SuperDrive Investments (RF) Limited

(Registration Number 2011/000895/06)
Annual Financial Statements
for the year ended 31 December 2020

In terms of S29(1)(e)(ii) of the Companies Act 71 of 2008 as amended, we confirm that the following financial statements were prepared by Rodney Roberts under supervision of Candice Snyders (CA)SA at Maitland Corporate Services Proprietary Limited, the Administrator.

The following financial statements have been audited in compliance with S30 of the Companies Act 71 of 2008 as amended.

Contents

Directors' Responsibilities and Approval

The directors are responsible for the preparation and fair presentation of the financial statements of SuperDrive Investments (RF) Limited, comprising the statement of financial position at 31 December 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, as well as 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 ability of the company 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 reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of financial statements

The directors, whose names are stated below, hereby confirm that:

a) the annual financial statements set out on pages 16 to 50 fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of IFRS;

b) no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;

c) internal financial controls have been put in place to ensure that material information relating to the company has been provided to effectively prepare the financial statements of the company; and

d) the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the audit committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action.

The annual financial statements were approved by the board of directors and signed on the company's behalf by:

AM Koser	RI Angus
Director	Director
28 April 2021	28 April 2021

Directors' Report

The directors present their report for the year ended 31 December 2020.

Nature of business

The main purpose of the company is to acquire the rights, title and interest in vehicle instalment sale agreements, pursuant to a securitisation scheme. Funds of the securitisation scheme are raised directly or indirectly by the issue of debt instruments in order to manage the assets so acquired. The ordinary shares of the company are owned by the SuperDrive Investments Issuer Owner Trust. A separate security special purpose vehicle, SuperDrive Investments Guarantor SPV (RF) Proprietary Limited ("Security SPV"), holds and will if obliged to, realise security in the form of the instalment sale vehicle assets for the benefit of the debt security holders, having furnished a limited recourse guarantee to these parties. The company has indemnified the Security SPV in respect of claims made by the debt security holders and other creditors who are secured under the guarantee. As security for the indemnity, the company has ceded and pledged the assets of the company to the Security SPV. The ordinary shares of the Security SPV are owned by the SuperDrive Investments Guarantor SPV Owner Trust.

Financial results

The financial results of the company are set out in the financial statements and accompanying notes.

Directors' interest

The directors and officers have no interests in the company.

Share capital

Details of the authorised and issued share capital of the company appear in note 8 of the financial statements. As at 31 December 2020, BMW Financial Services (South Africa) Proprietary Limited owned the company's sole preference share. In terms of International Financial Reporting Standards (IFRS), the company is consolidated into BMW Financial Services (South Africa) Proprietary Limited's consolidated financial statements, which is subsequently consolidated into BMW (South Africa) Proprietary Limited's consolidated financial statements.

Directors

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

Director	Appointed
AM Koser (Executive director)	1 February 2016
OA Ferreira (Alternate) (Independent non-executive director)	31 December 2016
R Thanthony (Independent non-executive director)	15 February 2013
RI Angus (Chairman) (Independent non-executive director)	17 April 2019
BL Dube (Independent non-executive director)	1 November 2019

Certificate by company secretary

The registered company secretary is TMF Corporate Services (South Africa) Proprietary Limited. The company secretary certifies that the company has filed all the required returns and notices in terms of the Companies Act, and that all such returns and notices appear to be true, correct and up to date.

C. Heystek

TMF Corporate Services (South Africa) Proprietary Limited
Company secretary
28 April 2021

Directors' Report (continued)

Dividend

No dividend was declared nor paid to the shareholder during the current or previous year.

Social and Ethics

The social and ethics committee was established as of 1 January 2017, with AM Koser, BL Dube and R Thanthony as its members.

Service providers

Registered company secretary:
TMF Corporate Services (South Africa) Proprietary Limited

Administrator:
Maitland Outsourced Securitisation Services Proprietary Limited

Auditor:
PricewaterhouseCoopers Inc.

Servicer:
BMW Financial Services (South Africa) Proprietary Limited

Going Concern

The company recorded a profit of R633 000 (2019: R28 727 000) for the year ended 31 December 2020. As at 31 December 2020 the company had a net asset position of R142 737 000 (2019: R142 104 000).

Compared to the previous year, the company's profit for the year decreased by R28.1m. Due to the lower portfolio of Auto Loans, net interest income and other income decreased by a total of R32.2m, the fair value changes of derivative instruments improved by R15.4m, the impairment charges increased by R25.2m (mainly due to a negative once off impact of the COVID-19 pandemic), and other expenses and taxation improved by a total of R13.9m.

With the current COVID-19 pandemic, payment moratoriums were offered to eligible clients on a request basis. This moratorium entailed a payment holiday of three to six months, however a limited number of customers were granted a longer period of nine months. During the payment holiday interest accrued at the contractual rate. At the end of the payment holiday, in order to repay the deferred amount including accrued interest, the customers had the option to adjust their instalment, extend the term of the facilities or elect to repay the deferred amount in full. However, even with the relief provided, the company has seen a negative once off impact in 2020 from the pandemic on the impairment charges estimated at R20m. Business operations for the Servicer and the Administrator are continuing during the nation-wide lockdown as per Business Continuity Plans.

As a result of the above, the directors believe that the company is liquid and solvent and would be able to settle its current liabilities as they become due. The directors are satisfied that the company has adequate resources to continue as a going concern for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing the financial statements.

Directors' Report (continued)

Subsequent events

All events subsequent to the date of the annual financial statements and for which the applicable financial reporting framework require adjustment or disclosure have been adjusted or disclosed.

On 24 February 2021 the Minister of Finance announced a proposed reduction in the corporate income tax rate from 28% to 27%. The proposed rate change is effective for companies with years of assessment commencing on or after 1 April 2022. Once enacted as proposed, the rate reduction will only impact the companies deferred and current tax balances from the 2023 financial year onwards. The deferred tax balances as at 31 December 2020 are therefore reflected at the substantively enacted tax rate of 28%.

The directors are not aware of any other matters or circumstances arising since the end of the financial year to the date of this report that could have a material effect on the financial position of the company.

Business Address	**Postal Address**
3rd floor, 200 on Main	Postnet suite 294
Cnr Main and Bowwood Roads	Private Bag X1005
Claremont	Claremont
Cape Town	Cape Town
7708	7735

Corporate Governance Statement

The company is fully committed to the principles of the Code of Corporate Practices and Conduct ('the Code") as set out in the King IV Report on Corporate Governance. In supporting the Code, the directors recognise the need to govern the company with integrity and in accordance with generally accepted corporate practices. The company is in compliance with its memorandum of incorporation.

For the period under review the board indicated that it was satisfied with the way in which the company applied the recommendations of King IV, or put alternative measures in place where necessary.

King IV principles have been applied on this entity. A detailed application register is available on the following website: https://www.bmw.co.za/en/topics/offers-and-services/bmw-financial-services/investor-relations.html

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 December 2020.

The audit committee is an independent statutory committee appointed by the shareholder. Further duties are delegated to the audit committee by the board of directors of the company. This report includes both these sets of duties and responsibilities.

Members of the audit committee

R Thanthony (Chairperson)
RI Angus
BL Dube

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 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 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 auditor.

The audit committee held meetings on 23 April 2020 and on 27 November 2020 during which it reviewed its audit committee charter and fulfilled its responsibilities in terms thereof.

Expertise and experience of Management

The servicing of the company’s assets is performed by BMW Financial Services (South Africa) Proprietary Limited ("Servicer"), whilst the accounting records are prepared by Maitland Corporate Services Proprietary Limited (“Administrator”) (jointly hereinafter “Management”). The Servicer’s 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 who reports to the Board.

The on-going fiduciary services of the company are performed by the registered company secretary, TMF Corporate Services (South Africa) Proprietary Limited.

Independence of external auditor

The committee satisfied itself through enquiry that the external auditor is independent as defined by the Companies Act 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 71 of 2008 as amended that internal governance processes within the firm support and demonstrate the claim to independence.

The independent auditor is PricewaterhouseCoopers Inc.

The audit committee, after consultation with the Servicer and 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 16 in the financial statements.

Report of the Audit Committee (continued)

Discharge of responsibilities

The 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 71 of 2008 as amended. The Board concurred with the assessment.

The committee performed all duties in accordance with its mandate during the year under review, including but not limited to, the following activities:

- Reviewed the reports of the external auditor regarding their audit and requested appropriate responses from management;
- Recommed the external auditor's fees for the 2020 annual financial statement audit for the Board to approve;
- Considered the independence and objectivity of the external auditor; and
- Complied with the JSE debt listing requirements.

Annual Financial Statements

Following the review by the committee of the annual financial statements of the company for the year ended 31 December 2020 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 71 of 2008, as amended, International Financial Reporting Standards, and that the accounting policies applied, are appropriate.

The committee recommended the company's 2020 annual financial statements for approval by the Board on 28 April 2021.

