Richefond Circle (RF) Limited

(Registration Number : 2021/662982/06)

Annual financial statements
for the year ended 31 March 2023
Audited

In terms of S 29(1)(e)(ii) of the Companies Act 71 of 2008 as amended, we confirm that the preparation of the following financial statements is the responsibility of Abigail Mailula CA(SA), Transaction Manager.
The following financial statements have been audited in compliance with the requirements of the Companies Act 71 of 2008 as amended S 30(2)(b).

Richefond Circle (RF) Limited

(Registration Number : 2021/662982/06)

Annual financial statements

for the year ended 31 March 2023

Contents	*Page*

Richefond Circle (RF) Limited

Company information

for the year ended 31 March 2023

Directors	B Dube (Independent Non-Executive) -Appointed 25 October 2021 H Tradonsky (Appointed 25 October 2021) W Janse van Rensburg (Non-Executive) - (Alt) Appointed 25 October 2021 O van Gisbergen (Independent Non-Executive) - Resigned 12 October 2022 R Thanthony (Independent Non-Executive) - Resigned 12 October 2022 M Klopper (Independent Non-Executive) - Appointed 07 December 2022 N Clarke (Independent Non-Executive) - Appointed 12 October 2022
Date of incorporation	04 June 2021
Registration number	2021/662982/06
year covered by financial statements	01 April 2022 to 31 March 2023
Nature of business and principal activities	To acquire the right, title and interest in and to commercial property loans with funds raised directly or indirectly by issue of debt instruments, and to manage the assets so acquired.
Secretary	Investec Group Data (Pty) Ltd
Independent Auditor	KPMG inc.
Bankers	Investec Bank Limited
Registered Office	c/o Company Secretarial Investec Limited 100 Grayston Drive Sandown Sandton 2196
Postal address	c/o Company Secretarial Investec Limited PO Box 785700 Sandton 2146

Richefond Circle (RF) Limited

Directors' responsibility statement

for the year ended 31 March 2023

The directors are responsible for the preparation and fair presentation of the annual financial statements of Richefond Circle (RF) Limited, comprising the statement of financial position at 31 March 2023, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the Directors' Report.

The directors are also responsible 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, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for the reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of annual financial statements

The annual financial statements of Richefond Circle (RF) Ltd, as identified in the first paragraph, were approved by the board of directors on 29 June 2023 and signed on their behalf by:

H Tradonsky

Director: H Tradonsky
Date: 17 July 2023

DocuSigned by:
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Director: BL Dube
Date: 17 July 2023

Declaration by the Company Secretary

In terms of section 88(2)(e) of the South African Companies Act No 71 of 2008, as amended ("the Act"), I hereby certify that, to the best of my knowledge and belief, the Company has lodged with the Companies and Intellectual Property Commission, for the period ended 31 March 2023, all such returns as are required in terms of the Act and that all such returns are true, correct and up to date.

INVESTEC
GROUP DATA PROPRIETARY LIMITED
AS SECRETARIES
Labuschagne
AUTHORISED SIGNATORIES

Company Secretary
Name: Gerda Labuschagne for and on behalf of Investec Group Data (Pty) Ltd

Richefond Circle (RF) Limited

Directors' report

for the year ended 31 March 2023

The directors have pleasure in submitting their report on the activities of the company for the year 1 April 2022 to 31 March 2023.

Nature of business

To acquire the rights, title and interest in and to commercial property loans using a securitisation structure, with funds being raised via the issue of debt instruments which are listed, and to manage the assets so acquired. These assets provide the security for the debt instruments.

Operating results and financial position

The results of the Company's operations and cash flows for the year, and its financial position at 31 March 2023, are set out in the annual financial statements and require no further comment.

Share capital

Details of authorised and issued share capital are disclosed in note 6 to the financial statements.

Directorate

The directors of the Company at the date of this report are B Dube, H Tradonsky, W Janse van Rensburg - Alternate, N Clarke and M Kloppers. R Thanthony and OA Ferreira resigned on 07 December 2022 and 12 October 2022, NR Clarke and M Klopper were appointed on the respective dates.

Interest of the director and officers

None of the directors and officers have any interest in the issued share capital or any of the contracts entered into by the Company.

Dividends

No dividends were declared or paid during the year.

Going concern

Richefond Circle (RF) Limited has been set up as an insolvency remote special purpose vehicle. Secured creditors have agreed to certain subordination, non-petition, and enforcement clauses. Please refer to note 21 for further detail. Interest is accrued on the subordinated credit enhancement loan but limited in terms of (1) the transaction documents and the insolvency remote legal set-up and (2) the available cash in accordance with the Priority of Payments. In the event that there is insufficient cash available for the payment of any unpaid claims/liabilities at the end of the company's life, the unpaid portions are forfeited by those secured creditors. Any losses do not therefore amount to an act of insolvency.

Furthermore, in accordance with the transaction documents, when all assets have been expunged, all secured creditors will waive their claims against the Company. Because of this legal set-up, the Company's outgoing cash flows are limited to both its assets and the yield on these assets and it therefore continues to operate as a going concern.

Events after the reporting date

No material events have occurred between 31 March 2023 and the date of this report with the exception of the Covid-19 implications as stated in the Going Concerns statement in Note 21.

Auditor

KPMG Inc is the appointed auditor in accordance with section 90 of the Companies Act of South Africa.

HTradonsky

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Director **Director**

Richefond Circle (RF) Limited

Audit Committee Report

for the year ended 31 March 2023

Members of the Audit Committee

The members of the Audit Committee ("the committee") are all independent non-executive directors and comprises:

B Dube
N Clarke
M Klopper

The chairman of the Board, serves on the Audit Committee, but another independent non-executive director acts as chairman thereof. Given that the Company is a special purpose vehicle incorporated as an Issuer in a securitisation scheme (as regulatory defined), the afore-going is considered acceptable and reasonable.

The Audit Committee is satisfied that the members thereof have the required knowledge and experience as set out in Section 94(5) of the Companies Act No. 71 of 2008 as amended and Regulation 42 of the Companies Regulation, 2011.

Meetings held by the Audit Committee

The Audit Committee performs the duties laid upon it by Section 94(7) of the Companies Act No. 71 of 2008 as amended, by holding meetings with the key role players on a regular basis and by the unrestricted access granted to the external auditors. The committee has not met in the current year.

Expertise and experience of the finance function

The servicing, accounting and administration of the Company's assets are performed and prepared by Investec Bank Limited (jointly hereinafter "Management"). The Internal Audit function does not directly report to the audit committee, but highlights any matters relevant to the Company's annual financial statements via the Servicer and the Administrator to the Audit Committee.

