes consist of funding costs, expenses incurred in the production of non-taxable income and interest and penalties.

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

	Notes	2020 Rm	2019 Restated Rm
11 CASH GENERATED BY OPERATIONS			
Profit before taxation		**209**	326
Adjusted for:			
Interest received		**(52)**	(83)
Interest paid		**–**	24
Other non-cash flow movements		**1**	2
Dividends received		**(193)**	(293)
Cash generated by operations		**(35)**	(24)

Restated prior period to present interest received and interest paid separately on the face of the statement of cash flow in line with IAS 7 – Statement of Cash Flows paragraph 31. Refer to note 11.1 below.

11.1 PRIOR PERIOD RESTATEMENT

The cash flow statement has been restated to present interest paid and interest received in line with the updated disclosure in the consolidated statement of cash flows (refer to note 32.3 of the group consolidated financial statements). Included below is the impact on the relevant presentation and disclosures.

	2019		
	As previously presented Rm	Adjustment Rm	Restated* Rm
Cash generated from operations			
Profit before taxation from continuing operations:	326	–	326
Adjusted for:			
Dividends received	(293)	–	(293)
Other non-cash flow movements	2	–	2
Interest income*	–	(83)	(83)
Interest expense*	–	24	24
Cash generated by operations	35	(59)	(24)
Cash flow from operating activities			
Cash generated by operations	35	(59)	(24)
Interest received*	–	83	83
Interest paid*	–	(24)	(24)
Income taxes paid	(9)	–	(9)
Dividends received	293	–	293
Dividends paid	(343)	–	(343)
Cash flow from operating activities before changes in operating assets and working capital	(24)	–	(24)

* *Not previously presented.*

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

		Notes	2020 Rm	2019 Rm
12	**INCOME TAXES PAID**			
	Amounts payable at the beginning of the year		**(2)**	–
	Charged in statement of comprehensive income		**(5)**	(11)
	Amounts (receivable)/payable at the end of the year		**(3)**	2
	Income taxes paid		**(10)**	(9)
13	**DIVIDENDS PAID**			
	Dividends paid to ordinary equity holders		**(209)**	(343)
	Total dividends paid		**(209)**	(343)

After extensive deliberation and in view of the uncertainty around the full impact of COVID-19, the board has opted to retain its capital and not to pay a dividend for the financial year ended 30 September 2020. This cautious and conservative approach to ensure adequate financial capacity and flexibility is aligned to the guidance of the Prudential Authority, in which financial services providers are directed to act prudently in preserving capital and focusing on financial and economic stability. The group will return to paying dividends in line with our policy in the next financial year.

A final dividend of 34 cents per share was declared in the prior financial year on 26 November 2019 for payment on 17 December 2019.

14 RELATED PARTIES

14.1 SUBSIDIARIES

Details of share ownership and loan balances are disclosed in note 15 and dividends paid in note 13.

The loans bear interest at rates agreed from time to time and are repayable on demand.

	Notes	2020 Rm	2019 Rm
The following income was received from subsidiaries:			
Interest			
TC Treasury Proprietary Limited		**48**	62
TC Corporate Support Proprietary Limited		**–**	15
Transaction Capital Specialised Finance Proprietary Limited		**–**	1
Fees			
TC Corporate Support Proprietary Limited		**8**	7
The following fees were paid to subsidiaries:			
TC Corporate Support Proprietary Limited		**(20)**	(16)

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

14 RELATED PARTIES continued

14.2 TRANSACTIONS WITH MINORITY SHAREHOLDERS

SANTACO holds a 17.3% effective interest in SA Taxi Holdings Proprietary Limited ("SA Taxi"), a subsidiary of Transaction Capital Limited.

TRANSACTIONS DURING THE YEAR

At the beginning of the financial year, the issued share capital of SA Taxi was held by the company, The Empire Family Trust ("Trust") and Industry SPV (RF) Limited.

Typically, SA Taxi declares a dividend during May/June and November/December each year to each of its shareholders, However, in light of the extraordinary circumstances prevailing during FY20 due to the COVID-19 lockdown, SA Taxi requested from its funders, a deferment of certain of its payment obligations, In agreeing to this deferment, the funders imposed a restriction on the declaration of dividends to the majority shareholder – being the company.