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

On behalf of the audit committee:

R Thanthony
Chairperson of the Audit Committee
28 April 2021

Independent auditor's report

To the Shareholder of SuperDrive Investments (RF) Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SuperDrive Investments (RF) Limited (the Company) as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

What we have audited

SuperDrive Investments (RF) Limited's financial statements set out on pages 16 to 50 comprise:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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

Independence

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).*

Our audit approach

Overview

	Overall materiality • Overall materiality: R48.7 million, which represents 1% of total assets.
	Key audit matters • Expected credit loss on BMW Financial Services receivable (Auto Loans).

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	R48.7 million.
How we determined it	1% of total assets.
Rationale for the materiality benchmark applied	The Company is funded out of debt rather than equity, hence it's borrowers are likely to be more concerned with the asset quality over the profitability of the Company. The Company purchased the underlying right to receive interest and capital on a portion of BMW Financial Services (South Africa) Proprietary Limited's (BMW FS) retail car sales, who is also the Company's service provider in respect of these loans. The resulting intercompany auto loan receivable represents 90.92% of the total assets of the Company. Management's primary focus is growing the advances within BMW FS with specific portions of higher

	credit quality assets then securitised within the Company, which then forms the revenue growth for the Company. We chose 1% based on our professional judgement and after consideration of the range of quantitative materiality thresholds that we would typically apply when using total assets to compute materiality.

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Expected credit loss on BMW Financial Services receivable (Auto Loans) At 31 December 2020, auto loans receivable from BMW FS amounted to R5 524 million against which an expected credit loss ("ECL") of R371 million was recognised. The ECL on the Company's auto loans receivable is assessed based on the participating assets issued by BMW FS. This was calculated by management of BMW FS, the appointed service provider of the Company, by applying IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9 requires the recognition of ECL on all financial assets within the scope of its impairment model, which includes the auto loans receivable. The impairment of the auto loans receivable was considered to be a matter of most significance to our current year audit due to the following: • The level of subjective judgement applied by management in determining the ECL on participating assets; • The uncertainty related to unprecedented global and local economic stress; • The effect that ECL has on the magnitude of the impairment recognised in relation to the auto loans receivable and on the Company's credit risk disclosures; and	We obtained an understanding through a walkthrough performed, of management's impairment assessment of loans and advances and assessed the impact of the service organisation in the context of the financial statements of the Company. We evaluated the identified audit risks at BMW FS which encompasses the loan value and ECL at year end as well as its respective audit approaches throughout all phases of the audit process. Based on our procedures performed, we did not note any matters requiring further consideration in respect of the participating assets. **ECL for participating assets** Utilising our credit and actuarial expertise, we performed the following procedures: • We obtained an understanding of the methodologies and assumptions used by management in the various ECL model components (PD, EAD and LGD) and how these were calibrated to use historical information to estimate future cash flows. This was obtained by reading the BMW FS's IFRS 9 methodology document and conducting interviews with management; • We reperformed the LGD and the effective interest rate calculation, and backtested the PD's and EAD's. We assessed the exposure-weighted actual default rate in a 12-month observation period; the

- The magnitude of the auto loans receivable balance recognised in the financial statements.

The Company is exposed to credit risk. Origination, credit mitigation and monitoring of the participating assets is performed by BMW FS in terms of the servicing arrangements of the Company's asset-backed note programme.

Due to the nature of participating assets a significant portion of the impairment is calculated on a portfolio basis. This requires the use of statistical models incorporating data and assumptions which are not always necessarily observable.

Management applies professional judgement in developing the credit impairment models, analysing data and determining the most appropriate assumptions and estimates. Judgement and estimates applied include the following:

- Calibration of the ECL statistical model components (probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"));
- Determination of the impact of forward-looking macroeconomic information (as represented by the prime interest rate) on the portfolio credit risk; and
- Determination of the write-off point applied in calculating the ECL.

The significant judgement applied is the determination of a significant increase in credit risk (SICR), which includes the following:

- Instruments that are more than 30 days past due are generally considered to have experienced a SICR;
- Established thresholds for SICR are based on a percentage change in lifetime PD relative to initial recognition; and
- A set of portfolio-specific qualitative criteria that are indicative of a SICR are used to supplement the lifetime PD comparison to the PD at the date of initial recognition.

Refer to the following accounting policies and notes to the financial statements for details:

- Accounting policy note 1.1.1 - Judgements, estimates and assumptions;

number-weighted actual default rate in a 12-month observation period; and the average PD applied in the BMW FS's ECL workbook and recalculated realised LGDs per default month. The realised LGDs showcased included all default outcomes and this was compared to realised LGD's. No material exceptions were noted;

- We performed an independent forward-looking assessment. In order to incorporate forward-looking information into the PD model, a sigmoid transformation was used. Before being entered into the Ordered Probit Model, macro-economic variables were standardised and transformed resulting in the sigmoid transformed values. In order to assess the impact of the forward-looking adjustment, we performed the following:
  - Compared the default rate trends seen in 2020 to the PD;
  - Developed an independent PD regression model based on GDP and compared to management's PD; and
  - Assessed any increase in the shortfalls experienced from repossessed cars to inform the need for an adjustment to LGDs.

  No material exceptions were noted; and
- We performed "inputs testing" to obtain comfort over the accuracy of the data by agreeing a sample of the data applied by management in their ECL calculation model, from contract to source system which contains the loans data. No material exceptions were noted.

We also tested the design, implementation and, where appropriate, operating effectiveness of relevant controls over the model used to calculate impairments, including controls relating to data.

Evaluation of SICR

Utilising our credit and actuarial expertise, we performed the following procedures:

- We calculated a transfer ratio where we compared the movement of performing accounts into arrears over a 12 month period. This percentage was compared to the proportion of accounts moved into Stage 2 as a result of SICR;
- The transfer ratio calculated as described above was used to test if the Company's SICR assumptions and criteria was moving enough exposure into Stage 2. This included benchmarking the volume of up-to-date accounts transferred to stage 2 based on history; and

- Accounting policy note 1.2.2.3 - Financial instruments, Impairment of financial assets;
- Note 4 - BMW Financial Services receivable (Auto Loans);
- Note 15 - Impairment charges; and
- Note 20.1 - Credit risk.

- To determine the impact of change in SICR thresholds on the ECL recognised, we performed a sensitivity analysis of SICR.

Based on our procedures performed, no material exceptions were noted on management's application of the SICR criteria.

Other elements of the ECL

We performed the following procedures on the other elements of the ECL with no material exceptions noted:

- Considered the use of the South African prime rate in the forward-looking economic model as well as the macro-economic outlook. We compared these to our independent methodology that considered other macroeconomic variables and market data; and
- Independently quantified the impact on PD's.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "SuperDrive Investments (RF) Limited Annual Financial Statements for the year ended 31 December 2020", which includes the Directors' Report, the Report of the Audit Committee and the Certificate by 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 identified above 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 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the 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 PricewaterhouseCoopers Inc. has been the auditor of SuperDrive Investments (RF) Limited for 2 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: S Beyers

Registered Auditor

Johannesburg, South Africa
29 April 2021

SuperDrive Investments (RF) Limited

(Registration Number 2011/000895/06)
Annual financial statements for the year ended 31 December 2020

Statement of Financial Position

at 31 December 2020

	Notes	31 Dec 2020 R'000	31 Dec 2019 R'000
ASSETS			
Cash and cash equivalents	2	169,988	389,425
Trade and other receivables	3	242,709	309,278
BMW Financial Services receivable (Auto Loans)	4	4,428,012	5,437,978
Derivative financial asset	6	-	12,996
Deferred tax asset	7	29,603	21,786
Total assets		4,870,312	6,171,463
EQUITY AND LIABILITIES			
Capital and reserves		142,737	142,104
Share capital	8	-	-
Retained income		142,737	142,104
Liabilities		4,727,575	6,029,359
Trade and other payables	9	9,666	7,511
Current tax liabilities	5	341	144
Subordinated loans	10	1,060,802	1,357,018
Debt securities	11	3,646,930	4,664,686
Derivative financial liability	6	9,836	-
Total equity and liabilities		4,870,312	6,171,463

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2020	Restated 2019	
		R'000	R'000	
Interest income using effective interest rate	12.1	443,813	646,778	*
Other interest income	12.2	17,952	15,841	
Interest expense	13	(389,160)	(568,569)	
Net interest income		72,605	94,050	*
Other income	14	26,822	37,597	
Fair value changes of derivative instruments		(20,855)	(36,259)	
Total income		78,572	95,388	*
Impairment charges	15	(42,858)	(17,656)	*
Other expenses	16	(35,235)	(37,827)	
Profit before taxation		479	39,905	
Taxation	17	154	(11,178)	
Total comprehensive income for the year		633	28,727	

* This amount has been restated. However, the restatement had no impact on the profit before taxation as previously reported. Please refer to note 23 for further details.

Statement of Changes in Equity

	Share Capital #	Retained income	Total
	R'000	R'000	R'000
Balance at 1 January 2019	-	113,377	113,377
Total comprehensive income for the year	-	28,727	28,727
Balance at 31 December 2019	-	142,104	142,104
Total comprehensive income for the year	-	633	633
Balance at 31 December 2020	-	142,737	142,737

Due to the financial statement being disclosed in R'000, the share capital of R100.01 does not reflect above.
Please refer to note 8.