The on-going secretarial administration of the Company's statutory records is done by Investec Group Data Proprietary Limited.

Independence of the external auditor

The Company's auditor is KPMG Inc.

The Audit Committee satisfied itself, through enquiry, that the external auditor is independent as defined by the Companies Act No. 71 of 2008 as amended and as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided in terms of the Companies Act No. 71 of 2008 as amended that internal governance processes within the firm support and demonstrate the claim to independence.

The Audit Committee, in consultation with the Servicer and the Administrator, agreed to the terms of the external auditor's engagement. The audit fee for the external audit has been considered and approved taking into consideration such factors as parallel interaction with the Servicer, timing of the audit, the extent of the work required and the scope.

Fees paid to the auditor are disclosed in Note 13 in the financial statements.

Richefond Circle (RF) Limited

Audit Committee Report

for the year ended 31 March 2023

Discharge of responsibilities

The Audit Committee is satisfied that, in respect of the financial year under review, it has discharged its duties and responsibilities in accordance with its terms of reference and in terms of the Companies Act No. 71 of 2008 as amended. The Board concurred with the assessment.

The Audit Committee performed the following activities during the year under review:

- Approved the contents of the Audit Committee's terms of reference approval
- Considered and approved the external auditor's fees for the 2023 audit;
- Considered and approved any other services provided by the auditors, including but not limited to Commercial Paper Compliance Certificate in terms of a separate engagement letter and
- Considered the independence and objectivity of the external auditor.

Annual Financial Statements

Following the review by the committee of the annual financial statements of Richefond Circle (RF) Limited for the year ended 31 March 2023 and based on the information provided to it, the committee considers that, in all material respects, the Company complies with the provisions of the Companies Act No 71 of 2008, as amended, International Financial Reporting Standards, and that the accounting policies applied are appropriate.

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

The committee recommended the Company's 2023 annual financial statements for approval by the Board on 29 June 2023

On behalf of the Audit Committee:

DocuSigned by:
Marlene Klopper
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Chairman: Audit Committee

KPMG Inc
KPMG Crescent
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Independent Auditor's Report

To the shareholder of Richefond Circle (RF) Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Richefond Circle (RF) Limited (the Company) set out on pages 11 to 29, which comprise the statement of financial position as at 31 March 2023, and the statement of comprehensive income, statement of changes in equity and statement 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 financial statements present fairly, in all material respects, the financial position of Richefond Circle (RF) Limited as at 31 March 2023, and its financial performance and cash flows for the year then ended then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board 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 financial statements section of our report. We are independent of the 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' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period.

We have determined that there are no key audit matters to communicate in our report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Richefond Circle (RF) Limited Annual Financial Statements for the year ended 31 March 2023", which includes the Directors' report, the Audit Committee Report and the Declaration by the Company Secretary as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the 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 KPMG Inc. has been the auditor of Richefond Circle (RF) Limited for 2 years.

KPMG Inc.

Per TA Middlemiss
Chartered Accountant (SA)
Registered Auditor
Director
19 July 2023

Richefond Circle (RF) Limited

Statement of Financial Position

As at 31 March 2023

	Notes	**2023**	**2022**
Assets		**R**	**R**
Cash and cash equivalents	*3*	303,977,958	1,118,967,319
Intercompany receivable	*2*	1,899,260,448	-
Deferred tax asset	*5*	6,841,184	2,315,076
Total assets		**2,210,079,590**	**1,121,282,395**
Equity and liabilities			
Equity		**3,404,464**	**(5,858,569)**
Share capital	*6*	101	100
Retained earnings		15,755,208	400,612
Cash flow hedge reserve		(12,350,845)	(6,259,281)
Liabilities		**2,206,675,126**	**1,127,140,964**
Trade and other payables	*10*	430,195	136,207
Taxation payable		2,203,502	155,794
Accrued interest payable	*9*	6,635,848	4,274,606
Deferred income		6,986,616	-
Derivative financial instruments	*4*	16,918,965	8,574,357
Commercial mortgaged backed securities	*7*	2,058,000,000	1,057,000,000
Subordinated loan	*8*	115,500,000	57,000,000
Total equity and liabilities		**2,210,079,590**	**1,121,282,395**

Richefond Circle (RF) Limited

Statement of Comprehensive Income

for the year ended 31 March 2023

	Notes	**2023** **R**	**2022** **R**
Interest income	*11*	159,331,643	4,967,219
Interest expense	*12*	(130,718,914)	(4,344,802)
Other Interest expense	*12*	(7,107,049)	-
Net interest income		**21,505,680**	**622,417**
Other income		2,467,232	-
Expected credit loss impairment charge	*2*	(1,909,518)	-
Other operating expenses	*13*	(1,029,640)	(66,011)
Profit before taxation		**21,033,754**	**556,406**
Taxation	*14*	(5,679,157)	(155,794)
Profit for the year		**15,354,596**	**400,612**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedges- effective portion of changes in fair value	*4*	(13,198,613)	(6,259,281)
Cash flow hedges- reclassified to profit or loss	*11*	7,107,049	-
		(6,091,564)	**(6,259,281)**
Total comprehensive income for the year		**9,263,032**	**(5,858,669)**

Richefond Circle (RF) Limited

Statement of Changes in Equity

for the year ended 31 March 2023

	Note	Ordinary share capital	Preference share capital	Retained earnings	Cash flow hedge reserve	Total
		R	R	R	R	R
Balance at 31 March 2021		-		-	-	**-**
Issue of share capital		100	-	-	-	**100**
Total comprehensive income for the period						
Profit for the year		-	-	400,612	-	**400 612**
Cash flow hedges- effective portion of changes in fair value	4	-	-	-	(6,259,281)	**(6 259 281)**
Balance at 31 March 2022		**100**	-	**400,612**	**(6,259,281)**	**(5,858,569)**
Issue of share capital		-	1	-	-	**-**
Total comprehensive income for the period						
Profit for the year		-	-	15,354,596	-	**15 354 596**
Cash flow hedges- effective portion of changes in fair value	4	-	-	-	(13,198,613)	**(13 198 613)**
Cash flow hedges- reclassified to profit or loss		-	-	-	7,107,049	**7 107 049**
Balance at 31 March 2023		**100**	**1**	**15,755,208**	**(12,350,845)**	**3,404,464**