It is, however, imperative that Industry SPV receives its dividends from SA Taxi so its sole shareholder, Industry HoldCo, can pay the scheduled payments required in terms of the preference shares issued to the Pref Funders to avoid the Pref Funders calling an event of default.

The memorandum of incorporation of SA Taxi does not permit the distribution of dividends to be paid to some shareholders and not others. The distribution of a dividend to Industry SPV (RF) Limited is required to ensure that scheduled payments can be made to the preference shareholders within that entity. In addition, as it would be inequitable for Industry SPV to be the only shareholder to receive any distributions during the 2020 calendar year, SA Taxi elected to create a mechanism whereby the company and the Trust will be entitled to the dividends they would otherwise have received, had SA Taxi not been restricted from declaring and paying a dividend to all its shareholders during June 2020 and December 2020.

During June 2020, SA Taxi, in terms of section 36(3)(b) of the Companies Act, reclassified 1,001 of the no par value ordinary shares in the authorised but unissued stated capital to 1 A share ("A Share") and 1,000 B share ("B Share") in its authorised stated capital.

Subscription agreements were entered into with the SA Taxi shareholders as follows:

- Industry SPV, in terms of which Industry SPV subscribed for 1 A Share for a subscription price of R1.00 ("Industry SPV Subscription Agreement") (Industry SPV being the "A Shareholder"); and
- the company and the Trust, in terms of which the company subscribed for 985 B Shares for an aggregate subscription price of R985.00 and the Trust subscribed for 15 B Shares for an aggregate subscription price of R15.00 (the "the company and Trust Subscription Agreement") (the company and the Trust being the "B Shareholders").

Following the issuance of A and B shares in SA Taxi, the respective shareholdings of all parties continues to be the same as those noted prior to the share issuance.

For SA Taxi the rights attaching to the newly issued B Shares will entitle the B Shareholders to a dividend, which may only be declared after 31 December 2020 (after the Restricted Period), which dividend shall be calculated according to a basis that effectively grosses up the dividend declared to Industry SPV so that 75% of the grossed up amount is paid to B Shareholders (which represents the combined shareholding of the company and the Trust in SA Taxi).

SA Taxi shall, to the exclusion of the holders of the Ordinary Shares, the NVF Shares and the A Shares, pay the full amount of the B Shares Dividend to the B Shareholders pro rata to the number of B Shares held by them. After the declaration and payment of the once-off dividend no further economic rights attach to the B Shares, all distributions shall once again be paid to the holders of the Ordinary Shares and the NVF Shares.

The possible contractual obligation of SA Taxi to pay dividends to B Shareholders will be discharged by crediting a loan account in favour of each of the B Shareholders equal to their respective portion of the B Shares Dividend (the "Shareholder Loans"). On declaration of the B Shares Dividend – the contractual obligation will be made probable and at this point, the loan will be recognised as a financial liability in SA Taxi. The Shareholder Loans will be subordinated to all other loans of SA Taxi and attract interest (at a market related rate) in accordance with the shareholder loan agreements. The Shareholder Loans will be settled as and when SA Taxi has excess available cash to do so – these payments will be subordinated to the normal dividends which SA Taxi will be required to pay to all of its shareholders in terms of SA Taxi's dividend policy.

