PRECINCT FUNDING 1 (RF) LIMITED
(Registration number 2012/079215/06)
AUDITED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

General Information

Country of incorporation and domicile	South Africa
Directors	RC Hayne (British) JRP Doidge R Thanthony BJ Korb H Ackermann (Alternate to RC Hayne) WH Swanepoel (Alternate to JRP Doidge
Registered office	135 Rivonia Road Sandown Sandton Gauteng 2196
Postal address	PO Box 1144 Johannesburg 2196
Holding company	The Securitisation Issuer Owner Trust incorporated in South Africa
Auditors	Deloitte & Touche Registered Auditors
Secretary	Nedgroup Secretariat Services Proprietary Limited
Company registration number	2012/079215/06
Level of assurance	These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.
Preparer	In terms of section 29(1)(e)(ii) of the Companies Act 71 of 2008 as amended, we confirm that the preparation of the following financial statements is the responsibility of GJ Rothman CA(SA), public officer of Precinct Funding 1 (RF) Limited.

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

Corporate Governance Report

Precinct Funding 1 (RF) Limited (the Company) is, as far as practically possible given the special purpose nature of the Company, fully committed to the principles of the Code of Corporate Practices and Conduct (the Code) as set out in the King III Report on Corporate Governance.

In supporting the Code, the directors recognise the need to govern the Company with integrity and in accordance with the generally accepted corporate practices.

The Company is a special purpose public company and is a subsidiary of The Securitisation Issuer Owner Trust. The Company has no employees and its management is outsourced to Nedbank Limited, acting through its Nedbank Capital Transaction Management division.

In the context of the above, the directors of the Company are of the opinion that the Company has complied with the principles and recommendations of the Code, in all material respects, with regards to the period under review.

1. Board of directors

The board consists of the following directors;
- Independent non-executive directors (three)
- Non-executive director (one)

The board has the following committee:
- Audit Committee

A Social and ethics committee was formed on 29 February 2016. The first meeting of the committee took place on 8 March 2016.

2. Compliance with King III

The company endeavours at all times to apply the principles of the King Code of Governance Principles for SA (King III Code/King III) in such a way that these requirements are met. For the period under review the board indicated that it was satisfied with the way in which the company applied the recommendations of King III, or put alternative measures in place where necessary.

In terms of the JSE Debt Listings Requirements, the company has complied with the King III Code, and is required to provide an explanation of which principles are not applied along with reasons for non-application. At 31 December 2015 the company did not apply the below principles.

Principles not applied	Reasons for Non-application
The board of directors does not have a board charter.	A board charter is currently being produced and it will be adopted in 2016.
The board should appoint the Chief Executive Officer (CEO).	The company is a ring fenced special purpose securitisation vehicle. All its services are outsourced to Nedbank Ltd and the company has no employees. Therefore it is not necessary for the board to appoint a CEO.
Evaluations of the board have not been performed every year.	An evaluation of the Board will be performed in 2016.
The board of directors does not delegate its functions to a risk, nomination or remuneration committee.	The company is a ring fenced special purpose securitisation vehicle. All its services are outsourced to Nedbank Ltd and the company has no employees. Therefore it is not necessary for the company to have a remuneration committee. All services performed by Nedbank Ltd are subject to Nedbank's Risk Committee as well as other Governance Committees within Nedbank.

3. Independent advice

A director or any member of a board committee may, if necessary, take independent professional advise at the expense of the Company.

4. Company secretary

All directors have access to the advice and services of the Company secretary, who provides guidance to the board as a whole and to individual directors with regard to how their responsibilities should be discharged in the best interest of the Company.

5. Audit committee

The board has concluded that the audit committee has fulfilled its responsibilities for the year under review in compliance with its terms of reference and statutory requirements.

Corporate Governance Report

6. Remuneration philosophy

The company is a special purpose vehicle which does not employ any employees and no remuneration is paid. The independent non-executive directors are provided by TMF Corporate Services (South Africa) Proprietary Limited and its fee for providing the service is agreed with Nedbank Limited, acting through its Nedbank Capital Transaction Management division.

7. Integrated sustainability reporting and disclosure

As a special purpose Company, the Company does not play an active role where the environment and the community is involved, therefore the integrated sustainability report will not form part of the annual financial statements.

8. Fundamental and affected transactions

The Company does not conduct business with entities in which its directors have an interest. Directors are required to declare their directorships in other companies on an annual basis.

Audit Committee Report

1. Members of the Audit Committee

The members of the audit committee are all independent non-executive directors of the company and include:

Name	
BJ Korb	Appointed 9 June 2016
JRP Doidge	
R Thanthony (Chairperson)	
B Harmse	Resigned 9 June 2016

The committee is satisfied that the members thereof have the required knowledge and experience as set out in Section 94(5) of the Companies Act of South Africa and Regulation 42 of the Companies Regulation, 2011.