Richefond Circle (RF) Limited

Statement of Cash Flows

for the year ended 31 March 2023

	Notes	2023	2022
		R	R
Cash flows from operating activities			
Profit before taxation		21,033,754	556,406
Adjusted for:			
Expected credit loss impairment charge		1,909,518	-
Changes in working capital:			
Increase in accrued interest payable		2,361,242	4,274,606
Increase in deferred income		6,986,616	-
Increase in trade and other payables		293,988	136,207
		9,641,846	4,410,813
Taxation paid		(5,904,513)	-
Net cash inflow from operating activities		**26,680,605**	**4,967,219**
Cash flows from investing activities			
Intercompany receivable		(1,901,169,966)	-
Net cash outflow from investing activities		**(1,901,169,966)**	**-**
Cash flows from financing activities			
Issue of Commercial mortgages backed securities	*7*	1,001,000,000	1,057,000,000
Proceeds from issue of share capital		1	100
Subordinated loan acquired	*8*	58,500,000	57,000,000.00
Net cash inflow from financing activities		**1,059,500,001**	**1,114,000,100**
Net increase/(decrease) in cash and cash equivalents for the year		(814,989,360)	1,118,967,319
Cash and cash equivalents at beginning of the period		1,118,967,319	-
Cash and cash equivalents at end of the year	*3*	**303,977,958**	**1,118,967,319**

Richefond Circle (RF) Limited

Notes to the annual financial statements

for the year ended 31 March 2023

1. Significant accounting policies

1.1 Reporting entity

Richefond Circle (RF) Limited (the 'Company') is domiciled in South Africa. The Company's registered office is at 100 Grayston Drive, Sandown, Sandton, 2196. These financial statements comprise the Company's annual financial statements. The Company is primarily involved in acquiring the right, title and interest in and to Commercial homeloan assets with funds raised directly or indirectly by issue of debt instruments, and to manage the assets so acquired.

1.2 Basis of preparation

The company's financial statements are prepared in accordance with IFRS as issued by the IASB, its interpretations adopted by the IASB, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Debt Listings Requirements, and the South African Companies Act.

The financial statements have been prepared in accordance with the going concern principle under the historical cost basis, except for the revaluation of financial instruments, financial instruments held at amortised cost and instruments held at fair value. The financial statements are presented in South African Rand, which is the Company's functional currency.

1.3 Use of estimates and judgement

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the classification of financial instruments. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future periods affected.

Key areas in which judgement is applied include:

The determination of impairments against assets that are carried at amortised cost involves the assessment of future cash flows which is judgmental in nature.

The fair value movements of the Swap are determined by assessment of future cash flows which is judgmental in nature.

Further information in relation to this can be found in Note 20.

1.4 Financial assets and financial liabilities

1.4.1 Recognition

Financial assets and financial liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

1.4.2 Measurement

Financial instruments are initially measured at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Subsequent to initial recognition, these instruments are measured as set out below:

Intercompany Receivables
Intercompany receivables are measured at amortised cost using the effective interest method. Fair value of these financial assets approximates carrying amount

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, petty cash and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost in the statement of financial position, which approximates fair value.

Derivative financial instruments
Derivative financial instruments are recognised on the statement of financial position at fair value. Change to fair value movements are subsequently recognised in profit or loss unless hedge accounting is being applied.

Commercial mortgage backed securities
These financial liabilities are carried at amortised cost. Fair value of these financial liabilities approximates carrying amount

1. Significant accounting policies (continued)

1.4.3 Classification

The Company classifies its financial assets into one of the following categories:
● amortised cost;
● at fair value through profit or loss, and within this category as:
 - held for trading; or
 - those designated to the category at inception.

The Company classifies its financial liabilities as measured at amortised cost or fair value through profit or loss.

1.4.4 Derecognition

Financial instruments qualify for derecognition if they meet the derecognition criteria set out in IFRS 9 Financial Instruments: Recognition and Measurement.

The Company derecognises a financial asset when, and only when:
● The contractual rights to the cash flows arising from the financial asset have expired or have been forfeited by the Company; or
● It transfers the financial asset including substantially all of the risks and rewards of ownership of the asset; or

It transfers the financial asset, neither retaining nor transferring substantially all of the risks and rewards of ownership of the asset, but no longer retains control of the asset.

A financial liability is de-recognised when, and only when, the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired.

The difference between the carrying amount of a financial liability or financial asset (or part there-of) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

1.4.5 Offsetting

Where offsetting has been applied or the entity has instruments that are subject to offsetting, the following disclosures should be provided:
(a) the gross amounts of those recognised financial assets and recognised financial liabilities;
(b) the amounts that are set off in accordance with the criteria of IAS 32 when determining the net amounts presented in the statement of financial position;
(c) the net amounts presented in the statement of financial position;
(d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in, including:
(i) amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria of IAS 32; and
(ii) amounts related to financial collateral (including cash collateral); and
(e) the net amount after deducting the amounts in (d) from the amounts in (c) above.

1.4.6 Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
● the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
● the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

1.4.7 Fair value measurement

IFRS 13 Fair value measurement, defines fair value as being a market-based measurement and sets out in a single IFRS a framework for the measurement of 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 in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Fair value measurements for financial assets and financial liabilities are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used. The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Richefond Circle (RF) Limited

Notes to the annual financial statements

for the year ended 31 March 2023

1. Significant accounting policies (continued)

1.5 Non-derivative financial liabilities

All financial liabilities, other than those at fair value through profit or loss, are classified as non-trading financial liabilities. Non-trading financial liabilities, which include commercial mortgage backed securities and trade and other payables, are measured at amortised cost using the effective interest method.

1.6 Hedge accounting

The company applies cash flow hedge accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the company ensures that all of the following conditions are met:

- At inception of the hedge, the company formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also, at the inception of the hedged relationship, a formal assessment is undertaken to ensure that the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in cash flows attributable to the hedged risk during the year for which the hedge is designated are expected to offset in a range of 80% to 125%.

- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting year for which the hedge was designated.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value of the hedging instrument, which represents an effective hedge, is initially recognised in other comprehensive income in the cash flow hedge reserve and is released to profit or loss in the same period during which the relevant financial asset or liability affects profit or loss. Any ineffective portion of the hedge is immediately recognised in profit or loss.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires, or is sold, terminated or exercised; when the hedged item matures or is sold or repaid; when a forecast transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

1.7 Revenue

Revenue is measured at the fair value of the consideration received and represents amounts receivable for interest and fees earned.

Interest income

- Interest income from loans and receivables is recognised on a time proportion basis, which takes into account the effective yield on the asset.
- Included in net interest income is other interest resulting from the cash flow hedge that has been reclassified to profit and loss.