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

	Nature of business and status	Effective percentage held** 2020 %	Effective percentage held** 2019 %	Investment at cost 2020 Rm	Investment at cost 2019 Rm	Loans at carrying value 2020 Rm	Loans at carrying value 2019 Rm
15 SUBSIDIARIES AND ASSOCIATES							
TRANSACTION CAPITAL LIMITED	H/T						
SA TAXI							
SA Taxi Holdings Proprietary Limited	*/H/T	**73.9**	73.9	**780**	775	**–**	–
Taximart Proprietary Limited	T	**100**	100				
Black Elite Benefits Proprietary Limited	T	**100**	100				
SA Taxi Securitisation (RF) Proprietary Limited	#/T	**100**	100				
SA Taxi Finance Solutions (RF) Proprietary Limited	#/T	**100**	100				
SA Taxi Development Finance Proprietary Limited	T	**100**	100				
SA Taxi Protect Proprietary Limited	T	**100**	100				
Bompas Collections Proprietary Limited	D	**100**	100				
SA Taxi Finance Insurance Brokers Proprietary Limited	D	**100**	100				
SA Forklifts Proprietary Limited	D	**100**	100				
Potpale Investments (RF) Proprietary Limited	#/T	**100**	100				
SA Taxi Warehouse Company Security (RF) Proprietary Limited	#/D	**100**	100				
SA Taxi Impact Fund (RF) Proprietary Limited	#/T	**100**	100				
SA Taxi Rewards Proprietary Limited	#/T	**100**	100				
Transsec Proprietary Limited	T	**100**	100				
Transsec 2 (RF) Limited	#/T	**100**	100				
Transsec 3 (RF) Limited	#/T	**100**	100				
Transsec 4 (RF) Limited	#/T	**100**	100				
Keywood (RF) Proprietary Limited	#/T	**100**	100				
Keywood 2 (RF) Proprietary Limited	#/T	**100**	100				
Zebra Cabs Proprietary Limited	^	**100**	100				
Transflow (RF) Proprietary Limited	#/T	**100**	100				
TRANSACTION CAPITAL RISK SERVICES							
Transaction Capital Risk Services Holdings Proprietary Limited	*/H	**100**	100	**1 000**	988	**7**	7
Transaction Capital Property Mezz Partners Proprietary Limited[1]	N/A	**–**	100				
Transaction Capital Risk Services Proprietary Limited	H	**100**	100				
Transaction Capital Recoveries Proprietary Limited	T	**100**	100				
Transaction Capital Payment Solutions Proprietary Limited	T	**100**	100				
Net1 Fihrst Holdings Proprietary Limited[2]	T	**100**	–				
Accsys Proprietary Limited	T	**100**	100				
Principa Decisions Proprietary Limited[3]	N/A	**–**	100				
Transaction Capital Business Solutions Proprietary Limited	T	**100**	100				
Dubrovnik Properties Proprietary Limited	D	**100**	100				
Rand Trust Securitisation Proprietary Limited	D	**100**	100				
MBD Legal Collections Proprietary Limited	T	**100**	100				
Levitic Investments Proprietary Limited	T	**100**	–				
Origin Eight Financial Services Proprietary Limited	T	**100**	100				
Transaction Capital Recoveries Proprietary Limited (Botswana)	T	**100**	100				
Exovic Investments Proprietary Limited	T	**100**	–				
Collection and Financial Services Proprietary Limited	D	**100**	100				

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

	Nature of business and status	Effective percentage held** 2020 %	Effective percentage held** 2019 %	Investment at cost 2020 Rm	Investment at cost 2019 Rm	Loans at carrying value 2020 Rm	Loans at carrying value 2019 Rm
15 SUBSIDIARIES AND ASSOCIATES continued							
TRANSACTION CAPITAL LIMITED continued							
RC VAS Holdings Proprietary Limited	H	**75**	75				
RC Value Added Services Proprietary Limited	T	**100**	100				
RC VAS Direct Proprietary Limited	T	**100**	100				
Capital Data Asset Recovery Management Proprietary Limited	^	**–**	100				
Asset Solutions Company Proprietary Limited	^	**–**	100				
Mortgage Capital Proprietary Limited[4]	N/A	**–**	100				
Specialised Mortgage Capital Proprietary Limited	^	**–**	100				
Company Unique Finance Proprietary Limited[4]	N/A	**–**	100				
Afribrokers Proprietary Limited[4]	N/A	**–**	100				
Generow Investments Proprietary Limited	H	**100**	–				
Transaction Capital Credit Health Proprietary Limited	T	**100**	100				
Transaction Capital Risk Services International Proprietary Limited	H/T	**100**	100				
Transaction Capital Risk Services Mauritius	H	**100**	100				
Transaction Capital Risk Services Australia Holdings Proprietary Limited	H	**100**	100				
Transaction Capital Australia Services Proprietary Limited	T	**100**	100				
Lanyana Financial Group Proprietary Limited (Australia)	T	**25**	25				
Recoveries Corporation Holdings Proprietary Limited[5]	H	**–**	100				
IRA Holdings Co Proprietary Limited (Australia)	^	**100**	100				
Recoveries Corporation Group Limited (Australia)	^	**100**	100				
Transaction Capital Finance Australia Proprietary Limited	T	**100**	100				
Recoveries Corporation Proprietary Limited (Australia)	T	**100**	100				
RCL Services PTE Limited (Fiji)	T	**100**	100				
Advanced Collections Systems Proprietary Limited (Australia)	T	**100**	100				
Mason Black Lawyers Proprietary Limited (Australia)	T	**100**	100				
RCL Law Proprietary Limited (Australia)	T	**100**	100				
MBL Office Services Proprietary Limited (Australia)	^	**100**	100				
RCL Services Proprietary Limited (Australia)	^	**–**	100				
Transaction Capital Risk Services Australia Holdings 2 Proprietary Limited (Australia)	H	**100**	100				
TC Global Finance Limited (British Virgin Islands)	T	**50**	50				