Statement of Cash Flows

	Notes	2020 R'000	Restated 2019 R'000
Cash flows from operating activities			
Cash generated from / (utilised in) operations	18	61,079	(301,416) *
Interest received	18.1	502,449	676,330 *
Interest paid	18.2	(420,551)	(575,240)
SARS interest received	14	-	122
Taxation paid	5	(7,466)	(14,043)
Net cash from / (used in) operating activities		135,511	(214,247)
Cash flows generated from investing activities			
Settlement of income earning assets	4	2,777,948	1,802,270
Buybacks of income earning assets	4	420,127	510,367
Acquistion of income earning assets	4	(2,270,443)	(1,853,998)
Net cash inflow from investing activities		927,633	458,639
Cash flows used in financing activities			
Settlement from redemption of debt securities	11	(994,000)	(1,450,000)
Proceeds from debt securities issued	11	-	1,099,000
Decrease of subordinated loan	10	(288,581)	(113,993)
Net cash outflow used in financing activities		(1,282,581)	(464,993)
Net decrease in cash and cash equivalents		(219,437)	(220,601)
Cash and cash equivalents at beginning of the year		389,425	610,026
Cash and cash equivalents at end of the year	2	169,988	389,425

* This amount has been restated. However, the restatement had no impact on the profit before taxation as previously reported. Please refer to note 23 for further details.

1. Accounting policies

The company is domiciled in South Africa. All accounting policies applied are consistent with those applied in previous years and are in compliance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act in South Africa.

These accounting policies represent a summary of the significant accounting policy elections of SuperDrive Investments (RF) Limited.

1.1 Basis of preparation

The financial statements at 31 December 2020 are prepared in accordance with the going concern principle and are presented in South African Rands (the company's functional currency) on the historical cost basis, except for the derivative financial instruments, which are stated at fair value.

Rounding policy

All amounts are presented in Rand thousand (R'000). The company has a policy of rounding in increments of R500. Amounts less than R500 will therefore round down to R nil and are presented as a dash.

1.1.1 Judgements, estimates and assumptions

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. Judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting judgements, estimates and assumptions made by the company, except those related to fair value measurement which are included in note 22.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods. Significant increase in credit risk (SICR) is a significant judgment. Please refer note 20.1.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 1.2.2.3 - Impairment of financial assets
- Note 1.3 - Taxation
- Note 20.1 - Credit risk

1.1.2 Change in accounting policies

The accounting policies are consistent with those applied in the previous years.

1. Accounting policies (continued)

1.1 Basis of preparation (continued)

1.1.3 COVID-19 impact on significant judgements and on overall application of the going concern principle

The COVID-19 pandemic has developed rapidly in 2020, with governments worldwide having declared national lockdowns to contain the virus. These measures taken have affected economic activity as well as the company's business. While the specific areas of judgement detailed in note 1.2.2.3, 1.3 and 20.1 did not change, the dynamic and evolving nature of the COVID-19 pandemic and limited recent experience of the economic and financial impact of such a pandemic have resulted in additional judgement within the following areas:

1.1.3.1 Impairment of financial assets

Forward looking information including scenarios that may possibly be an indication of defaults of clients have been taken into account to determine the expected credit loss allowances. These scenarios take into account specifically the impact of the COVID-19 pandemic on our customer base. Please refer to note 1.2.2.3 (Impairment of financial assets) for more detail.

1.1.3.2 Credit risk

A systematic and targeted approach to the impact of the COVID-19 pandemic on the customer base was taken as the COVID-19 pandemic was seen as a significant increase in credit risk trigger that may result in the entire portfolio of receivables moving to the respective stages. Please refer to note 20.1 (Credit risk) for more detail.

1.1.3.3 Overall application of the going concern principle

With the current COVID-19 pandemic, payment moratoriums were offered to eligible clients on a request basis. This moratorium entailed a payment holiday of three to six months, however a limited number of customers were granted a longer period of nine months. During the payment holiday interest accrued at the contractual rate. At the end of the payment holiday, in order to repay the deferred amount including accrued interest, the customers had the option to adjust their instalment, extend the term of the facilities or elect to repay the deferred amount in full. However, even with the relief provided, the company has seen a negative once off impact in 2020 from the pandemic on the impairment charges estimated at R20m. Business operations for the Servicer and the Administrator are continuing during the nation-wide lockdown as per Business Continuity Plans.

As a result of the above, the directors believe that the company is liquid and solvent and would be able to settle its current liabilities as they become due. The directors are satisfied that the company has adequate resources to continue as a going concern for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing the financial statements.

1.2 Financial instruments

1.2.1 Recognition and de-recognition

Financial instruments are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the company’s contractual rights to the cash flows from the financial assets expire or if the company transfers the financial asset to another party without retaining control or substantially all risk and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e. the date that the company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the company’s obligations specified in the contract expire or are discharged or cancelled.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.2 Financial assets

1.2.2.1 Classification

The company applies IFRS 9 and classifies its financial assets in the following measurement categories:

- At fair value through profit or loss ("FVTPL") and
- At amortised cost.

The classification of financial assets depends on:

- the business model within which the financial assets are held and managed; and
- the contractual cashflow characteristics of the financial assets, i.e. whether the cashflows represent ‘solely payments of principal and interest’.

Business model assessment

The company makes an assessment of the objective of the business model in which an asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management.

The company financial assets include BMW Financial Services receivable (Auto Loans), Trade and other receivables and Cash and cash equivalents.

Depending on the business model and the structure of contractual cash flows, financial assets are classified as follows:

- At amortised cost

The three instruments classified as "at amortised cost" are: BMW Financial Services receivable (Auto Loans), Trade and other receivables as well as Cash and cash equivalents.

- At fair value through profit or loss

Derivative financial assets are classified as "at FVTPL".

1.2.2.2 Measurement

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

Subsequent to initial recognition, financial assets which are classified as "at amortised cost" are measured at amortised cost. The amortised cost is the amount at which financial assets are measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any expected credit loss allowance.

Subsequent to initial recognition, financial assets which are classified as "at FVTPL" are measured at fair value.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.2 Financial assets (continued)

1.2.2.2 Measurement (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits predominantly with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the company in the management of its short-term liabilities. Money at the permitted investments bank account (call deposit) constitutes a cash reserve held as collateral to noteholders, withdrawable in 24 hours or less. Cash and cash equivalents are stated at amortised cost, which approximates fair value.

Trade and other receivables

Trade and other receivables are stated at amortised cost.

BMW Financial Services receivables (Auto Loans)

BMW Financial Services receivables (Auto Loans) are measured at amortised cost using the effective interest rate method.

Derivative financial assets

Derivative financial assets are used within the company for economic hedging purposes in order to reduce interest rate risk, arising from operating activities and the related financing requirements.

All derivative financial assets are measured at their fair value. The fair values of derivative financial instruments are determined using measurement models, as a consequence of which there is a risk that the amounts calculated could differ from realisable market prices on disposal. Observable financial market price spreads are taken into account in the measurement of derivative financial instruments. The supply of data to the model used to calculate fair values also takes into account tenor and currency basis spreads. In addition, the company's own default risk and that of counterparties is taken into account on the basis of credit default swap values for market contracts with matching terms.

The company applies the option of measuring the credit risk for a group of financial assets and financial liabilities on the basis of its net exposure. Portfolio-based value adjustments to the individual financial assets and financial liabilities are allocated using the relative fair value approach (net method).

1.2.2.3 Impairment of financial assets

The company applies the general approach described in IFRS 9 to determine impairment of financial assets. Under the general approach, expected credit loss allowances are measured on initial recognition on the basis of the expected 12-month credit loss (stage 1). If the credit loss risk at the end of the reporting period has increased significantly since initial recognition, the expected credit loss allowances are measured on the basis of lifetime expected credit losses (stage 2 - general approach).

As a general rule, the company assumes that a receivable is in default if it is more than 90 days overdue or if there are objective indications of insolvency. Credit-impaired assets are identified as such on the basis of this definition of default. In the case of stage 3 assets, interest income is calculated on the asset's gross amount less any expected credit loss.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.2 Financial assets (continued)

1.2.2.3 Impairment of financial assets (continued)

Expected credit loss allowances on receivables are determined primarily on the basis of past experience with credit losses, current data on overdue receivables, rating classes and scoring information. Forward-looking information (for instance forecasts of key performance indicators i.e. the SA prime rate) is also taken into account if, based on past experience, such indicators show a substantive correlation to actual credit losses.

The impact of the COVID-19 pandemic remains deep, however the large fiscal and monetary policy support that has been provided by the global central banks and governments has stabilised financial conditions and has resulted in low interest rates.

The reduction of cases of the COVID-19 pandemic, and the related reduction of restrictions of economic activity has allowed people to return to work and also to boost supply in the economy. In addition, with the introduction of the payment moratoriums to the client base, this has resulted in relief of liquidity constraints.

All of these factors have been taken into account to determine the probability of default of the customer base to determine the expected credit loss allowances. Please refer to note 20.1 (Credit risk) for more detail.