2. Meetings held by the Audit Committee

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

Two meetings were held in 2015. The first meeting was held on 23 March 2015 during which the audited annual financial statements were approved by the board. The second meeting was held on 10 November 2015.

On 08 March 2016 the audit committee met in order to fulfill its responsibilities in order to recommend approval of the Company's audited annual financial statements to the Board.

3. Independence of external auditors

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

The audit committee in consultation with executive management, agreed to the terms of the engagement. The audit fee for the external audit has been considered and approved taking into consideration such factors as the timing of the audit, the extent of the work required and the scope.

4. Expertise and experience of finance function

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

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

5. Discharge of responsibilities and audited annual financial statements

Following the review by the committee of the audited annual financial statements of the Company for the year ended 31 December 2015 and based on the information provided to it, the committee considers that, in all material aspects, the company complies with the provisions of the Companies Act of South Africa, International Financial Reporting Standards, and that the accounting policies applied are appropriate.

Following the review of the audited annual financial statements, the committee recommended the company's 2015 audited annual financial statements for approval to the Board on 08 March 2016.

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

On behalf of the audit committee

R Thanthony
Chairman Audit Committee
28 June 2016

Directors' Responsibilities and Approval

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

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

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

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

The directors have reviewed the company's cash flow forecast for the year to 31 December 2016 and, in light of this review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's audited annual financial statements. The audited annual financial statements have been examined by the company's external auditors and their report is presented on pages 8 to 9.

The audited annual financial statements set out on pages 10 to 35, which have been prepared on the going concern basis, were approved by the board of directors on 28 June 2016 and were signed on their behalf by:

Director   Director

Company Secretary's Certification

Declaration by the Company secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act, 71 of 2008 (as amended), I certify that, to the best of my knowledge and belief, Precinct Funding 1 (RF) Limited has filed with the Commissioner all such returns and notices as are required by the Companies Act, 71 of 2008 (as amended), and that all such returns and notices are true, correct and up to date.

per: M Bagus
Nedgroup Secretariat Services Proprietary Limited
Company Secretary
28 June 2016

Deloitte.

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South Africa

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Registered Auditors
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Independent Auditor's Report

To the shareholder of Precinct Funding 1 (RF) Limited

Report on the Financial Statements

We have audited the financial statements of Precinct Funding 1 (RF) Limited, as set out on pages 12 to 35, which comprise the statement of financial position as at 31 December 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company`s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company`s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Precinct Funding 1 (RF) Limited as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Independent Auditor's Report

To the shareholder of Precinct Funding 1 (RF) Limited (continued)

Other reports required by Companies Act of South Africa

As part of our audit of the financial statements for the year ended 31 December 2015, we have read the Directors' Report, the Audit Committee Report and the Certification by the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the financial statements. However, we have not audited these reports and accordingly do not express an opinion thereon.

Report on Other Legal and Regulatory Requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of Precinct Funding 1 (RF) Limited for four years. We are independent of the company in accordance with the IRBA 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 International Ethics Standards Board for Accountants Code of Ethics and Professional Accountants (Parts A and B).

Deloitte & Touche

Deloitte & Touche
Registered Auditors
Stephen Munro
Partner
28 June 2016

Directors' Report

The directors have pleasure in submitting their report on the audited annual financial statements of Precinct Funding 1 (RF) Limited for the year ended 31 December 2015.

1. Incorporation

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

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

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

2. Nature of business

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

3. Review of financial results and activities

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

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

4. Share capital

There have been no changes to the authorised or issued share capital during the year under review (Dec 2014: no changes).

5. Directorate

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

Directors	
RC Hayne (British)	Appointed 18 September 2012
JRP Doidge	Appointed 7 February 2013
R Thanthony	Appointed 7 February 2013
BJ Korb	Appointed 09 June 2016
H Ackermann (Alternate to RC Hayne)	Appointed 21 August 2013
WH Swanepoel (Alternate to JRP Doidge	Appointed 23 July 2014
B Harmse	Resigned 09 June 2016

On 09 June 2016 BJ Korb was appointed as a director and B Harmse was resigned as a director.

6. Interest of directors and officers

The directors and officers have no interests in the company.

7. Directors' emoluments

Director fees of R138 308 (2014: R114 371) in respect of the 2015 financial year are paid to TMF Corporate Services (South Africa) Proprietary Limited who provide the directors for the company (refer to note 15).

The directors provided by TMF Corporate Services (South Africa) Proprietary Limited are as follows:
John Richard Parker Doidge
Brendan Harmse
Rishendrie Thanthony

8. Holding company

The company's holding company is The Securitisation Issuer Owner Trust which holds 100% (2014: 100%) of the company's issued ordinary shares. The Securitisation Issuer Owner Trust is incorporated in South Africa.