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

	Nature of business and status	Effective percentage held** 2020 %	Effective percentage held** 2019 %	Investment at cost 2020 Rm	Investment at cost 2019 Rm	Loans at carrying value 2020 Rm	Loans at carrying value 2019 Rm
15 SUBSIDIARIES AND ASSOCIATES continued							
TRANSACTION CAPITAL LIMITED continued							
TRANSACTION CAPITAL MOTOR HOLDCO							
Transaction Capital Motor HoldCo Proprietary Limited	*/T	**100**	–	**1 452**	–	**–**	–
We Buy Cars Proprietary Limited[6]	T	**49.9**	–				
GROUP EXECUTIVE OFFICE							
TC Corporate Support Proprietary Limited	*/T	**100**	100	**11**	7	**–**	–
TC Treasury Proprietary Limited	*/T	**100**	100	**<1**	<1	**577**	901
Bayport Financial Services Proprietary Limited	*/D	**100**	100	**4**	4	**–**	–
TC Executive Holdings Proprietary Limited	*/D	**100**	100	**<1**	<1	**–**	–
Transaction Capital Business Partners Proprietary Limited	*/D	**100**	100	**<1**	<1	**–**	–
TransCapital Investments Limited	*/T	**100**	100	**<1**	<1	**4**	3
Transaction Capital Specialised Finance Proprietary Limited	*/T	**75**	75	**2**	<1	**–**	2
Red Sky Finance Proprietary Limited	*/D	**100**	100	**<1**	<1	**–**	–
Ellehove Investments Proprietary Limited	D	**100**	100	**–**	–	**(7)**	(7)
Total				**3 248**	1 774	**581**	906

* *Directly held*
\# *Consolidated special purpose entity*
H *Holding company*
T *Trading company*
D *Dormant company*
^ *Deregistered/in the process of being deregistered*

Amounts less than R500 000 are reflected as a "<1".

1. *Transaction Capital Property Mezz Partners Proprietary Limited was disposed of on 30 September 2020. Refer to the disposal of subsidiary note 40 in the group annual financial statements for further details in this regard.*
2. *Net1 Fihrst Holdings Proprietary Limited was acquired on 1 December 2019. Refer to the business combinations note 39 in the group annual financial statements for further details in this regard.*
3. *Principa Decisions Proprietary Limited was disposed of on 1 November 2018. Refer to the disposal of subsidiary note 40 in the group annual financial statements for further details in this regard.*
4. *Mortgage Capital Proprietary Limited, Company Unique Finance Proprietary Limited and Afribrokers Proprietary Limited were disposed of on 21 July 2020. Refer to the disposal of subsidiary note 40 in the group annual financial statements for further details in this regard.*
5. *Formerly DLJ Holdings Proprietary Limited.*
6. *Refer to the equity accounted investment note 12 in the group annual financial statements for further details in this regard.*

** *Effective percentage held by immediate parent.*

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

16 FINANCIAL RISK MANAGEMENT

The board is responsible for risk management and the setting of the risk management framework. Oversight of risk management is the responsibility of two board sub-committees; the asset and liability committee (ALCO) and the audit, risk and compliance (ARC) committee. ALCO monitors risks associated with liquidity and funding, interest rates, counterparties, currency exposures and capital adequacy. The ARC committee monitors risks associated with financial reporting, accounting policies, internal control and IT governance. The ARC committee is responsible for risk management including setting the risk management framework, setting risk appetite and monitoring the group's management of risk including credit and compliance.