Other fee income

Fee income comprise of lending fees charged to clients and is recognised on the accrual basis when the service is rendered.

1.8 Taxation

Taxation expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

1.9 Standards and interpretations issued but not yet effective

There are no standards and interpretations issued but not yet effective which are expected to have a material impact on Richefond Circle.

Richefond Circle (RF) Limited

Notes to the annual financial statements

for the year ended 31 March 2023

2. Intercompany receivable

During the year, Investec Bank Limited (IBL) sold a portion of its commercial mortgage assets to Richefond Circle (RF) Limited, of which more loans are still in the process of being transferred. However, since IBL is also the provider of the subordinated loan, the substance of the transaction was that the accounting derecognition criteria to transfer the significant risks and rewards of ownership were not met. Thus an intercompany receivable is recognised for the consideration paid for these assets to IBL. The cash flows arising from these assets are directly attributable to the commercial mortgages and thus the following disclosure is appropriate and useful to the users of these financial statements as the carrying amount of the receivable will fluctuate in line with the commercial mortgage balances.

	2023 R	2022 R
Loans and receivables ceded to Richefond Circle		
Gross amount outstanding	1,901,169,966	-
Expected credit loss	(1,909,518)	-
	1,899,260,448	**-**
Expected credit loss		
Expected credit loss	(1,909,518)	-
	(1,909,518)	**-**
Reconciliation of allowances for impairment		
Opening balance	-	-
Charged to the statement of comprehensive income	(1,909,518)	-
	(1,909,518)	**-**

3. Cash and cash equivalents

	2023 R	2022 R
Cash and cash equivalents consist of:		
Current account - Investec Bank Limited	303,977,857	1,118,967,219
Petty cash	101	100
	303,977,958	**1,118,967,319**

Interest on the current account is earned at Prime Rate.

4. Derivative financial instruments

Richefond Circle (RF) Ltd has entered into a JIBAR for prime swap with IBL to mitigate the interest rate risk resulting from the mismatch of interest rates on the prime rate linked loans & advances and the JIBAR linked notes payable. The notional value of the interest rate swap is R 2 058 000 000. The notional amount is the sum of all fully performing loans and cannot be used to assess the market risk of the entity and should be used only as a means of assessing the company's participation in derivative contracts. The swap is effective in the current year. The fair value of derivatives can change significantly from year to year due to changes in economic conditions. Both the Prime and JIBAR rates have moved in the current year . This change in rates and consequently, the change in the interest rate outlook (i.e. change in the prime curve and interbank JIBAR curve) combined with the long dated stream of cash flows that are present valued has resulted in a significant move in the fair value of the derivative and a negative reclassification to profit and loss

	2023 R	2022 R
Statement of financial position		
Fair value of swap	**(16,918,965)**	**(8,574,357)**
Statement of comprehensive income		
Cash flow hedges- effective portion of changes in fair value	(13,198,613)	(6,259,281)
Cash flow hedges- reclassified to profit or loss	7,107,049	-
Other comprehensive income	**(6,091,564)**	**(6,259,281)**

5. Deferred tax asset

	2023 R	2022 R
The deferred tax balance comprises of:		
Expected Credit Losses	386,677	-
Deferred income	1,886,386	-
Fair Value Movement on the SWAP (OCI)	4,568,121	2,315,076
Deferred tax asset	**6,841,184**	**2,315,076**

6. Share capital

	2023	2022
Ordinary share capital		
Authorised		
1 000 ordinary shares (no par)	1 000	1,000
Issued		
100 ordinary share at R1 (no par)	100	100
All of the issued shares are held by Richefond Circle Owner Trust and are fully paid up.		
Preference share capital		
Authorised		
100 cumulative redeemable preference shares (no par value)		
Issued		
1 preference share at no par value	1	0
The unissued shares are under the control of the Directors until the next annual general meeting and are fully paid up.		
	101	**0**

Richefond Circle (RF) Limited

Notes to the annual financial statements

for the year ended 31 March 2023

7. Commercial mortgage backed securities

	Class A Notes R	Class B Notes R	Class C Notes R	Class D Notes R	Total R
2023					
Balance at the beginning of the year	825,000,000	125,000,000	57,000,000	50,000,000	**1,057,000,000**
Notes issued to Investors	780,000,000	118,000,000	63,000,000	40,000,000	**1,001,000,000**
Redemption of notes	-	-	-	-	**-**
Balance of notes outstanding at end of the year	**1,605,000,000**	**243,000,000**	**120,000,000**	**90,000,000**	**2,058,000,000**

The Commercial mortgage backed securities are measured at amortised cost which equates to fair value. The notes bear interest at the 3 Month JIBAR rate plus the spread as determined in the Applicable Pricing Supplement for each class and tranche of notes. For as long as the notes are in issue, interest on the floating rate notes is payable quarterly in arrears on the 20th of March, June, September and December. The interest rate, charge and accrued balance per tranche of notes was as follows:

2023	Spread over 3 Month Jibar	Interest expense R	Accrued interest R
Class A1	152 bps	59,494,275	2,455,561
Class A2	149 bps	33,429,902	2,321,621
Class B1	190 bps	9,489,284	387,671
Class B2	180 bps	5,231,725	351,220
Class C1	235 bps	4,583,614	185,211
Class C2	225 bps	2,928,357	187,516
Class D1	345 bps	4,570,714	180,548
Class D2	335 bps	2,069,028	119,057
		121,796,899	**6,188,404**

2022	Spread over 3 Month Jibar	Interest expense R	Accrued interest R
Class A1	152 bps	3,003,769	3,003,769
Class B1	190 bps	485,048	485,048
Class C1	235 bps	237,345	237,345
Class D1	345 bps	242,855	242,855
		3,969,017	**3,969,017**

8. Subordinated Loan

	2023 R	2022 R
	115,500,000	**57,000,000**

Richefond Circle (RF) Limited entered into an agreement with Investec Bank Limited (through its ICIB division), whereby ICIB would provide the Subordinated to the Commercial mortgage backed security notes issues.

The principal amount of R 115 500 000 Subordinated loan was advanced by Investec Private Bank on 09 March 2022 (R57mn) and again on 27 September 2022 (R58.5mn). Interest payable on the Subordinated loan is payable on quarterly payment dates in accordance with the Priority of Payments.