Directors' Report

9. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report that would require adjustment to, or disclosure in the financial statements.

10. Secretary

The company secretary is Nedgroup Secretariat Services Proprietary Limited.

Postal address

PO Box 1144
Johannesburg
2000

Business address

135 Rivonia Road
Sandown
Sandton
2196

11. Controlling entity

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

In terms of International Financial Reporting Standards (IFRS) 10 - Consolidated Financial Statements, an entity is consolidated when it is controlled by an investor. Control is achieved when the investor is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

In terms of IFRS 10, the company is regarded to be controlled by Nedbank Limited and is consolidated in Nedbank Limited's annual financial statements. Nedbank Limited is incorporated in South Africa.

12. Audit committee

Members of the audit committee:

BJ Korb (appointed 9 June 2016)
JRP Doidge
R Thanthony (Chairperson)
B Harmse (resigned 9 June 2016)

Two meetings were held in 2015. The first meeting was held on 23 March 2015 during which the audited annual financial statements were approved by the board. The second meeting was held on 10 November 2015.

On 08 March 2015 the audit committee met in order to fulfill its responsibilities in order to recommend approval of the Company's audited annual financial statements to the Board.

13. Social and ethics committee

A Social and ethics committee was formed on 29 February 2016. The first meeting of the committee took place on 8 March 2016.

Statement of Financial Position as at 31 December 2015

	Note(s)	2015 R	2014 R
Assets			
Non-Current Assets			
Derivative financial instruments	5	378,613	2,820,946
Deferred tax	4	590,745	239,131
		969,358	**3,060,077**
Current Assets			
Loan to Nedbank Limited	3	1,277,149,933	1,582,069,549
Trade and other receivables	6	100	100
Current tax receivable		137,451	178,807
Cash and cash equivalents	7	489,942,359	733,643,691
		1,767,229,843	**2,315,892,147**
Total Assets		**1,768,199,201**	**2,318,952,224**
Equity and Liabilities			
Equity			
Share capital	9	100	100
Retained income		9,816,867	9,194,379
		9,816,967	**9,194,479**
Liabilities			
Non-Current Liabilities			
Long term debt instruments	8	1,722,113,429	2,270,847,875
Current Liabilities			
Trade and other payables	10	121,677	533,033
Loan from related party	21	74,640	662,498
Long term debt instruments	8	36,072,488	37,714,339
		36,268,805	**38,909,870**
Total Liabilities		**1,758,382,234**	**2,309,757,745**
Total Equity and Liabilities		**1,768,199,201**	**2,318,952,224**

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2015 R	2014 R
Interest income	11	176,913,020	204,709,808
Interest expense	12	(175,254,698)	(197,698,545)
Net interest income		**1,658,322**	**7,011,263**
Other income	13	2,375,110	3,382,587
Operating expenses	15	(2,196,742)	(2,893,168)
Operating profit		**1,836,690**	**7,500,682**
Fair value adjustments	14	(1,854,475)	2,158,448
Net profit on financial instruments		798,285	1,706,670
Finance costs	17	(20,881)	(13,749)
Profit before taxation		**759,619**	**11,352,051**
Taxation	18	(137,131)	(3,263,833)
Profit for the period		**622,488**	**8,088,218**
Other comprehensive income		-	-
Total comprehensive income for the period		**622,488**	**8,088,218**

Statement of Changes in Equity

	Share capital R	Retained income R	Total equity R
Balance at 01 January 2014	**100**	**1,106,161**	**1,106,261**
Profit for the year	-	8,088,218	8,088,218
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**8,088,218**	**8,088,218**
Balance at 01 January 2015	**100**	**9,194,379**	**9,194,479**
Profit for the year	-	622,488	622,488
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**622,488**	**622,488**
Balance at 31 December 2015	**100**	**9,816,867**	**9,816,967**
Note	9		

Statement of Cash Flows

	Note(s)	2015 R	2014 R
Cash flows from operating activities			
Cash generated from operations	19	(216,518)	(5,178,644)
Finance costs		(20,881)	(13,749)
Tax paid	20	(447,388)	(4,111,944)
Net cash from operating activities		**(684,787)**	**(9,304,337)**
Cash flows from investing activities			
Decrease in loan to Nedbank Limited		305,717,901	373,097,932
Net cash from investing activities		**305,717,901**	**373,097,932**
Cash flows from financing activities			
Decrease in long term debt instruments		(548,734,446)	(229,152,125)
Total cash movement for the period		**(243,701,332)**	**134,641,470**
Cash at the beginning of the period		733,643,691	599,002,221
Total cash at end of the period	7	**489,942,359**	**733,643,691**

Accounting Policies

1. Presentation of audited annual financial statements

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly, and;
- Level 3 inputs are unobservable inputs for the asset or liability.