16.1 CREDIT RISK

Credit risk is the risk of loss arising from the failure of a client or counterparty to discharge an obligation to the company. It is not the company's strategy to avoid credit risk, but rather to manage credit risk within the group's risk appetite and to earn an appropriate risk-adjusted return. The company does not consider there to be any significant concentration of credit risk which has not been adequately provided for.

16.1.1 FINANCIAL ASSETS SUBJECT TO RISK

	Group Loans* Rm	**Other loans receivable Rm**	**Trade and other receivables** Rm**	**Purchased book debts Rm**	**Total Rm**
2020					
Neither past due nor impaired	**588**	**–**	**2**	**–**	**590**
Carrying value of financial assets	**588**	**–**	**2**	**–**	**590**

	Group Loans* Rm	Other loans receivable Rm	Trade and other receivables** Rm	Purchased book debts Rm	Total Rm
2019					
Neither past due nor impaired	913	–	6	–	919
Carrying value of financial assets	913	–	6	–	919

* *Group loans are all considered to be high quality.*

** *Prepayments and VAT receivables are not financial assets and therefore have been excluded from trade and other receivables.*

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

16 FINANCIAL RISK MANAGEMENT continued

16.2 INTEREST RATE RISK

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

The company is exposed to interest rate risk associated with the effects of fluctuations in the prevailing levels of market rates on future cash flows of a financial instrument and the fair value of the financial instrument based on changes in market interest rates.

16.2.1 RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The table below summarises the exposure to interest rate risk through grouping assets and liabilities into repricing categories, determined to be the earlier of contractual repricing date or maturity.

	Floating rate liabilities Rm	Floating rate assets Rm	Net floating rate assets Rm
2020	**233**	**591**	**358**
Total	**233**	**591**	**358**

	Floating rate liabilities Rm	Floating rate assets Rm	Net floating rate assets Rm
2019	8	914	906
Total	8	914	906

16.2.2 WEIGHTED AVERAGE INTEREST RATES

The table below summarises the weighted interest rate of bank balances and borrowings.

	2020		2019	
	Bank balances %	**Borrowings %**	Bank balances %	Borrowings %
Total	**2.8**	**7.3**	6.3	11.6

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

16 FINANCIAL RISK MANAGEMENT continued

16.2 INTEREST RATE RISK continued

16.2.3 INTEREST RATE SENSITIVITY ANALYSIS

The group's exposure to interest rate risks is set out below:

	Effect on profit before tax of 1% change in rates Rm	Total carrying value of assets and liabilities Rm
30 September 2020		
Assets		
Trade and other receivables	**<1**	**2**
Cash and cash equivalents	**<1**	**1**
Group loans	**6**	**588**
Total	**6**	**591**
Liabilities		
Interest-bearing liabilities	**2**	**215**
Floating rate liabilities	**2**	**215**
Group loans	**<1**	**7**
Trade and other payables*	**<1**	**11**
Total	**2**	**233**
Net exposure	**4**	**358**
30 September 2019		
Assets		
Cash and cash equivalents	<1	1
Group loans	9	913
Total	9	914
Liabilities		
Group loans	<1	7
Trade and other payables*	<1	1
Total	<1	8
Net exposure	9	906

The company uses a sensitivity analysis technique that measures the estimated change to profit or loss of an instantaneous change in market interest rates. The sensitivity analysis is prepared based on financial instruments that are recognised at the end of the reporting period. This is the case even where those exposures did not exist for the entire period or where the exposure changed materially during the period. The company is mainly exposed to fluctuations in the following market interest rates: prime, JIBAR, BLR and LIBOR rates. The sensitivity that is applied is the amount that could reasonably be expected to occur, and has been determined as 1% (100 basis points) up or down. The effect of a 1% change in interest rates is shown above. As the group has no control over rate movements, it cannot predict the effect of future rate movements, if any.

* *Revenue received in advance, deferred lease liabilities, VAT payables and bonus accruals are not financial liabilities and therefore have been excluded from trade and other payables.*

Amounts less than R500 000 are reflected as a "<1".