Trade and other receivables

The company applies the simplified approach described in IFRS 9, whereby the amount of the expected credit loss allowance is measured subsequent to the initial recognition of the receivable on the basis of lifetime expected credit losses (stage 2 - simplified approach).

1.2.3 Financial liabilities

1.2.3.1 Classification

Management determines the classification of financial liabilities at initial recognition. The company classified its financial liabilities as:

- At amortised cost

The instruments classified as "at amortised cost" are: Debt securities, Subordinated loans and Trade and other payables.

- At fair value through profit or loss ("FVTPL")

The instrument classified as "at FVTPL" is: Derivative financial liability.

1.2.3.2 Measurement

Financial liabilities as "at amortised cost" are initially measured at fair value including transaction costs, and subsequently at amortised cost using the effective interest method.

Derivatives are measured at fair value.

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.4 Offsetting financial instruments

Financial assets and financial liabilities are off-set and the net amount reported in the statement of financial position when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Please refer to note 6 for derivative financial assets and liabilities currently being offset.

1.2.5 Write off

The company writes off financial assets when it has no reasonable expectation of recovering the amounts concerned. This may be the case, for instance, if the debtor is deemed not to have sufficient assets or other sources of income to service the debt.

1.3 Taxation

The calculation of the company's taxation charge and provision for income taxes necessarily involves a degree of estimation and judgement. There are transactions and taxation computations for which the ultimate taxation treatment or result is uncertain, or in respect of which the relevant taxation authorities may or could indicate disagreement with the company’s treatment and accordingly the final taxation charge cannot be determined until resolution has been reached with the relevant taxation authority.

Income tax expense includes current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

The company recognises liabilities for anticipated taxation audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. Where the final taxation outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred taxation assets and liabilities in the reporting period in which such determination is made.

Deferred tax is provided for temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Management assesses the extent to which it is probable that taxable profit will be available against which deductible temporary differences can be utilised. The company has a deferred tax asset balance and is currently trading and expected to make profits which will enable them to recover the deferred tax asset.

1. Accounting policies (continued)

1.3 Taxation (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to 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.

Current and deferred tax is 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, outside profit or loss, either in other comprehensive income or directly in equity.

Current tax and deferred tax is recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:

- in other comprehensive income, are recognised in other comprehensive income.
- directly in equity, are recognised directly in equity.

1.4 Net interest income

Interest is recognised at the effective interest rate method per contract. Interest income and expense are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Additionally, income and expenses that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in interest income in terms of IFRS 9.

Fee income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in interest income in terms of IFRS 9.

Other interest income includes interest rate swaps and fair-value gains or losses on financial instruments measured at fair value through profit or loss.

1.5 Other income

Other income mainly includes retail settlement fee income and retail administration income. This income is recognised as the related services are performed.

Retail administration fee income

The company earns fees from a range of services it provides to clients and these are accounted for as follows:

- Income earned on the execution of a significant performance obligation is recognised when the significant performance obligation has been performed.
- Income earned from the provision of services is recognised over time as the performance obligation is fulfilled.
- Fees charged for servicing a loan are recognised in income as the performance obligation is provided, which in most instances occurs monthly when the fees are levied.

1. Accounting policies (continued)

1.6 Operating segments

The board of directors has been identified by the company as the chief operating decision maker (CODM), who are responsible for assessing the performance and allocation of resources of the company.

The company reports a single segment - acquiring the rights, title and interest in vehicle instalment sale agreements, pursuant to a securitisation scheme, within the South African economic environment. The company issues various debt security notes, which enable investors to invest in various debt instruments. The company has no reliance on any major clients, in line with its geographical covenant.

The CODM regularly review the operating results of the company for which discrete financial information is made available on a monthly basis and against which performance is measured and resources are allocated across the segment.

1.7 Adoption of new and revised pronouncements

The following are the new or amended Standards and Interpretations applicable to the Company:

Effective for annual periods beginning on or after 1 January 2020:

Number	Effective date	Executive summary
Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material	Annual periods beginning on or after 1 January 2020 (Published October 2018)	These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs: • use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting; • clarify the explanation of the definition of material; and • incorporate some of the guidance in IAS 1 about immaterial information. This pronouncement did not have a material effect on the financial statements.

International Financial Reporting Standards, interpretations and amendments issued but not effective

There are a number of Standards, interpretations and amendments issued but not yet effective. The company has not elected to early adopt the Standards, interpretations and amendments before the effective dates. These pronouncements will not have a material effect on the financial statements.

Notes to the Annual Financial Statements

2. Cash and cash equivalents

	2020 R '000	2019 R '000
Current bank account	2	2
Collections bank account	133,706	343,203
Permitted investments bank account	36,280	46,220
	169,988	389,425

The permitted investments bank account includes the cash reserve of R36 280 000 (2019: R46 220 000), which is available for use in the event of a shortfall in available funds which is needed to meet the payment of specified items in terms of the priority of payments per the programme memorandum. The carrying value of cash and cash equivalents approximates fair value, since they are short term in nature.

3. Trade and other receivables

	2020 R '000	2019 R '000
Collections receivable	242,033	289,859
Prepayments	5	5
Interest accrued	671	1,880
VAT receivable	-	17,534
	242,709	309,278

The carrying value of trade and other receivables approximates the fair value.

The company has assessed the impact of IFRS 9 on trade and other receivables and have determined that there is no significant impact, due to the fact that the majority of trade and other receivables relate to cash that is expected to be received within 3 months of accrual.

4. BMW Financial Services receivable (Auto Loans)

BMW Financial Services (South Africa) Proprietary Limited ("BMW Financial Services") legally sold a portion of auto loans to SuperDrive Investments (RF) Limited. However, since BMW Financial Services 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 BMW Financial Services. The cash flows arising from this asset are directly attributable to the auto loans 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 auto loan balances.

	2020 R '000	2019 R '000
BMW Financial Services receivable (Auto Loans)	5,524,456	7,000,995
Unearned finance charges	(725,071)	(1,269,098)
Expected credit loss allowance	(371,373)	(293,919)
	4,428,012	5,437,978

Notes to the Annual Financial Statements

4. BMW Financial Services receivable (Auto Loans) (continued)

	2020 R '000	2019 R '000
Reconciliation of movement in balance		
Balance at beginning of the year	5,437,978	5,927,028
Acquisitions	2,270,443	1,853,998
Top ups for the year	2,270,443	1,853,998
Settlements	(2,777,948)	(1,802,270)
Buybacks	(420,127)	(510,367)
Impairments	(82,334)	(30,411)
Impairment (raised) / reversed - Stage 3 (refer note 15) [1]	(88,144)	4,525
Impairment raised - Stage 1 & Stage 2 (refer note 15)	10,680	11,702
Write-offs (refer note 15)	(4,870)	(46,638)
Balance at end of the year	4,428,012	5,437,978

The company has pledged an amount of R4 464 291 466 (2019: R5 484 198 630), which includes the BMW Financial Services receivable (Auto Loans) and the cash reserve, as collateral to the note holders. The associated liabilities of R3 646 929 583 (2019: R4 664 686 466) are disclosed in note 11.

These transactions are entered into under terms and conditions that are standard industry practice in securitisation funding structures.

[1] Please note that the stage 3 impairment charges in this note does not equate to the stage 3 impairment charges in note 15 due to the IFRS 9 interest adjustment.

5. Current tax liabilities

	2020	2019
Balance at the beginning of the year	(144)	6,959
Payment to SARS	7,466	14,043
Current taxation	(7,663)	(21,146)
Balance due to SARS at year end	(341)	(144)

6. Derivative financial (liability) / asset

6.1 Derivative financial (liability) / asset comprise the following balances

	2020	2019
Interest rate swaps	(9,836)	12,996
Current (liabilities) / assets	(9,836)	12,996
	(9,836)	**12,996**

Notes to the Annual Financial Statements

6. Derivative financial (liability) / asset (continued)

An interest rate swap agreement has been entered into between Standard Bank of South Africa Limited and SuperDrive Investments (RF) Limited. This is to hedge the quarterly interest rate risk that may occur due to SuperDrive Investments (RF) Limited receiving prime linked interest from borrowers, yet paying JIBAR linked interest on all the classes of asset backed securities. This derivative is classified as at fair value through profit and loss and hedge accounting is not applied.

	2020 R '000	2019 R '000
At fair value through profit and loss		
Balance at beginning of the year	12,996	49,878
Fair value changes of interest rate swap	(20,855)	(36,259)
Net interest accrued throughout the period	17,952	(16,464)
Interest accrued throughout the period - payable	(3,259)	226
Interest accrued throughout the period - receivable	21,211	(16,690)
Net interest paid throughout the period	(19,929)	15,841
Interest paid throughout the period	2,073	(130)
Interest received throughout the period	(22,002)	15,971
Balance at the end of the year	(9,836)	12,996

7. Deferred tax

The following are the major deferred tax assets recognised by the company and movements thereon, during the current reporting period.