These accounting policies are consistent with the previous period.

1.1 Financial instruments

Classification

Financial instruments, as reflected on the statement of financial position, include all financial assets and financial liabilities, including derivative instruments, but exclude deferred taxation and taxation payable/receivable. Financial instruments are accounted for under IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement. The company does not apply hedge accounting. This accounting policy should be read in conjunction with the classified statement of financial position in note 26.

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial instruments at fair value through profit or loss

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

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

The company's derivative transactions include interest rate swaps. Subsequent to initial recognition, derivative financial instruments are measured at fair value at each reporting date.

Loans and receivables

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

Accounting Policies

1.1 Financial instruments (continued)

Cash and cash equivalents

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

Financial liabilities

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

1.2 Tax

Current tax assets and liabilities

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

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

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

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

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

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

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

1.3 Impairment of financial assets

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

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

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

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Accounting Policies

1.3 Impairment of financial assets (continued)

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.4 Contingencies and commitments

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

1.5 Measurement basis of financial instruments

Amortised cost

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

Fair value

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

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

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

1.6 Derecognition

The company derecognises a financial asset or part of a financial asset when, and only when, the contractual rights to the cash flows arising from the financial asset have expired, or it transfers the financial asset, including substantially all the risks and rewards of ownership of the asset, or it transfers the financial asset, nether retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

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

1.7 Interest income and expense

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

1.8 Use of estimates and key management assumptions

The company's accounting policies are aligned with those of Nedbank Limited. Certain of these policies, as well as estimates made by management, are considered to be important to an understanding of the company's financial condition since they require management to make difficult, complex and/or subjective judgements and estimates, some of which may relate to matters that are inherently uncertain. The following accounting policies include estimates that are particularly sensitive in terms of judgement and the extent to which estimates are used. Other accounting policies involve significannt amounts of judgements and estimates, but the total amounts involved are not significant to the financial statements. Management has agreed the accounting policies and critical estimates with the board and Precinct Funding 1 Audit Committee.

Allowances for loan impairment and other credit risk provisions

Allowances for loan impairment represent management's estimate of the losses incurred in the loan portfolios at the reporting date.

Accounting Policies

1.8 Use of estimates and key management assumptions (continued)

The company assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

For larger exposures impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cashflows are taken into account, for example the business prospects for the client, the realisable value of collateral, the company's position relative to other claimants, the reliability of client information and the likely cost and duration of the workout process. The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate) and its carrying amount. Subjective judgements are made in the calculation of future cash flows. Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge.

Fair value of financial instruments

Some of the company's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a valuation committee, which is headed up by the Chief Financial Officer of the Administrator, to determine the appropriate valuation techniques and inputs for the fair value adjustments.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the board of directors of the Company every quarter to explain the cause of fluctuation in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in note 5.

1.9 Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial decisions and include members of key management personnel of the company. The company enters into various related party transactions in the ordinary course of business. The terms of conditions of related party transactions are no more favourable than those granted to third parties in arm's length transactions.

Notes to the Audited Annual Financial Statements

	2015 R	2014 R

2. New Standards and Interpretations

2.1 Standards not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 January 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IFRS 9 Financial Instruments	01 January 2018	Replacement of IAS 39 Financial Instruments: Recognition and Measurement which contains accounting requirements for financial instruments
• IFRS 15 Revenue from Contracts with Customers	01 January 2018	Replacement of IAS 18 Revenue which contains accounting requirements for revenue
• IFRS 14 Regulatory Deferral Accounts	01 January 2016	IFRS 14 specifies the accounting for regulatory deferral account balances that arise from regulated activities
• Amendment to IFRS 7: Financial Instruments: Disclosures: Annual Improvements project	01 January 2016	Not expected to impact results but may result in additional disclosure
• Disclosure Initiative: Amendment to IAS 1: Presentation of Financial Statements	01 January 2016	Not expected to impact results but may result in additional disclosure

3. Loan to Nedbank Limited

	2015 R	2014 R
Loan to Nedbank Limited (at amortised cost)	1,280,368,300	1,586,086,201
	1,280,368,300	1,586,086,201
Impairment	(3,218,367)	(4,016,652)
	1,277,149,933	**1,582,069,549**

The loan to Nedbank Limited represents an amount owed to Precinct Funding 1 (RF) Limited by Nedbank Limited. This loan is backed by commercial property loans, which did not achieve derecognition from Nedbank Limited's statement of financial position. In terms of derecognition principles set out in International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement, following the legal sale of such loans by Nedbank Limited to Precinct Funding 1 (RF) Limited. As a result, the transaction has been presented, for accounting purposes, as a Loan to Nedbank Limited as opposed to commercial property loans themselves, given that derecognition of such loans was not achieved by Nedbank Limited. See analysis of pool of loans in note 23.