9. Accrued interest payable

	2023 R	2022 R
Subordinated loan	447 444	305 589
Commercial mortgage backed securities	6 188 404	3 969 017
	6,635,848	**4,274,606**

Richefond Circle (RF) Limited

Notes to the financial statements

for the year ended 31 March 2023

		2023	2022
10.	**Trade and other payables**	**R**	**R**
	Accrued expenses	362 710	66,011
	Accrued interest - SWAP	38,531	70,196
	VAT liability	28 950	-
		430,191	**136,207**
11.	**Interest income**		
	Mortgage advances	101,530,907	-
	Current account - Investec Bank Limited	57,800,736	4,967,219
		159,331,643	**4,967,219**
12.	**Interest expense**		
	Commercial mortgage backed securities		
	- Class A1	59,494,275	3,003,769
	- Class A2	33,429,902	
	- Class B1	9,489,284	485,048
	- Class B2	5,231,725	
	- Class C1	4,583,614	237,345
	- Class C2	2,928,357	
	- Class D1	4,570,714	242,855
	- Class D2	2,069,028	
	Subordinated loan	8,922,015	305,589
		130,718,914	**4,274,606**
	Cash flow hedges- reclassified to profit or loss	7,107,049	70,196
		137,825,963	**4,344,802**
13.	**Other operating expenses**		
	Other operating expenses include the following:		
	Servicing fee (refer to note 15)	920,983	-
	Administration fee (refer to note 15)	87,983	3,466
	Auditor's fee	396,750	23,914
	Sundry expenses	(376,075)	38,631
		1,029,640	**66,011**

Richefond Circle (RF) Limited

Notes to the financial statements
for the year ended 31 March 2023

	2023	2022
14. Taxation	**R**	**R**
South African normal tax		
-current (27%)	7,952,221	155,794
-deferred tax	(2,273,064)	-
Net taxation charge	**5,679,157**	**155,794**

Reconciliation of effective tax rate

	%	2023 R
Income before taxation		21 033 754
Tax using the corporation tax rate	27.0%	5,679,113
- SARS Penalties and Interest	0.0%	44
Total income tax expense	**27.0%**	**5,679,157**

	%	2022 R
Income before taxation		**556 406**
Tax using the corporation tax rate	28.0%	**155,794**
Temporary differences	0.0%	-
Total income tax expense	**28.0%**	**155,794**

During the 31 March 2022 year, the SA Government announced a decrease in the SA rate of corporation tax from 28% to 27% effective for years of assessment ending on/after 1 March 2023. This rate has been substantively enacted

15. Servicing and administration fees - Investec Bank Limited

Investec Bank Limited has been appointed under the terms of a servicing agreement and an administration agreement as servicer and administrator respectively for Richefond Circle (RF) Limited.

Investec Bank Limited charges fees for its services under the servicing agreement to the extent permitted by and in accordance with the Priority of Payments. Such fees are charged at 0.075% (exclusive of VAT) of the outstanding principal balance of the assets as at each monthly determination date.

Investec Bank Limited charges fees for it's administrative services under the administration agreement to the extent permitted by and in accordance with the Priority of Payments. The administration fee is charged at R75 000 (exclusive of VAT) per annum.

In the event that insufficient cash is available for payment for all or part of any servicer or administration fee, Richefond Circle (RF) Limited incurs no obligation to pay that portion of the fee in respect of which no cash is available.

16. Contingencies and commitments

Richefond Circle (RF) Limited has indemnified Richefond Circle Security SPV (Security SPV) in respect of any claims made against the Security SPV arising out of a guarantee provided by Security SPV to the secured creditors of Richefond Circle (RF) Limited.

Cession and pledge

Richefond Circle (RF) Limited has ceded and pledged its right, title and interest in and to the commercial loan assets held to the Security SPV as security for the guarantee provided by the Security SPV. (refer to note 2)

17. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Company, in the ordinary course of business, enters into various transactions with related parties.

17.1 Investec Bank Limited

Investec Bank Limited is the Parent entity of Richefond Circle (RF) Limited. In accordance with the requirements of IFRS 10, Consolidated Financial Statements , Investec Bank Limited consolidates Richefond Circle (RF) Limited. This is because Investec Bank Limited is exposed to variability of returns from Richefond Circle (RF) Limited and has the ability to affect these returns through the power it has.

The following transactions took place and balances existed between Investec Bank Limited and Richefond Circle (RF) Limited:

Servicing and administration fees

Investec Bank Limited is the appointed servicing and administration agent to Richefond Circle (RF) Limited, details of which are set out in Note 15 above. Fees payable to Investec Bank Limited under these agreements during the year amounted to:

	2023	**2022**
	R	**R**
Servicing fee	920 983	-
Administration fee	87 983	3 466
Petty cash	101	100
Bank current account	295,263,358	1,118,967,219

Subordinated loan

Investec Bank Limited (through its ICIB division) has provided the subordinated loan to Richefond Circle (RF) Limited (refer to Note 8) which serves as credit enhancement to the notes. Interest is charged on the subordinated loan in accordance with the Priority of Payments. Interest for the year amounted to R 8,922,015 . The fair value of the subordinated loan approximates its carrying amount

Richefond Circle (RF) Limited

Notes to the financial statements

for the year ended 31 March 2023

17. Related party transactions (Continued)

Investment in notes

On 09 March 2022 and 27 September 2022, Richefond Circle (RF) Limited issued and listed R1.057bn and R1.001bn of notes respectively on the Interest Rate Market of the JSE. A portion of these notes (R46mn) were purchased by Investec Bank Limited. The following balances relating to the investment in the notes were applicable at the end of the year:

	2023 R	2022 R
Commercial mortgage backed securities	46,000,000	2,000,000
Accrued interest on notes	141,315	7,282

intercompany receivables

During the financial year, the entity purchased participating assets (commercial property loans) from Investec Bank Limited (Seller) for an amount of R 1,943,700,468. The balance of these loans at year end is R 1,901,169,966 (refer to note 2) post repayments of R 42,530,502. The expected credit losses arising from these assets recognised in the current year is R1,909,518 (2022: R0)

	2023 R	2022 R
Gross amount outstanding	1,901,169,966	-
Impairment allowance	1,909,518	-

Interest rate swap

Richefond Circle (RF) Ltd has entered into a JIBAR for prime swap with IBL to mitigate the interest rate risk resulting from the mismatch of interest rates on the prime rate linked loans & advances and the JIBAR linked notes payable. The swap required no initial investment. However, interest of R 7,107,049 (2022: R70,196) was paid to Investec Bank Limited in the current year. (refer to note 12)

17.2 Other related party transactions

TMF Corporate Services (South Africa) (Pty) Ltd

Trust and fiduciary fees were charged by TMF Corporate Services (South Africa) (Pty) Ltd, an external service provider the trustees of Richefond Circle Owner Trust and Richefond Circle Security SPV Owner Trust respectively, as follows:

	2023 R	2022 R
TMF Corporate Services (South Africa) (Pty) Ltd	246 100	14 833

Richefond Circle Owner Trust

The Trust was established solely to be a beneficial shareholder of all of the ordinary shares in Richefond Circle (RF) Limited. The Trust is managed by TMF Corporate Services (South Africa) (Pty) Ltd. No payments were made to Richefond Circle Owner Trust during the current year.