	2020	2019
Deferred tax analysis		
Allowance for expected credit losses	27,055	25,413
Interest in suspense	-	(12,392)
Derivative financial asset / (liability)	2,134	(3,705)
Provisions	125	12,470
Prior years assessments	289	-
	29,603	21,786
Deferred tax reconciliation		
Deferred tax asset at beginning of the year	21,786	11,818
Fair value changes of derivative instruments	5,839	10,152
Allowance for expected credit losses	1,642	5,848
Income not recognised for accounting purposes	12,391	(18,427)
Provisions	(12,344)	12,395
Prior years assessments	289	-
Deferred tax asset at end of the year	29,603	21,786

Management has assessed the company's ability to generate sufficient taxable profits in the near future and is satisfied that the company will be able to utilise the full deferred tax asset raised, against the expected future taxable profit.

Notes to the Annual Financial Statements

8. Share capital

Authorised and issued share capital

	2020 R '000	2019 R '000
Authorised		
995 Ordinary shares of R1 par value each	-	-
500 Cumulative redeemable preference shares of R0.01 each	-	-
	-	**-**
Issued and fully paid		
100 Ordinary shares of R1 par value each	-	-
1 Cumulative redeemable preference shares of R0.01 each	-	-
	-	**-**

The authorised share capital consists of 995 ordinary shares with a par value of R1 each. The share capital issued, consists of 100 ordinary shares with a par value of R1 per share. Due to the financial statements being disclosed in R'000, the share capital of R100 does not reflect above.

The authorised preference share capital consists of 500 cumulative redeemable preference shares with a par value of R0.01 each. The preference share capital issued, consists of 1 preference share at a par value of R0.01 per share. Due to the financial statements being disclosed in R'000, the preference share capital of R0.01 does not reflect above.

One cumulative redeemable preference share with a par value of R0.01 has been issued to BMW Financial Services. Dividends are payable when declared by the directors, after consideration of the financial circumstances of the company, based on liquidity and solvency tests. The preference share is redeemable at the option of the holder, at any time after the date that the final debt securities are redeemed.

9. Trade and other payables

	2020 R '000	2019 R '000
Accrual accounts payable	3,480	2,670
VAT payable	688	-
Sundry creditors	5,498	4,841
	9,666	7,511

10. Subordinated Loans

Movement in subordinated loans

	2020 R '000	2019 R '000
Balance at the beginning of the year	1,357,018	1,473,090
Decrease of subordinated loan	(288,581)	(113,993)
Repayment of accrued interest	(15,147)	(17,226)
Accrued unpaid interest	7,512	15,147
	1,060,802	1,357,018

This loan was provided by BMW Financial Services and was subordinated to creditors in terms of a subordinated loan agreement. Interest is calculated monthly in arrears on the principal amount owing at JIBAR + 3.5% and is payable to BMW Financial Services, subject to the priority of payments. The loan is repayable as and when cash is available to make such payments in accordance with the priority of payments agreement.

No defaults of principal or interest payments have occurred during the year under review.

Notes to the Annual Financial Statements

11. Debt securities

2020:	Total	Debt Securities	Accrued Interest
	R '000	R '000	R '000
Class A8	914,926	910,000	4,926
Class A10	603,210	600,000	3,210
Class A12	1,024,325	1,019,000	5,325
Class A13	1,104,469	1,099,000	5,469
	3,646,930	3,628,000	18,930

2019:	Total	Debt Securities	Accrued Interest
	R '000	R '000	R '000
Class A8	918,626	910,000	8,626
Class A10	605,648	600,000	5,648
Class A11	1,003,041	994,000	9,041
Class A12	1,028,459	1,019,000	9,459
Class A13	1,108,912	1,099,000	9,912
	4,664,686	4,622,000	42,686

Class of securities	Interest rate	Rate at year end 2020	Rate at year end 2019	Maturity Date
Class A8	1.85% above 3 month JIBAR	5.490%	8.650&	21-Aug-21
Class A10	1.79% above 3 month JIBAR	5.430%	8.590%	21-Aug-21
Class A12	1.67% above 3 month JIBAR	5.310%	8.470%	21-Aug-22
Class A13	1.43% above 3 month JIBAR	5.070%	8.230%	21-Aug-24

Interest rates on all notes are reset quarterly and paid in advance.

	2020	2019
	R '000	R '000
Movement in debt securities		
Balance at the beginning of the year	4,664,686	5,020,278
Accrued interest paid	(42,686)	(47,278)
Accrued interest	18,930	42,686
Notes issued	-	1,099,000
Notes redeemed	(994,000)	(1,450,000)
	3,646,930	4,664,686

Notes to the Annual Financial Statements

	2020 R '000	2019 R '000	
12. Interest income			
12.1 Interest income using effective interest rate			
Interest income on financial assets at amortised cost:			
Interest on BMW Financial Services receivable (Auto Loans)	422,788	612,253	*
Interest on call account	18,714	31,341	
Interest on cash reserves	2,311	3,184	
	443,813	646,778	*
12.2 Other interest income			
Interest income on financial assets at fair value through profit or loss:			
Interest on swap	17,952	15,841	
Interest income	461,765	662,619	*

* This amount has been restated. Please refer to note 23 for further details.

	2020 R '000	2019 R '000
13. Interest Expense		
Interest expense on financial liabilities at amortised cost:		
Interest on subordinated loan	105,472	148,768
Interest on Class A6 notes	-	28,356
Interest on Class A7 notes	-	16,616
Interest on Class A8 notes	61,364	80,680
Interest on Class A9 notes	-	35,378
Interest on Class A10 notes	40,098	52,836
Interest on Class A11 notes	45,870	84,649
Interest on Class A12 notes	66,875	88,510
Interest on Class A13 notes	69,481	32,776
	389,160	568,569
14. Other income		
Retail settlement fee income	15,263	24,420
Retail administration fee income	11,559	13,055
SARS interest received	-	122
	26,822	37,597

Notes to the Annual Financial Statements

15. Impairment charges

2020:

	Stage 1 R'000	Stage 2 R'000	Stage 3 R'000	Write-offs R'000	Total R'000
Amount per IFRS 9	(6,296)	(4,384)	48,668	4,870	42,858

2019:

	Stage 1 R'000	Stage 2 R'000	Stage 3 R'000	Write-offs R'000	Total R'000
Amount per IFRS 9	(5,023)	(6,679)	(17,280) *	46,638	17,656 *

* This amount has been restated. Please refer to note 23 for further details.

Included in the impairment amounts for stage 3, per IFRS9 above, is the IFRS9 interest adjustment. As the recoverability of the stage 3 interest in suspense is remote, the IFRS 9 interest adjustment has been applied at a rate of 100% rather than the determined 78% that is applicable to the rest of the stage 3 interest income.

	2020 R '000	2019 R '000
16. Other expenses		
Other expenses include the following:		
Audit fees	525	322
Consulting - Taxation Services	82	-
Directors' fees	230	177
Liquidity facility commitment, backup servicer and admin fees	3,695	3,521
Servicer fee	26,867	29,291
VAT apportionment expense (unclaimable VAT input)	3,836	4,516
	35,235	37,827
17. Taxation		
South African normal taxation:		
- current year tax	7,663	21,146
- deferred tax (note 7)	(7,817)	(9,968)
	(154)	11,178
Taxation rate reconciliation:		
Taxation at standard rate	28.00%	28.00%
Permanent differences (SARS penalties and interest)	0.01%	0.01%
Prior years assessments	(53.49%)	0%
Effective tax rate per statement of comprehensive income	(25.48%)	28.01%

Notes to the Annual Financial Statements

	2020 R '000	Restated 2019 R '000	
18. Cash utilised in operations			
Profit before taxation	479	39,905	
Adjusted for non-cash items:			
Fair value changes of derivative instruments	20,855	36,259	
Impairment charges	42,858	17,656	*
Cash generated before working capital changes	64,192	93,820	
Changes in working capital:	69,492	(301,064)	
Decrease / (Increase) in trade and other receivables	65,360	(301,142)	
Increase / (Decrease) in trade and other payables	2,155	(545)	
Decrease in derivative financial asset (net interest accrued/paid)	1,977	623	
Interest income	(461,765)	(662,619)	*
Interest expense	389,160	568,569	
SARS Interest received (refer note 14)	-	(122)	
Cash utilised in operations	61,079	(301,416)	
18.1 Interest received			
Interest income	461,765	662,619	*
Movement in interest accrual	40,684	13,711	*
Interest accrued current year	28,343	(12,341)	*
Interest accrued prior year	12,341	26,052	
Cashflow	502,449	676,330	
18.2 Interest paid			
Interest expense	(389,160)	(568,569)	
Movement in interest accrual	(31,391)	(6,671)	
Interest accrued current year	26,441	57,832	
Interest accrued prior year	(57,832)	(64,503)	
Cashflow	(420,551)	(575,240)	

* This amount has been restated. Please refer to note 23 for further details.

Notes to the Annual Financial Statements

19. Related parties

A related party is a person or entity that is related to the company that is preparing its financial statements. In the ordinary course of business, the company enters into various transactions with related parties.