The loan and related commercial property loans have been ceded in favour of Precinct Funding 1 Security SPV (RF) Proprietary Limited who has a Limited Recourse Guarantee in favour of the secured creditors and noteholders.

Fair value measurements and valuation processes

Some of the company's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a valuation committee, which is headed up by the Chief Financial Officer of the Administrator, to determine the appropriate valuation techniques and inputs for the fair value adjustments.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the board of directors of the Company every quarter to explain the cause of fluctuation in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in note 5.

Notes to the Audited Annual Financial Statements

	2015 R	2014 R

4. Deferred tax

Deferred tax liability

Fair value adjustment of derivative financial instruments	(85,112)	(604,366)

Deferred tax asset

Deferred tax - impairments	675,857	843,497

Deferred tax liability	(85,112)	(604,366)
Deferred tax asset	675,857	843,497
Net deferred tax asset	**590,745**	**239,131**

Reconciliation of deferred tax asset

At beginning of year	239,131	1,023,549
Fair value adjustment of derivative financial instruments	519,254	(604,366)
Deferred tax - impairments	(167,640)	(180,052)
	590,745	**239,131**

5. Derivative financial instruments

At fair value through profit or loss - held for trading		
Interest rate swaps	378,613	2,820,946
Non-current assets		
Held for trading (fair value through profit or loss)	378,613	2,820,946
Notional principal	1,656,147,379	1,995,847,875

The company entered into interest rate swap agreements with Nedbank Limited, effective 27 March 2013 and terminating on the 01 January 2018. The notional amount represents the aggregate principal balance outstanding of the Class A, Class B, Class C and Class D notes as at the relevant date.

There were no defaults or breaches of interest or any other terms and conditions of the interest rate swaps.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Fair value information

This note provides information about how the company determines fair values of various financial assets and financial liabilities.

Notes to the Audited Annual Financial Statements

	2015 R	2014 R

5. Derivative financial instruments (continued)

Fair value hierarchy of financial assets at fair value through profit or loss

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

	2015 R	2014 R
Level 2		
Interest rate swaps	378,613	2,820,946

Valuation technique and key input:
- Discounted cash flow

Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfers between Level 1 and Level 2 in the year.

6. Trade and other receivables

	2015 R	2014 R
Other receivable	100	100

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2015 R	2014 R
Redraw reserve	263,583,778	420,849,773
Liquidity reserve	111,797,665	152,875,473
Cash on hand	74,666,699	101,929,463
Other cash and cash equivalents	39,894,217	57,988,982
	489,942,359	**733,643,691**

The company has complied with cash reserve requirements of the programme memorandum.

Notes to the Audited Annual Financial Statements

	2015 R	2014 R

8. Long term debt instruments

The long term debt instruments consist of the following:

	2015 R	2014 R
Listed - External		
Class A1 notes	-	206,806,433
Class A2 notes	281,990,745	481,291,473
Calss A3 notes	608,297,556	608,044,767
Class B notes	304,257,271	304,130,877
	1,194,545,572	**1,600,273,550**
Listed - Internal		
Class A1 notes	-	118,175,105
Class A2 notes	44,524,855	75,993,390
Class C notes	101,574,597	101,532,466
Class D notes	127,013,452	126,960,788
	273,112,904	**422,661,749**
Summary		
Listed - External	1,194,545,572	1,600,273,550
Listed - Internal	273,112,904	422,661,749
Subordinated loan	290,527,441	285,626,915
	1,758,185,917	**2,308,562,214**
Non-current portion	1,722,113,429	2,270,847,875
Current portion	36,072,488	37,714,339
	1,758,185,917	**2,308,562,214**

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

Margin over 3-month JIBAR

- Class A1 notes 1.05%
- Class A2 notes 1.25%
- Class A3 notes 1.34%
- Class B notes 1.54%
- Class C notes 2.40%
- Class D notes 2.60%

The 3-month JIBAR applicable to the notes in issue at year end was 6.308% (2014: 6.075%)

The subordinated loan expires on 27 March 2028 and earns interest at the rate of 3-month JIBAR plus 10% (within certain limits) resetting quarterly on 27 January, April, July and October. Interest is settled quarterly as long as there is cash available.

The short term portion of R36 072 488 (2014: R37 714 339) relates to accrued interest for the period to 31 December 2015.