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

16 FINANCIAL RISK MANAGEMENT continued

16.3 LIQUIDITY RISK MANAGEMENT

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

The group's capital markets (CM) team is responsible for executing on fund raising mandates given to it by subsidiaries in support of respective business models. This includes the ongoing assessment and evaluation of various funding sources designed to grow and diversify the group's funding base to achieve an optimal funding profile and sound liquidity. The CM team is also responsible for the ongoing monitoring of asset portfolio performance and its obligations to funders, including covenants. Over several years, the CM team has developed strong relationships with funders and ensures equitable treatment of all funder partners.

The monitoring and reporting of liquidity risk takes the form of. as a minimum. cash flow projections to settlement of longest dated funding obligations by subsidiary or securitisation vehicle. an analysis of the group's borrowing facilities and utilisation thereof. borrowing facilities under discussion. maturity profile and concentration of liability by counterparty. asset maturities and borrowing facility obligations and special conditions."

The table below analyses financial liabilities at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	On demand Rm	**Within 1 year Rm**	**From 1 – 5 years Rm**	**More than 5 years Rm**	**Total Rm**
2020					
Liabilities					
Trade and other payables*	**11**	**–**	**–**	**–**	**11**
Group loans	**7**	**–**	**–**	**–**	**7**
Interest-bearing liabilities	**–**	**–**	**215**	**–**	**215**
Financial liabilities	**18**	**–**	**215**	**–**	**233**
Non-financial liabilities	**–**				**–**
Total liabilities	**18**	**–**	**215**	**–**	**233**

	On demand Rm	Within 1 year Rm	From 1 – 5 years Rm	More than 5 years Rm	Total Rm
2019					
Liabilities					
Trade and other payables*	1	–	–	–	1
Group loans	7	–	–	–	7
Financial liabilities	8	–	–	–	8
Non-financial liabilities	2		–	–	2
Total liabilities	10	–	–	–	10

* *Revenue received in advance, deferred lease liabilities (prior year), VAT payables and bonus accruals are not financial liabilities and therefore have been excluded from trade and other payables and included in the non-financial liabilities.*

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

16 FINANCIAL RISK MANAGEMENT continued

16.3 LIQUIDITY RISK MANAGEMENT continued

The company has access to financing facilities as described below, of which R180 million were unused as at 30 September 2020. The group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

	2020 Rm	2019 Rm
Secured bank loan facilities with various maturity dates through to 30 September 2021 and which may be extended by mutual agreement:		
Amount used	220	–
Amounts unused	180	–
Total	400	–

16.4 FAIR VALUE DISCLOSURE

	Carrying value 2020 Rm	Total fair value 2020 Rm	Carrying value 2019 Rm	Total fair value 2019 Rm
Assets				
Trade and other receivables*	2	2		
Cash and cash equivalents	1	1	1	1
Group loans	588	588	913	913
Total	591	591	914	914
Liabilities				
Interest-bearing liabilities	215	220		
Floating rate liabilities	215	220		
Trade and other payables**	11	11	1	1
Group loans	7	7	7	7
Total	233	238	8	8
Net exposure	358	353	906	906

Valuation methods and assumptions:

The fair value of interest-bearing liabilities is calculated based on future cash flows, discounted using a forward rate curve plus a valuation margin. The valuation margin is a consensus margin at which deals with similar remaining cash profiles could be secured in the market at the valuation date.

The carrying value of trade and other receivables, cash and cash equivalents, trade and other payables and bank overdrafts approximates fair value as they are short-term in nature and not subject to material changes in credit risk and fair value.

* *Prepayments and VAT receivables are not financial assets and therefore have been excluded from trade and other receivables.*

** *Revenue received in advance, deferred lease liabilities (prior year), VAT payables and bonus accruals are not financial liabilities and therefore have been excluded from trade and other payables.*

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

16 FINANCIAL RISK MANAGEMENT continued

16.5 STATEMENT OF FINANCIAL POSITION CATEGORIES

	Financial assets carried at amortised cost Rm	Financial liabilities carried at amortised cost Rm	Non-financial liabilities or non-financial assets Rm	Equity Rm	Total Rm
2020					
Assets					
Cash and cash equivalents	1	–	–	–	1
Tax receivables	–	–	3	–	3
Trade and other receivables	2	–	3	–	5
Investments in subsidiaries	–	–	3 248	–	3 248
Group loans	588	–	–	–	588
Total assets	591	–	3 254	–	3 845
Equity and liabilities					
Liabilities					
Trade and other payables	–	11	–	–	11
Interest-bearing liabilities	–	215	–	–	215
Group loans	–	7	–	–	7
Total liabilities	–	233	–	–	233
Equity					
Ordinary share capital	–	–	–	2 028	2 028
Other reserves	–	–	–	99	99
Retained earnings	–	–	–	1 485	1 485
Equity attributable to ordinary equity holders of the parent	–	–	–	3 612	3 612
Total equity	–	–	–	3 612	3 612
Total equity and liabilities	–	233	–	3 612	3 845