Richefond Circle Security SPV

The Security SPV was incorporated for the purposes of holding and realising security for the benefit of Secured Creditors, including Noteholders of Richefond Circle (RF) Limited. No payments were made to the Security SPV during the current year.

Richefond Circle Security SPV Owner Trust

Richefond Circle Security SPV Owner Trust is the sole beneficial shareholder of all the ordinary shares of Richefond Circle Security SPV. No payments were made to the Security SPV Owner Trust during the current year.

18. 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 the risk management processes carried out by Investec Bank Limited.

The collectability of amounts due is subject to credit, liquidity and interest rate risks and will generally fluctuate in response to, among other things, market interest rates, general economic conditions and the financial standing of borrowers.

The more important financial risks to which the Company is exposed are described below:

Liquidity risk

Liquidity risk is the risk that the Company may have insufficient cash to meet its financial obligations, specifically in the short-term.

Cash flows are monitored regularly to ensure that cash resources are adequate to meet the Company's requirements.

Maturities of financial liabilities

2023	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
	R	R	R	R	R	R
Commercial mortgage backed securities **	-	49,428,866	149,003,589	793,034,560	3,241,576,922	**4,233,043,938**
Derivative financial instruments	-	-	-	-	16,918,965	**16,918,965**
Subordinated loan	-	-	-	-	115,500,000	**115,500,000**
Accrued interest	-	6 635 848	-	-	-	**6,635,848**
Trade and other payables	-	430,191	-	-	-	**430,191**
Deferred income	-	-	-	-	6,986,616	**6,986,616**
	-	**56,494,905**	**149,003,589**	**793,034,560**	**3,380,982,503**	**4,379,515,558**

2022	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
	R	R	R	R	R	R
Commercial mortgage backed securities	-	15,990,742	48,204,179	256,554,760	1,504,213,606	1,824,963,287
Derivative financial instruments	-	-	-	-	8,574,357	8,574,357
Subordinated loan	-	-	-	-	57,000,000	57,000,000
Accrued interest	-	4 274 606	-	-	-	4,274,606
Trade and other payables	-	136,207	-	-	-	136,207
	-	**20,401,555**	**48,204,179**	**256,554,760**	**1,569,787,963**	**1,894,948,457**

The maturity analysis for financial liabilities represents the basis for effective management of exposure to structural liquidity risk. The table above shows the undiscounted cash flows (including interest) for all financial liabilities on a contractual basis on the earliest date on which the Company can be required to pay.

Cash flows are monitored on a monthly basis through the Priority of Payments to ensure that cash resources are adequate to meet the necessary requirements.

Commercial mortgage backed securities **

The maturity analysis incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments that show the remaining contractual maturities.

Commercial mortgage backed securities	1-2 years	2-3 years	3-5 years	Total
2023	198 258 640	198 258 640	396 517 280	793 034 560
2022	64 138 690	64 138 690	128 277 380	256 554 760

Subordinated Loan

Amounts relating to the Subordinated Loan have been shown net of future dated interest. This is as a result of how the deal has been structured with interest on the Subordinated loan being serviced as one of the last items on the priority of payments. Should there not be sufficient cash as at each priority of payment date, the interest on the subordinated loan will not paid.

Derivative financial instruments

Derivative financial instruments are reported in the more than 5 year bucket due to the variables used to calculate the MTM on the Cashflow Hedge Reserve being based on the Final Redemption Date of the deal which is 20 May 2034. This is the current MTM on the Cashflow Hedge Reserve as calculated at the 31 March 2023 using IBL agreed variables.

Interest rate risk

Interest rate risk arises when potential changes in relevant interest paid to investors and the rates earned on loans to borrowers and investments, occur at different times, at different rates and with varying degrees of uncertainty. Due to the Company's assets being linked to the prime rate, and the notes linked to the 3 Month Jibar rate, the Company is exposed to interest rate risk. This exposure is mitigated through the interest rate swap entered into with Investec Bank Limited, as derivative counterparty.

The interest rate swap is a Level 2 financial instrument as the swap is not listed in an active market, however the fair value is calculated on directly observable market inputs.

There were no transfers between any of the fair value hierarchy levels during the current year.

As the instrument is classified as a cash flow hedge, any movements in fair value are recognised in other comprehensive income, as far as hedge effectiveness is met. As at year end the hedge was effective.

Operational risk

Operational risk is the risk of direct or indirect losses arising from inadequate or failed internal processes, personnel, technology and other external causes.
Prime responsibility for managing this risk is outsourced in terms of the Servicing Agreement and Administration Agreement to Investec Bank Limited. The Directors of the Company and the trustees are responsible for monitoring the performance of Investec Bank Limited in this regard.

Credit risk

Credit risk represents the financial risk to the Company as a result of a default by the counterparty, that is, failure of counterparty to comply with its obligations to service the outstanding debt. Credit risk is defined in terms of Investec Bank Limited's credit policies and procedures manual, which establishes sound credit risk management processes. These procedures and processes are monitored by the Credit Committee of Investec Bank Limited.

The obligations of each borrower to Richefond Circle (RF) Limited in respect of repayment of a loan are secured by mortgage bonds registered in favour of Richefond Circle (RF) Limited over the property of such borrowers. The collateral of the loans is represented by these properties. As at 31 March 2023, the value of the collateral held is R 4 413 074 964 (2022: R0)

IFRS 9 requirements have been embedded into our company credit risk classification and provisioning policy. A framework has been established to incorporate both quantitative and qualitative measures. Policies for financial assets at amortised cost, in accordance with IFRS 9, have been developed.

Definition of default
The company has aligned the IFRS 9 and regulatory definitions of default, credit impaired and non-performing exposure. Assets that are more than 90 days past due, or considered by management as unlikely to pay their obligations in full without realisation of collateral are considered as exposures in default.

Stage 1
All assets that are considered performing and have not had a significant increase in credit risk will be reported as Stage 1 assets. Under IFRS 9 these Stage 1 financial assets have loss allowances measured at an amount equal to a 12-month ECL.