9. Share capital

Authorised

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

	2015 R	2014 R
Issued		
100 Ordinary no par value shares	100	100
1 Cumulative redeemable preference share of R0.01 each	-	-
	100	**100**

Notes to the Audited Annual Financial Statements

	2015 R	2014 R

10. Trade and other payables

	2015 R	2014 R
Trade payables	386	70,597
Value added tax	121,291	462,436
	121,677	**533,033**

11. Interest income

	2015 R	2014 R
Interest on loan to Nedbank Limited	125,064,847	150,664,688
Interest on intercompany assets	48,138,089	54,045,120
Interest rate swaps	3,710,084	-
	176,913,020	**204,709,808**

12. Interest expense

	2015 R	2014 R
Interest expense		
External notes	103,798,662	117,938,545
Internal notes (A1 and A2)	7,353,872	17,255,991
Internal notes (C and D)	19,578,474	18,455,089
Subordinated loan	44,523,690	43,150,664
Interest rate swaps	-	898,256
	175,254,698	**197,698,545**

13. Other income

	2015 R	2014 R
Service fees	1,418,228	738,174
Administration and management fees	522,456	2,324,010
Other income	420,251	320,403
Interest received: SARS	14,175	-
	2,375,110	**3,382,587**

14. Fair value adjustments

	2015 R	2014 R
Derivative financial instruments	(1,854,475)	2,158,448

15. Operating expenses

	2015 R	2014 R
Audit fees	444,804	60,643
Administration fees	553,355	587,257
Service fees	1,259,476	1,728,379
Other fees	44,760	75,522
Fines and penalties	(290,744)	290,744
Directors fees	138,308	114,371
Trustee fees	46,337	36,252
Other expenses	446	-
	2,196,742	**2,893,168**

16. Net profit/(loss) on financial instruments

	2015 R	2014 R
Specific impairments	-	849,281
Portfolio impairments	798,285	857,389
	798,285	**1,706,670**

Notes to the Audited Annual Financial Statements

	2015 R	2014 R

17. Finance costs

Late payment of tax	20,881	13,749

18. Taxation

Major components of the tax expense

Current		
Local income tax - current period	488,744	2,479,415
Deferred		
Fair value adjustments on derivative financial instruments	(519,253)	604,366
Deferred tax - impairments	167,640	180,052
	(351,613)	**784,418**
	137,131	**3,263,833**

Reconciliation of the tax expense

Reconciliation between accounting profit and tax expense.

Accounting profit	759,619	11,352,051
Tax at the applicable tax rate of 28% (2014: 28%)	212,693	3,178,574
Tax effect of adjustments on taxable income		
Non-deductible penalties	(75,562)	85,259
	137,131	**3,263,833**

19. Cash generated from operations

Profit before taxation	759,619	11,352,051
Adjustments for:		
Finance costs	20,881	13,749
Fair value adjustments	1,854,475	(2,158,448)
Movement in impairment of loan to Nedbank Limited	(798,285)	(1,706,670)
Movement in accrued interest	(1,641,851)	(12,832,293)
Changes in working capital:		
Trade and other payables	(411,357)	152,967
	(216,518)	**(5,178,644)**

20. Tax paid

Balance at beginning of the year	178,807	(1,453,722)
Current tax for the year recognised in profit or loss	(488,744)	(2,479,415)
Balance at end of the year	(137,451)	(178,807)
	(447,388)	**(4,111,944)**

Notes to the Audited Annual Financial Statements

	2015 R	2014 R

21. Related parties

Holding company	The Securitisation Issuer Owner Trust
Related parties	Nedbank Limited Synthesis Funding (RF)
Members of key management	RC Hayne JRP Doidge R Thanthony B Harmse

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

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

Related party balances

	2015 R	2014 R
Nedbank Capital: Synthesis Funding (RF) Limited [Due to]		
Notes A1	-	(118,175,105)
Notes A2	(44,524,855)	(75,999,390)
Nedbank Limited [Due from / (to)]		
Loan to Nedbank	1,277,149,933	1,582,069,549
Cash and cash equivalents	489,942,359	733,643,691
Notes C	(101,574,597)	(101,532,466)
Notes D	(127,013,452)	(126,960,788)
Subordinated loans	(290,527,441)	(285,626,915)
Loan from related party	74,640	662,498
The Securitisation Issuer Owner Trust		
Other receivable	100	100

Related party transactions

	2015 R	2014 R
Interest paid to (received from) related parties		
Loan to Nedbank Limited	(125,064,847)	(150,664,688)
Nedbank Limited - Intercompany	(48,138,089)	(54,045,120)
Interest rate swaps	(3,710,084)	898,256
External notes	103,798,662	117,938,545
Internal notes (A1 and A2)	7,353,872	17,255,991
Internal notes (C and D)	19,578,474	18,455,089
Subordinated loan	44,523,690	43,150,664
Administration fees paid to related parties		
Nedbank Limited	553,355	587,257
Service fees paid to related parties		
Nedbank Limited	1,259,476	1,728,379
Other fees paid to related parties		
Nedbank Limited	44,760	75,522
TMF Corporate Services (South Africa) Proprietary Limited		
Director fees	138,308	114,371
Maitland Trust Proprietary Limited		
Trustee fees for the Securitisation Security SPV Owner Trust	46,337	36,252

Notes to the Audited Annual Financial Statements

	2015	2014
	R	R

22. Risk management

Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the company consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in note 8, cash and cash equivalents disclosed in note 7, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio.