Notes to the company financial statements continued

FOR THE YEAR ENDED 30 SEPTEMBER

16 FINANCIAL RISK MANAGEMENT continued

16.5 STATEMENT OF FINANCIAL POSITION CATEGORIES continued

	Financial assets carried at amortised cost Rm	Financial liabilities carried at amortised cost Rm	Non-financial liabilities or financial assets Rm	Equity Rm	Total Rm
2019					
Assets					
Cash and cash equivalents	1	–	–	–	1
Trade and other receivables	–	–	6	–	6
Investments in subsidiaries	–	–	1 774	–	1 774
Group loans	913	–		–	913
Total assets	914	–	1 780	–	2 694
Equity and liabilities					
Liabilities					
Tax payables	–	–	2	–	2
Trade and other payables	–	1	–	–	1
Group loans	–	7	–	–	7
Total liabilities	–	8	2	–	10
Equity					
Ordinary share capital	–	–	–	1 116	1 116
Other reserves	–	–	–	78	78
Retained earnings	–	–	–	1 490	1 490
Equity attributable to ordinary equity holders of the parent	–	–	–	2 684	2 684
Total equity	–	–	–	2 684	2 684
Total equity and liabilities	–	8	2	2 684	2 694

17 GOING CONCERN

The annual financial statements were prepared on a going concern basis. Based on their assessment the directors have no reason to believe that the company will not continue as a going concern in the foreseeable future. The viability of the company is supported by the annual financial statements.

18 SUBSEQUENT EVENTS

No events which would have a material impact on either the financial position or operating results of the company have taken place between 30 September 2020 and the date of release of this report.

ADMINISTRATION

Share code: TCP
ISIN: ZAE000167391
JSE Limited sector: Financial Services
Listing date: 7 June 2012
Year-end: 30 September
Company registration number: 2002/031730/06
Country of incorporation: South Africa

DIRECTORS

EXECUTIVE

Sean Doherty (chief financial officer)
Mark Herskovits (chief investment officer)
David Hurwitz (chief executive officer)
Jonathan Jawno (executive director)
Michael Mendelowitz (executive director)

INDEPENDENT NON-EXECUTIVE

Buhle Hanise
Suresh Kana (lead independent non-executive director)
Ian Kirk
Phumzile Langeni
Kuben Pillay
Diane Radley
Christopher Seabrooke (chairman)
Sharon Wapnick

NON-EXECUTIVE

Roberto Rossi

COMPANY SECRETARY AND REGISTERED OFFICE

Sharon Nayger
342 Jan Smuts Avenue
Hyde Park
Johannesburg, 2196
(PO Box 41888, Craighall, 2024)

SPONSOR

Rand Merchant Bank (a division of FirstRand Bank Limited)
(Registration number 1929/001225/06)
1 Merchant Place
Corner Fredman Drive and Rivonia Road
Sandton, 2196
(PO Box 786273, Sandton, 2146)

LEGAL ADVISERS

Edward Nathan Sonnenbergs Inc.
(Registration number 2006/018200/21)
150 West Street
Sandton, 2196
(PO Box 783347, Sandton, 2146)

TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited
(Registration number 2004/003647/07)
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196
(PO Box 61051, Marshalltown, 2107)

INDEPENDENT AUDITORS

Deloitte & Touche
(Practice number 902276)
5 Magwa Crescent
Waterfall City, 2090
(Private Bag X6, Gallo Manor, 2052)

STUDIO 5

www.transactioncapital.co.za

342 Jan Smuts Avenue, Hyde Park, 2196
P. O. Box 41888, Craighall, 2024, South Africa
tel +27 (0) 11 049 6700 fax +27 (0) 11 049 6899

Transaction Capital