SuperDrive Investments Issuer Owner Trust owns the company's ordinary shares. BMW Financial Services owns the company's sole preference share. In terms of International Financial Reporting Standards (IFRS), the company is consolidated into BMW Financial Services (South Africa) Proprietary Limited's consolidated financial statements, which is subsequently consolidated into BMW (South Africa) Proprietary Limited's consolidated financial statements.

19.1 Related party transaction with BMW Financial Services

The following transactions which took place between BMW Financial Services and SuperDrive Investments (RF) Limited, are at arms length, settled via a transfer of funds and unless stated otherwise in the relevant note, are unsecured and no guarantees have been given or received:

Financing
Subordinated funding has been provided by BMW Financial Services to the value of R1 060 802 000 (2019: R1 357 017 566) for the year. Refer to note 10. Interest expense on subordinated funding amounted to R105 471 512 (2019: R148 767 958) for the year. Refer note to 13.

Purchase of additional auto loans
The company had normal top ups of R2 270 433 000 (2019: R1 853 998 000) for the year. Refer note to 4.

Settlements
The company paid settlements of R2 777 948 000 (2019: R1 802 270 000) for the year. Refer note to 4.

Buybacks
BMW Financial Services bought back assets to the value of R420 127 000 (2019: R510 367 000) for the year. Refer note to 4.

Interest income
The company received interest income from BMW Financial Services to the value of R422 788 000 (2019: R612 253 000) for the year. Refer to note 12.1.

BMW Financial Services receivable (Auto Loans)
The company has an amount receivable of R4 428 012 000 (2019: R5 437 978 000) from BMW Financial Services in respect of auto loans legally acquired. Refer to note 4.

BMW Financial Services is the appointed Servicer. The Servicer fee for the year amounted to R26 867 783
(2019: R29 291 290). Refer to note 16.

19.2 Key management personnel

The company has no employees, hence no key management personnel compensation was paid during the year.

Notes to the Annual Financial Statements

19. Related parties (continued)

19.3 Directors' fees

All of the directors of the company are employed by external companies, and are remunerated by their respective employer on a separate basis. There were no remuneration or benefits paid directly to the directors of the company, by the company or any other company within the same group of companies, as defined by the Companies Act during the current or prior years. Four directors are employees of, and remunerated by, TMF Corporate Services (South Africa) Proprietary Limited (third party service provider) on a separate basis. BMW Financial Services (South Africa) Proprietary Limited representative director is not remunerated for his services by the company.

Directors' fees of R230 148 (2019: R177 456) were paid to TMF Corporate Services (South Africa) Proprietary Limited (third party service provider), as employer of the majority of the directors, to provide corporate governance and other fiduciary services to the company, which are included in other expenses. Refer to note 16.

20. Risk Management

The company has exposure to the following risk from its use of financial instruments:
- Credit risk
- Liquidity risk
- Interest rate risk

20.1 Credit risk

BMW Financial Services legally sold a portion of auto loans to the company. As a result, exposure to credit risk arises if auto loans customers partially fulfil contractual obligations. BMW Financial Services has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The company is exposed to credit risks, which is managed by BMW Financial Services by authorising credit limits based on a client's risk profile and monitoring customer arrears and payment history. Credit risk arises from exposures to retail customer contracts, including outstanding receivables, cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions.

BMW Financial Services Receivables (Auto Loans)

Retail customers are evaluated by using a credit risk assessment system or scorecard developed by the BMW Group. Based on the applicant's credit risk standing and affordability profile, the risk of default is assessed and if acceptable, an appropriate interest rate is charged for the deal.

Changes in the credit worthiness of customers arising during the credit term are covered by risk provisioning procedures. The credit risk of the individual portfolio is quantified on a monthly basis and, depending on the outcome, taken into account within the risk provisioning system. Macroeconomic developments are currently subject to a higher degree of volatility. If developments are more favourable than assumed in the outlook, credit losses may be reduced, leading to a positive earnings impact.

Trade and other receivables

Included in the trade and other receivables, are receivables, from BMW Financial Services amounting to R242,033,000 (2019: R289,859,000) for collections as a result of timing differences at year end. Refer to note 3. Given the nature of these receivables, management does not expect any counterparty to default on meeting its obligations.

Notes to the Annual Financial Statements

20. Risk Management (continued)

20.1 Credit risk (continued)

Cash and cash equivalents

Reputable financial institutions are used for investing and cash handling purposes. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The National Scale Deposit Ratings of The Standard Bank of South Africa Limited at 31 December 2020 were Prime-1.za for short term and Aa1.za for long term deposits.

Impairment

IFRS 9 outlines a three stage model for impairment, based on changes in credit quality since initial recognition, as summarised below:

Stage 1 - includes financial assets which do not show significant increase in their credit risk since initial recognition or which have low credit risk at the reporting date. For all assets in stage 1 an expected credit loss allowance equal to 12 month expected credit loss ("ECL") is recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance).

Stage 2 - includes financial assets which show significant increase in their credit risk since initial recognition but do not have objective evidence of impairment (for IFRS 9 purposes objective evidence of impairment is defined as a default). For all assets in Stage 2 an expected credit loss allowance equal to lifetime ECL is recognised, but interest revenue is still calculated on the gross carrying amount of the asset.

Stage 3 - includes financial assets that have objective evidence of impairment at the reporting date (for IFRS 9 purposes objective evidence of impairment is defined as a default). For all assets in Stage 3 an expected credit loss allowance equal to lifetime ECL is recognised and interest revenue is calculated on the net carrying amount (that is, net of expected credit loss allowance).

Assessment of significant increase in credit risk (SICR) (stage 2)

Stage 2 is comprised of all performing financial instruments that have experienced a significant increase in credit risk since initial recognition. At each reporting date the company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the probability of default ("PD"), over the remaining expected life, at the reporting date with that on the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information, and the impact of forward-looking macroeconomic factors.

The assessment is performed monthly and the following factors are considered:

- Established thresholds for SICR are based on a percentage change in lifetime PD relative to initial recognition.
- A set of portfolio-specific qualitative criteria that are indicative of a significant increase in credit risk are used to supplement the lifetime PD comparison.
- Instruments that are more than 30 days past due are generally considered to have experienced a significant increase in credit risk.

Notes to the Annual Financial Statements

20. Risk Management (continued)

20.1 Credit risk (continued)

The company measures a significant deterioration in credit risk since origination using a comparison of the increase in the risk of default relative to the expectation of risk at inception, as well as using an absolute measure of default risk as at the reporting date. This is achieved by comparing the current 12-month PD with one threshold and the relative change of the 12-month PD since initial recognition with another threshold. If both thresholds are surpassed, the account is allocated to stage 2. We currently have one forward looking economic factor used in our provision methodology. The factor that was deemed most applicable during the validation done in 2019, was the South African prime rate.

Impact of SICR on ECL

		% Movement	Base	1% increase	1% decrease
Shifting of the SICR threshold by 1%	2020	1% *	48,523	49,009	48,038
	2019	1% *	52,909	53,436	52,378

* Reflects the full stage 2 ECL of the deterioration or improvement in the factor used.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

In the context of IFRS 9, the calculation of either 12-month (or less) or Lifetime ECLs is required, depending on the classification in the corresponding IFRS 9 stage. A 12-month ECL in this context is the expected credit loss which is due to defaults occurring within 12 months after the reporting date. Since IFRS 9 requires to calculate the provision according to the maturity of the contract, the ECL has to be also calculated for defaults occurring within a time period less than 12 months. Accordingly, a lifetime ECL is the expected credit losses which are due to defaults occurring within the (residual) lifetime of the asset.

The company addresses the IFRS 9 – impairment requirements with a modular approach for calculating ECLs. ECL is calculated as the product of the core model components: probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD").

Credit risk exposure – BMW Financial Services receivables (Auto Loans)

IFRS 9 classes for retail finance book have been developed based on payment behaviour and credit worthiness of customers. IFRS 9 class segmentation has been developed using initial rating score, former delay and delinquency information. The IFRS 9 PD model consists of 11 distinct rating classes, including the default class, three delinquency classes and a former delay class.