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

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Financial risk management

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

Liquidity risk

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

At 31 December 2015	Less than 1 year	Between 1 and 5 years	More than 5 years	Non Determinable	Total
Loan from related party	(74,640)	-	-	-	(74,640)
Long term debt instruments	(36,072,488)	-	(1,722,113,429)	-	(1,758,185,917)
Trade and other payables	(121,677)	-	-	-	(121,677)
	(36,268,805)	**-**	**(1,722,113,429)**	**-**	**(1,758,382,234)**

At 31 December 2014	Less than 1 year	Between 1 and 5 years	More than 5 years	Non Determinable	Total
Loan from related party	(662,498)	-	-	-	(662,498)
Long term debt instruments	(37,714,339)	-	(2,270,847,875)	-	(2,308,562,214)
Trade and other payables	(533,033)	-	-	-	(533,033)
	(38,909,870)	**-**	**(2,270,847,875)**	**-**	**(2,309,757,745)**

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

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

Notes to the Audited Annual Financial Statements

	2015	2014
	R	R

22. Risk management (continued)

Market risk

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

Interest rate risk

At 31 December 2015, if interest rates on Rand-denominated borrowings had been 0.1% higher/lower with all other variables held constant, post-tax profit for the year would have been R - (2014: R -) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been R - (2014: R -) lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale.

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

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

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

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

Financial assets exposed to credit risk at year end were as follows:-

The company's maximum credit exposure to credit risk in respect of the mortgage loans is the balance of outstanding advances, represented as a loan to Nedbank Limited, before taking into account the value of collateral held as security against such exposures and impairments raised (2015: R1 280 368 300 and 2014: R1 586 086 201). The collateral held as security for the mortgage asset exposures is in the form of first indemnity bonds over fixed commmercial property. An analysis of the exposure to and ageing of the mortgage assets exposure is presented in note 23.

The total maximum credit exposure as at 31 December 2015 is R1 767 229 843 (2014: R2 315 892 147).

Operational risk

Post-tax profit for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified a available-for-sale.

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

Notes to the Audited Annual Financial Statements

	2015 R	2014 R

23. Analysis - Loan to Nedbank Limited

All property loans assigned to Precinct Funding 1 (RF) Limited at 31 December 2015 had a maximum maturity of 25 years. The analysis of these loans is as follows:

	2015 R	2014 R
Classification of property loans		
Neither past due nor impaired	1,270,192,552	1,570,965,651
Past due but not impaired	10,175,748	15,120,550
	1,280,368,300	**1,586,086,201**
Age analysis of past due but not impaired		
< 30 days	10,175,748	15,120,550
31 < 90 days	-	-
	10,175,748	**15,120,550**
Credit quality of neither past due nor impaired		
NGR 1 - 12	394,087,919	513,990,464
NGR 13 - 20	876,104,633	1,056,975,187
NGR 21 - 25	-	-
	1,270,192,552	**1,570,965,651**
Credit quality of past due not impaired		
NGR 1 - 12	-	-
NGR 13 - 20	-	-
NGR 21 - 25	10,175,748	15,120,550
	10,175,748	**15,120,550**

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

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

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

Analysis of Impairment - 2015	**Specific**	**Portfolio**	**Total**
Balance at 31 December 2014	-	4,016,652	4,016,652
Statement of profit or loss and other comprehensive income - charge	-	(798,285)	(798,285)
	-	**3,218,367**	**3,218,367**

Analysis of Impairment - 2014	**Specific**	**Portfolio**	**Total**
Balance at 31 December 2013	849,281	4,874,041	5,723,322
Statement of profit or loss and other comprehensive income - charge	(849,281)	(857,389)	(1,706,670)
	-	**4,016,652**	**4,016,652**

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

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

Notes to the Audited Annual Financial Statements

	2015 R	2014 R

24. Contingencies and commitments

The company has undrawn facilities of R49 929 920 (2014: R47 972 390) at the reporting date.

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

25. Events after the reporting period

No events after the reporting date have occurred which would require adjustment to or disclosure in the annual financial statements.

26. Directors' emoluments

Director fees in respect of the 2015 financial period are payable to TMF Corporate Services (South Africa) Proprietary Limited, of whom three of the directors are employees, for director services provided to the company. These individuals are remunerated by TMF Corporate Services (South Africa) Proprietary Limited on a separate basis, only a specific percentage of the directors fees payable to the directors by TMF. Total fees paid to TMF are R138 308 from this company and R465 773 from other group companies (2014: R114 371 from this company and R294 962 from other group companies) in respect of provision for director services. No other fees are paid to the directors or prescribed officers.