Stage 2
Financial assets are considered to be in Stage 2 when their credit risk has increased significantly since initial recognition. The company is required to hold a loss allowance equivalent to a lifetime ECL in terms of IFRS 9.

The company’s primary indicator for Stage 2 assets are distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision from Watchlist committees and are under management review. This comprises exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements or idiosyncratic financial distress, or private clients who have undergone a significant deterioration in financial circumstances.

Assets that have been subject to forbearance are considered to be, at a minimum, Stage 2. Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulties. These exposures are assessed on a case by case basis to determine whether the proposed modifications will be considered as forbearance. Where the credit committee considers it likely that the client will be able to return to perform against the original contractual obligations within a reasonable timeframe these assets will be considered performing and in Stage 2. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice.

In addition to loans under management review, an asset may also move from Stage 1 to Stage 2 if the model calculated probability of default (PD) has significantly increased since origination. This is tested as both a relative and absolute measure, to further inform whether a significant deterioration in lifetime risk of default has occurred.

As a backstop, the company does not rebut the presumption in IFRS 9 that all financial assets that are more than 30 days past due have experienced a significant increase in credit risk.

Exposures move back to Stage 1 once they no longer meet the criteria above for a significant increase in credit risk and as cure periods (specifically relating to forborne exposure) are met.

Stage 3
Financial assets will be included in Stage 3 when there is objective evidence of credit impairment. Under IFRS 9, the company assesses a loan as Stage 3 when contractual payments of either principal or interest are past due for more than 90 days, the debtor is assessed as unlikely to pay and credit impaired, or the loan is otherwise considered to be in default, for example due to the appointment of an administrator or in receivership. The company’s policy is not to rebut the presumption in IFRS 9 that loans which are more than 90 days past due are in default.

ECL
The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking and resulting impairment charge may be more volatile. IFRS 9 will result in an increase in the total level of impairment allowances, since all financial assets if not measured at fair value through profit or loss (FVPL) will be assessed for at least 12-month ECL.

Investec management addressed the COVID-19 impact on the Private Bank portfolio (Richefond Circle is managed as part of this portfolio) as follows:
- The ECL as at March 2023 was calculated using revised macroeconomic variable forecasts and scenario weightings.
- Accounts that were up to date prior to the relief measure and the account is expected to remain in up-to-date status once the relief period ends, all other factors remaining constant, will be classified as Stage 1 IFRS 9 purposes with a 12-month ECL.
- Additional staging rule to assess impacted accounts which require COVID-19 relief measures (i.e. payment holidays, restructured credit exposures and loan modifications), where the impact is not considered temporary these accounts are migrated to Stage 2 for IFRS 9 purposes with a lifetime ECL.

Write-offs
The company’s policy on when financial assets are written off has not significantly changed on adoption of IFRS 9. A loan or advance is normally written off, in full, against the related allowance when the proceeds from realising any available security have been received or there is a reasonable amount of certainty that the exposure will not be recovered. Similarly the treatment and recognition of recoveries is unaffected by the implementation of IFRS 9. Any recoveries of amounts previously written off decrease the amount of impairment losses.

Internal credit rating models and ECL methodology

Internal credit rating models cover all material asset classes. These internal credit rating models are also used for IFRS 9 modelling after adjusting for appropriate differences. Internal credit models calculate through the economic cycle losses whereas IFRS 9 requires 12-month or lifetime point-in-time losses based on conditions at the reporting date and multiple economic scenario forecasts of the future conditions over the expected lives.

Key drivers of measurement uncertainty – subjective elements and inputs

The measurement of ECL under IFRS 9 has a continued reliance on expert credit judgement. Key judgemental areas under the implementation of IFRS 9 are highlighted in this document and are subject to robust governance processes. Key drivers of measurement uncertainty include:
- the assessment of a significant increase in credit risk;
- the introduction of a range of forward-looking probability weighted macro-economic scenarios; and
- estimations of probabilities of default, loss given default and exposures at default using models.

In addition to these drivers, some initial judgements and assumptions were required in the design and build of IBL's ECL methodology, which are not considered to have a material impact. This includes the use of income recognition effective interest rates (EIRs) and used as the discount factor in the ECL calculation as well as the use of contractual maturity to assess behavioural lives. In addition where we have experienced limitations on the availability of probability of default origination data for the historic book, a portfolio average has been used in some instances.

ECLs are calculated using three main components:
• a probability of default (PD);
• a loss given default (LGD); and
• the exposure at default (EAD).

Under IFRS 9, the 12-month and lifetime PDs represent the probability of a default occurring over the next 12 months or the lifetime of the financial exposures, respectively, based on conditions existing at the balance sheet date and future forecast macro-economic conditions that affect credit risk.

The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money. The forecast value for the collateral is also affected by the range of forward-looking probability weighted macro-economic scenarios.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a committed facility.

The calculation of the 12-month ECL is based on the 12-month PD and LGD along with the EAD and effective interest rate (EIR) for the asset. Lifetime ECL is calculated using the lifetime PD curve, and the appropriate LGDs and EADs and discount rates derived from the EIR based on the remaining life of the financial asset.

Expert judgement models have also been utilised for certain portfolios where the ECL is found to be minimal, either due to the portfolio's small relative size or the low default nature of these portfolios, such as cash and balances held at central banks.

Management adjustments are made to modelled output to account for situations where additional information and known or expected risk factors have not been captured in the modelling process.

Forward-looking macro-economic scenarios

The measurement of ECL also requires the use of multiple economic scenarios to calculate a probability weighted forward-looking estimate. These scenarios are updated at least twice a year, or more frequently if there is a macro-economic shock or significant shift in expectations. The weighting of these scenarios for IFRS 9 as well as the scenarios themselves are discussed and approved by Investec Bank Limited's capital committee, which forms part of the principal governance framework for macro-economic scenarios.

A number of forecast economic scenarios are considered for capital planning, stress testing (including IBL specific stress scenarios) and IFRS 9.

For the company, five macro-economic scenarios are used in the measurement of ECL under IFRS 9. These scenarios incorporate a base case, two upside cases and a two downside cases. The aim of this economic scenario generation process is to provide a view of the current and projected state of the South African economy and the different economic scenarios that could occur in various stressed or improved environments over the next five years for a number of identified variables/risk drivers.

Richefond Circle (RF) Limited

Notes to the annual financial statements

for the year ended 31 March 2023 (Continued)

An analysis of credit quality by internal rating grade

The bank uses a 25-grade internal rating scale which measures the risk of default to an exposure without taking into account any credit mitigation, such as collateral. This internal rating scale allows the group to measure credit risk consistently across portfolios. The internal rating scale is derived from a mapping to PDs and can also be mapped to external rating agency scales. The below information replaces the Overall asset quality information previously provided which showed the breakdown as per IAS39. There is no correlation between the current table and the table previously reported.