Notes to the Annual Financial Statements

20. Risk Management (continued)

20.1 Credit risk (continued)

The following table provides analysis of the credit quality of the book:

IFRS 9 stage	IFRS 9 Class Description	ECL Type	Number of accounts	EAD R'000	ECL R'000
			2020		
	1	12 Months	4,546	1,273,807	4,725
	2	12 Months	3,364	953,094	6,919
Stage 1	3	12 Months	2,548	703,863	8,039
	4	12 Months	1,351	380,971	6,996
	5 - 7	12 Months	756	202,504	5,128
	9	12 Months	1	44	2
Total stage 1			**12,566**	**3,514,283**	**31,809**
	7	LifeTime	79	17,340	4,610
	8	LifeTime	1,157	252,210	36,105
Stage 2	9	LifeTime	85	24,149	5,834
	10	LifeTime	34	6,748	1,976
Total stage 2			**1,355**	**300,447**	**48,525**
Stage 3	Default	LifeTime	**1,595**	**445,486**	**291,039**
Total			**15,516**	**4,260,216**	**371,373**

IFRS 9 stage	IFRS 9 Class Description	ECL Type	Number of accounts	EAD R'000	ECL R'000
			2019		
	1	12 Months	6,346	1,609,373	6,165
	2	12 Months	4,708	1,278,592	9,386
	3	12 Months	3,596	959,797	11,255
Stage 1	4	12 Months	1,250	354,793	6,735
	5 - 6	12 Months	682	179,579	4,530
	7	12 Months	4	647	23
	9	12 Months	1	177	11
Total stage 1			**16,587**	**4,382,958**	**38,105**
	7	LifeTime	1,428	273,839	35,793
	8	LifeTime	124	26,776	6,105
Stage 2	9	LifeTime	116	27,900	7,494
	10	LifeTime	57	12,090	3,517
Total stage 2			**1,725**	**340,605**	**52,909**
Stage 3	Default	LifeTime	**15**	**339,085**	**202,905**
Total			**18,327**	**5,062,648**	**293,919**

Notes to the Annual Financial Statements

20. Risk Management (continued)

20.1 Credit risk (continued)

Expected Credit Loss allowance

Transfers

At initial recognition, all assets are categorised in Stage 1, for the purpose of subsequent measurement it is necessary to examine whether the credit quality has deteriorated significantly. In case of a significant increase in credit risk since initial recognition an entity has to transfer the financial instrument or portfolio, provided that a collective measurement is applicable, from Stage 1 to Stage 2. Hence an entity shall determine whether the credit risk has increased significantly at each reporting date. The original risk of default at initial recognition shall be compared with the risk of default at the reporting date. For the decision about whether the PD has increased significantly since initial recognition, management is required to compare the lifetime PDs for the residual contract period at the current reporting date with the PDs for the same period of the contracts life as estimated at initial recognition.

Financial instruments that have one or more objective evidences of impairment at the reporting date (credit-impaired assets) shall be transferred to Stage 3 and (as for assets in Stage 2) expected credit loss allowances at amounts equal to lifetime ECLs are recognised.

The company applies the Basel default criteria to identify objective evidence of impairment and, therefore, to decide whether a contract is transferred to Stage 3. This means, whenever a contract is defaulted according to the default criteria, a contract is transferred to Stage 3.

The following table shows reconciliation from opening to closing of the expected credit loss allowance as per IFRS 9:

	2020			
	Stage 1 R'000	**Stage 2** R'000	**Stage 3** R'000	**Total** R'000
Expected credit loss allowance opening balance	**38,105**	**52,909**	**202,905**	**293,919**
Transfer to stage 1	7	(7)	-	-
Transfer to stage 2	(1,947)	3,973	(2,026)	-
Transfer to stage 3	(907)	(14,862)	15,769	-
Increase during the year for existing loan	3,368	14,885	83,059	101,312
Derecognition	(8,143)	(8,584)	(10,638)	(27,365)
Origination	1,326	211	71	1,608
Changes in models and risk parameters	-	-	5,272	5,272
Write-offs	-	-	(3,373)	(3,373)
Expected credit loss allowance 31 December 2020	**31,809**	**48,525**	**291,039**	**371,373**

Notes to the Annual Financial Statements

20. Risk Management (continued)

20.1 Credit risk (continued)

Expected Credit Loss allowance (continued)

Management have decided to present the above note in further detail as compared to 2019. The prior year comparative has not been updated to show the same detail as the information is not available at the level required for the 2019 financial year.

The change in presentation is a result of enhancing disclosure and not as a result of an error or change in accounting policy.

	2019			
	Stage 1 R'000	**Stage 2** R'000	**Stage 3** R'000	**Total** R'000
Expected credit loss allowance opening balance	**43,128**	**59,588**	**216,794**	**319,510**
Transfer to other stages	(67,434)	(68,829)	-	(136,263)
Additional changes including model parameters and transfers from other stages	62,411	62,150	42,113	166,674
Write-offs	-	-	(56,002)	(56,002)
Expected credit loss allowance 31 December 2019	**38,105**	**52,909**	**202,905**	**293,919**

COVID-19 impact on credit risk

A systematic and targeted approach to the impact of the COVID-19 pandemic on the customer base was taken as the COVID-19 pandemic was seen as significant increase credit risk trigger that may result in the entire portfolio of receivables moving to the respective stages.

With the current COVID-19 pandemic, payment moratoriums were offered to eligible clients on a request basis. This moratorium entailed a payment holiday of three to six months, however a limited number of customers were granted a longer period of nine months. During the payment holiday interest accrued at the contractual rate. At the end of the payment holiday, in order to repay the deferred amount including accrued interest, the customers had the option to adjust their instalment, extend the term of the facilities or elect to repay the deferred amount in full. However, even with the relief provided, the company has seen a negative once off impact in 2020 from the pandemic on the impairment charges estimated at R20m. Business operations for the Servicer and the Administrator are continuing during the nation-wide lockdown as per Business Continuity Plans.

Notes to the Annual Financial Statements

20. Risk Management (continued)

20.1 Credit risk (continued)

Collateral

The company employs a range of policies and practices to mitigate credit risk. The company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral for retail finance contract is the underlying vehicle so that in the event of non-payment, the company has a secured claim.

The company does not require collateral in respect of trade and other receivables and cash and cash equivalents.

20.2 Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting its financial liability obligations.

Liquidity risk is managed as follows:
• The company has a liquidity facility agreement of R181 400 000 in place with Standard Bank of South Africa to fund timing mismatches between the receipt by the Issuer of payments on the participating assets and the obligations of the Issuer to pay interest accrued to Noteholders in terms of the Priority of Payments from time to time.
• The cash reserve accumulated from excess spread is available to settle expenses in the event of a cash shortfall.

Maturity analysis of financial liabilities:
The maturity analysis for financial liabilities has been disclosed based on contractual undiscounted cash flows.

2020:	**0-12 months** R '000	**1-2 years** R '000	**3-5 years** R '000	**Total** R '000	**Carrying Value** R '000
Trade and other payables	(9,666)	-	-	(9,666)	(9,666)
Subordinated loans	(826,948)	(33,980)	(378,553)	(1,239,481)	(1,060,802)
Debt securities	(2,783,639)	(90,997)	(1,258,307)	(4,132,943)	(3,646,930)
Derivative financial liability	(30,499)	(19,354)	(21,614)	(71,467)	(9,836)
	(3,650,752)	(144,331)	(1,658,474)	(5,453,557)	(4,727,234)

2019:	**0-12 months** R '000	**1-2 years** R '000	**3-5 years** R '000	**Total** R '000	**Carrying Value** R '000
Trade and other payables	(7,511)	-	-	(7,511)	(7,511)
Subordinated loans	(424,135)	(538,795)	(731,938)	(1,694,868)	(1,357,018)
Debt securities	(1,363,786)	(1,784,181)	(2,431,348)	(5,579,315)	(4,664,686)
	(1,795,432)	(2,322,976)	(3,163,286)	(7,281,694)	(6,029,215)

Notes to the Annual Financial Statements

20. Risk Management (continued)

20.3 Interest rate risk

Interest rate risk is caused by different repricing characteristics of assets and liabilities due to changes in interest rates i.e. yield curve risk, basis risk and repricing risk.

Basis risk

Basis risk as part of interest rate risk arises due the fact that most asset cash flows are linked to the Prime rate whereas funding liabilities are usually linked to the 3-month JIBAR rate. Movements in the Prime and JIBAR rates, although mostly correlated, are not exactly the same which may lead to a widening or reduction in the difference between Prime and JIBAR and hence the net margin earned between assets and liabilities. Basis risk is monitored and measured by regular sensitivity analysis and exposure analysis and may partially be mitigated by basis swaps to adjust for the different reference rates. The market for basis risk swaps in South Africa is very small therefore basis risk is currently accepted as an inherent risk within the overall portfolio.

Interest rate risk is measured and controlled by a modern Value-at Risk historical simulation, stress tests, sensitivity and various types of exposure analysis.

In order to reduce the above risk, the company entered into Prime-JIBAR swaps.

Prime – JIBAR risk

The Prime-JIBAR rate basis risk is managed on a ratio basis, i.e. ratio of the portion of Prime-linked funding to the total Prime-linked asset portfolio. For this purpose, an appropriate amount of JIBAR funding needs to be swapped to Prime funding. The company has entered into interest rate swaps to manage this risk (swapping Prime to JIBAR and vice versa).

All current securitisation programmes have an embedded Prime-JIBAR swap since it is a Moody's requirement that the SPV may not carry any risk between the JIBAR-linked interest paid to noteholders and the Prime-linked interest earned on assets purchased. All cash and cash equivalents bear interest at a rate linked to JIBAR.