Fees per director / prescribed officer are set out per below.

2015	Total Fees paid to TMF for provision of directors	Amount paid to individual director for services rendered to the company	Amount paid to individual director for services rendered to other group companies
JRP Doidge	66,388	2,656	8,942
B Harmse	38,726	1,549	5,217
R Thanthony	33,194	929	3,130
	138,308	**5,134**	**17,289**

2014	Total Fees paid to TMF for provision of directors	Amount paid to individual director for services rendered to the company	Amount paid to individual director for services rendered to other group companies
JRP Doidge	54,898	2,196	5,663
B Harmse	32,024	1,281	3,304
R Thanthony	27,449	768	1,982
	114,371	**4,245**	**10,949**

Notes to the Audited Annual Financial Statements

27. Categories of financial instruments

Categories of financial instruments - 2015

	Note(s)	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Assets						
Non-Current Assets						
Derivative financial instruments	5	378,613	-	-	-	378,613
Deferred tax	4	-	-	-	590,745	590,745
		378,613	**-**	**-**	**590,745**	**969,358**
Current Assets						
Loan to Nedbank Limited	3	-	1,277,149,933	-	-	1,277,149,933
Current tax receivable		-	-	-	137,451	137,451
Trade and other receivables	6	-	100	-	-	100
Cash and cash equivalents	7	-	489,942,359	-	-	489,942,359
		-	**1,767,092,392**	**-**	**137,451**	**1,767,229,843**
Total Assets		**378,613**	**1,767,092,392**	**-**	**728,196**	**1,768,199,201**

Notes to the Audited Annual Financial Statements

27. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Equity and Liabilities						
Equity						
Equity Attributable to Equity Holders of Parent:						
Share capital	9	-	-	-	100	100
Retained income	9	-	-	-	9,816,867	9,816,867
		-	-	-	**9,816,967**	**9,816,967**
Total Equity		-	-	-	**9,816,967**	**9,816,967**
Liabilities						
Non-Current Liabilities						
Long term debt instruments	8	-	-	1,722,113,429	-	1,722,113,429

Notes to the Audited Annual Financial Statements

27. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Current Liabilities						
Loans from related party		-	-	74,640	-	74,640
Trade and other payables	10	-	-	121,677	-	121,677
Long term debt instruments	8	-	-	36,072,488	-	36,072,488
		-	**-**	**36,268,805**	**-**	**36,268,805**
Total Liabilities		**-**	**-**	**1,758,382,234**	**-**	**1,758,382,234**
Total Equity and Liabilities		**-**	**-**	**1,758,382,234**	**9,816,967**	**1,768,199,201**

Categories of financial instruments - 2014

Assets

	Note(s)	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Non-Current Assets						
Derivative financial instruments	5	2,820,946	-	-	-	2,820,946
Deferred tax	4	-	-	-	239,131	239,131
		2,820,946	**-**	**-**	**239,131**	**3,060,077**

Notes to the Audited Annual Financial Statements

27. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Current Assets						
Loan to Nedbank Limited	3	-	1,582,069,549	-	-	1,582,069,549
Current tax receivable		-	-	-	178,807	178,807
Trade and other receivables	6	-	100	-	-	100
Cash and cash equivalents	7	-	733,643,691	-	-	733,643,691
		-	**2,315,713,340**	**-**	**178,807**	**2,315,892,147**
Total Assets		**2,820,946**	**2,315,713,340**	**-**	**417,938**	**2,318,952,224**
Equity and Liabilities						
Equity						
Equity Attributable to Equity Holders of Parent:						
Share capital	9	-	-	-	100	100
Retained income	9	-	-	-	9,194,379	9,194,379
		-	**-**	**-**	**9,194,479**	**9,194,479**
Total Equity		**-**	**-**	**-**	**9,194,479**	**9,194,479**
Liabilities						
Non-Current Liabilities						
Long term debt instruments	8	-	-	2,270,847,875	-	2,270,847,875

Notes to the Audited Annual Financial Statements

27. Categories of financial instruments (continued)

	Note(s)	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Current Liabilities						
Loans from shareholders		-	-	662,498	-	662,498
Trade and other payables	10	-	-	533,033	-	533,033
Long term debt instruments	8	-	-	37,714,339	-	37,714,339
		-	-	**38,909,870**	-	**38,909,870**
Total Liabilities		-	-	**2,309,757,745**	-	**2,309,757,745**
Total Equity and Liabilities		-	-	**2,309,757,745**	**9,194,479**	**2,318,952,224**