PD range	Investec internal rating scale	Indicative external rating scale
less than 0.538%	IB01 – IB12	AAA to BBB-
0.538% – 6.089%	IB13 – IB19	BB+ to B-
greater than 6.089%	IB20 – IB25	B- and below
	Stage 3	D

The internal credit rating distribution below is based on the 12-month PD at 31 March 2023 for gross core loans subject to ECL by stage. The staging classifications are not only driven by the absolute PD, but on factors that determine a significant increase in credit risk, including relative movement in PD since origination. There is therefore no direct correlation between the credit quality of an exposure and its stage classification as shown in the table below:

2023

	IB01-IB12	IB13-IB19	IB20-IB25	Stage 3	Total
Gross core loans and advances subject to ECL	**990,466,591**	**910,703,375**	**-**	**-**	**1,901,169,966**
Core loans Stage 1	990,466,591	910,703,375	-	-	1,901,169,966
Core loans Stage 2	-	-	-	-	-
Core loans Stage 3	-	-	-	-	-
ECL	**(276,513)**	**(1,633,006)**	**-**	**-**	**(1,909,518)**
Core loans Stage 1 ECL	(276,513)	(1,633,006)	-	-	(1,909,518)
Core loans Stage 2 ECL	-	-	-	-	-
Core loans Stage 3 ECL	-	-	-	-	-
Coverage Ratio	**0.03%**	**0.18%**	**0.00%**	**0.00%**	**0.10%**

2022

	IB01-IB12	IB13-IB19	IB20-IB25	Stage 3	Total
Gross core loans and advances subject to ECL	**-**	**-**	**-**	**-**	**-**
Core loans Stage 1	-	-	-	-	-
Core loans Stage 2	-	-	-	-	-
Core loans Stage 3	-	-	-	-	-
ECL	**-**	**-**	**-**	**-**	**-**
Core loans Stage 1 ECL	-	-	-	-	-
Core loans Stage 2 ECL	-	-	-	-	-
Core loans Stage 3 ECL	-	-	-	-	-
Coverage Ratio	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**

Credit quality analysis

2023	**Stage 1 ECL**	**Stage 2 ECL**	**Stage 3 ECL**	**Total ECL**
Intercompany receivable	1,909,518	-	-	1,909,518

2022	**Stage 1 ECL**	**Stage 2 ECL**	**Stage 3 ECL**	**Total ECL**
Intercompany receivable	-	-	-	-

Richefond Circle (RF) Limited

Notes to the annual financial statements

for the year ended 31 March 2023 (continued)

19. Financial assets and liabilities

Analysis of assets and liabilities by measurement basis

2023	Amortised Cost	Mandatorily at fair value through profit or loss	Liabilities at amortised cost	Non-financial instruments/financial instrument excluded from IFRS9	Total
	R	R	R	R	R
Assets					
Intercompany receivable	1,899,260,448	-	-	-	**1,899,260,448**
Cash and cash equivalents*	303,977,958	-	-	-	**303,977,958**
Deferred tax asset	-	-	-	6,841,184	**6,841,184**
	2,203,238,406	-	-	**6,841,184**	**2,210,079,590**
Liabilities					
Commercial mortgage backed securities	-	-	2,058,000,000	-	**2,058,000,000**
Subordinated loan	-	-	115,500,000	-	**115,500,000**
Accrued interest*	-	-	6,635,848	-	**6,635,848**
Deferred income*	-	-	6,986,616	-	**6,986,616**
Current tax liability	-	-	-	2,203,502	**2,203,502**
Derivative financial instruments	-	16,918,965	-	-	**16,918,965**
Trade and other payables*	-	-	430,195	-	**430,195**
	-	**16,918,965**	**2,187,552,659**	**2,203,502**	**2,206,675,126**

* For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

20. Fair values of financial instruments

Valuation models

For more complex instruments, the Company uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Company believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company entity and the counterparty where appropriate. For measuring derivatives that might change classification from being an asset to a liability or vice versa such as interest rate swaps, fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (DVA) when market participants take this into consideration in pricing the derivatives.

The Company's methodology for valuing these asset-backed securities uses a discounted cash flow technique that takes into account the probability of default and loss severity by considering the original underwriting criteria, vintage borrower attributes, LTV ratios, expected property price movements and expected prepayment rates. These features are used to estimate expected cash flows, which are then allocated using the 'waterfall' applicable to the security and discounted at a risk-adjusted rate. The discounted cash flow technique is often used by market participants to price asset-backed securities. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results

Valuation framework

The Company has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Financial Director; and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- re-performance of model valuations;
- analysis and investigation of significant daily valuation movements; and

Financial instruments measured at fair value - Fair value hierarchy

	Level 2
	R
	2023
Cash flow hedge	**(16,918,965)**

	R
	2022
Cash flow hedge	**(8,574,357)**

21. Going Concern

Management have made an assessment of the company's ability to continue as a going concern and there is no reason to believe that the company will not be a going concern in the year ahead.

Secured creditors have agreed to certain subordination, non-petition, and enforcement clauses.

Each Noteholder agrees that its claims against the Issuer and the Security SPV are subordinated for the benefit of other Secured Creditors in accordance with the Priority of Payments.

Once all the assets of the Issuer have been extinguished, each Noteholder abandons all claims it may have against the Issuer in respect of amounts still owing to it but unpaid, and the Issuer's liability to the Noteholders shall be completely discharged.

Each Noteholder agrees that only the Security SPV may enforce the security created in favour of the Security SPV by the Security Agreements in accordance with the provisions of the Security Agreements and the Transaction Documents.

The rights of Noteholders against the Issuer will be limited to the extent that the Noteholders will not be entitled to take any action or proceedings against the Issuer.

The Noteholders will not, until 2 years following payment of all amounts outstanding and all the other Transaction Documents, institute, or join with any person in instituting or vote in favour of, any steps or legal proceedings for the winding-up, liquidation, de-registration, supervision by a business rescue practitioner, or any compromise or scheme of arrangement or related relief.

Furthermore, in accordance with the transaction documents, when all assets have been expunged, all secured creditors will waive their claims against the Company. Because of this legal set-up, the Company's outgoing cash flows are limited to both its assets and the yield on these assets and it therefore continues to operate as a going concern.

22. Events after the reporting date

No material events have occurred between 31 March 2023 and the date of this report.