2020		**Carrying value** R '000	
Sensitivity	-1%		+1%
Interest expense on debt securities		3,646,930	
Impact on profit or loss	36,469		(36,469)
Sensitivity	-1%		+1%
Interest expense on subordinated loan		1,060,802	
Impact on profit or loss	10,608		(10,608)
Sensitivity	-1%		+1%
Cash and cash equivalents		169,988	
Impact on profit or loss	(1,700)		1,700
Sensitivity	-1%		+1%
BMW Financial Services receivable (Auto Loans)		4,428,012	
Impact on profit or loss	(44,280)		44,280
Sensitivity	-1%		+1%
Derivative financial liability		-9,836	
Impact on profit or loss	98		(98)

Notes to the Annual Financial Statements

20. Risk Management (continued)

20.3 Interest rate risk (continued)

Sensitivity net of the above items:	**1,196**	**(1,196)**
Sensitivity after tax:	**861**	**(861)**

2019		**Carrying value** R '000	
Sensitivity	-1%		+1%
Interest expense on debt securities		4,664,686	
Impact on profit or loss	46,647		(46,647)
Sensitivity	-1%		+1%
Interest expense on subordinated loan		1,357,018	
Impact on profit or loss	13,570		(13,570)
Sensitivity	-1%		+1%
Cash and cash equivalents		389,425	
Impact on profit or loss	(3,894)		3,894
Sensitivity	-1%		+1%
BMW Financial Services receivable (Auto Loans)		5,437,978	
Impact on profit or loss	(54,380)		54,380

Sensitivity net of the above items:	**1,943**	**(1,943)**
Sensitivity after tax:	**1,399**	**(1,399)**

Capital disclosures

Capital is not actively managed because of the nature of the legal structure of the company. The company is not subject to any external capital regulatory requirements.

Following the decision of Moody's Investors Service ("Moody's") on 27 March 2020 to downgrade South Africa's long-term foreign currency and local currency issuer ratings to Ba1 from Baa3, Moody's also downgraded the global scale rating of the company's Debt securities to Baa1 (sf) from A3 (sf) on 3 April 2020 and affirmed the 'Aaa.za (sf)' national scale rating of such Notes.

The company uses reputable financial institutions for investing and cash handling purposes. On 27 March 2020, Moody's downgraded to Ba1 from Baa3, the long-term local currency and foreign currency deposit ratings of, amongst other banks, The Standard Bank of South Africa Limited. The rating agency has also downgraded to Ba2 from Ba1 the long-term issuer ratings of foreign currency deposit ratings of, amongst other banks, The Standard Bank of South Africa Limited. The National Scale Deposit Ratings however, remain at levels of Prime-1.za for short term and Aa1.za for long term deposits. Moody's requires a minimum short-term, national scale credit risk rating of at least Prime-1.za for the company, therefore The Standard Bank of South Africa Limited remains within the required credit risk rating and can therefore continue as transactional bank and deposit taking institution for the company.

Notes to the Annual Financial Statements

21. Analysis of assets and liabilities

2020	At amortised Cost	At fair value through profit and loss	Non-financial asset	Total carrying value	Non-current	Current
Assets						
	R'000	R'000	R'000	R'000	R'000	R'000
Deferred taxation	-	-	29,603	29,603	29,603	-
BMW Financial Services receivable	4,428,012	-	-	4,428,012	3,340,697	1,087,315
Trade and other receivables	242,709	-	-	242,709	-	242,709
Cash and cash equivalents	169,988	-	-	169,988	-	169,988
Total assets	**4,840,709**	**-**	**29,603**	**4,870,312**	**3,370,300**	**1,500,012**
Liabilities						
	R'000	R'000	R'000	R'000	R'000	R'000
Current tax payable	-	-	341	341	-	341
Derivative financial instruments	-	9,836	-	9,836	8,909	927
Debt securities	3,646,930	-	-	3,646,930	2,118,000	1,528,930
Subordinated loans	1,060,802	-	-	1,060,802	619,288	441,514
Trade and other payables	9,666	-	-	9,666	-	9,666
Total Liabilities	**4,717,398**	**9,836**	**341**	**4,727,575**	**2,746,197**	**1,981,378**

2019	At amortised Cost	At fair value through profit and loss	Non-financial asset	Total carrying value	Non-current	Current
Assets						
	R'000	R'000	R'000	R'000	R'000	R'000
Deferred taxation	-	-	21,786	21,786	21,786	-
Derivative financial instruments	-	12,996	-	12,996	9,966	3,030
BMW Financial Services receivable	5,437,978	-	-	5,437,978	3,603,526	1,834,452
Trade and other receivables	291,739	-	17,539	309,278	-	309,278
Cash and cash equivalents	389,425	-	-	389,425	-	389,425
Total assets	**6,119,142**	**12,996**	**39,325**	**6,171,463**	**3,635,278**	**2,536,185**
Liabilities						
	R'000	R'000	R'000	R'000	R'000	R'000
Current tax payable	-	-	144	144	-	144
Debt securities	4,664,686	-	-	4,664,686	3,628,000	1,036,686
Subordinated loans	1,357,018	-	-	1,357,018	959,396	397,622
Trade and other payables	7,511	-	-	7,511	-	7,511
Total Liabilities	**6,029,215**	**-**	**144**	**6,029,359**	**4,587,396**	**1,441,963**

Notes to the Annual Financial Statements

22. Fair value management

The fair value is calculated by obtaining fair values from quoted market prices or discounted cash flow models. At 31 December 2020 the carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair values due to the short-term maturities of these assets and liabilities.

The majority of the BMW Financial Services contracts are prime linked and changes in the credit risk has been taken into account in the carrying value through ECL allowance.

The carrying value of debt securities and subordinated loans approximate fair value as these are Jibar-linked and the credit risk of the company has not changed since the issue of financial liabilities.

Fair value as at 31 December 2020

The table below sets out the gross value and fair value of those financial assets and liabilities not presented on the statement of financial position at fair value as at 31 December 2020:

	31 December 2020	
	Carrying value	**Fair value**
	R' 000	R' 000
BMW Financial Services receivable (Auto Loans)		
(including accrued interest, excluding impairments)	4,799,385	4,513,458
	4,799,385	4,513,458
Debt Securities		
(including accrued interest)	3,646,930	3,709,878
Subordinated loans	1,060,802	1,130,526
	4,707,732	4,840,404

Fair Value Estimation

The estimated fair value of BMW Financial Service receivable is based on expected future cash flows discounted at current market rates. The fair value estimates will depend on customer prepayments, credit losses and expected future interest rates.

The fair value of debt securities is based on current market prices where available.

Notes to the Annual Financial Statements

22. Fair value management (continued)

Fair Value Hierarchy

At the reporting date, the carrying amounts of financial instruments held at fair value for which fair values were determined directly, in full or in part, by reference to published price quotations and determined using valuation techniques are as follows:

	31 December 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	R' 000	R' 000	R' 000	R' 000
Measured at fair value				
Derivatives	-	(9,836)	-	(9,836)
	-	(9,836)	-	(9,836)

	31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	R' 000	R' 000	R' 000	R' 000
Measured at fair value				
Derivatives	-	12,996	-	12,996
	-	12,996	-	12,996

The fair values of the financial instruments included in the level 2 category above has been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the interest rate that reflects the credit risk of counterparties.

Notes to the Annual Financial Statements

23. Correction of prior period error

IFRS 9 requires interest income earned on stage 3 assets to be calculated on the asset's gross amount less any expected credit loss. The corresponding amount should reduce the impairment charges. During the year, the Company realised that the above has not been adjusted for and as such, the Company has restated the financials going back to 1 January 2019 and 31 December 2019.

	Results as previously reported	Restatement adjustment	Restated result
	R'000	R'000	R'000
Statement of comprehensive income			
Interest income using effective interest rate	659,533	(12,755)	646,778
Net interest income	106,805	(12,755)	94,050
Total income	108,143	(12,755)	95,388
Impairment charges	(30,411)	12,755	(17,656)
Profit before taxation	**39,905**	-	**39,905**
Total comprehensive income for the year	**28,727**	-	**28,727**
Statement of cash flows			
Interest income	675,374	(12,755)	662,619
Impairment charges	(30,411)	12,755	(17,656)
Cash generated from / (utilised in) operations	**(301,416)**	**-**	**(301,416)**
Interest income	675,374	(12,755)	662,619
Movement in accrued interest	956	12,755	13,711
Net impact on interest received	**676,330**	**-**	**676,330**

This had no impact to the profit before taxation as previously reported.

24. Going concern

The company recorded a profit of R633 000 (2019: R28 727 000) for the year ended 31 December 2020. As at 31 December 2020 the company had a net asset position of R142 737 000 (2019: R142 104 000).

Compared to the previous year, the company's profit for the year decreased by R28.1m. Due to the lower portfolio of Auto Loans, net interest income and other income decreased by a total of R32.2m, the fair value changes of derivative instruments improved by R15.4m, the impairment charges increased by R25.2m (mainly due to a negative once off impact of the COVID-19 pandemic), and other expenses and taxation improved by a total of R13.9m.

Notes to the Annual Financial Statements

24. Going concern (continued)

With the current COVID-19 pandemic, payment moratoriums were offered to eligible clients on a request basis. This moratorium entailed a payment holiday of three to six months, however a limited number of customers were granted a longer period of nine months. During the payment holiday interest accrued at the contractual rate. At the end of the payment holiday, in order to repay the deferred amount including accrued interest, the customers had the option to adjust their instalment, extend the term of the facilities or elect to repay the deferred amount in full. However, even with the relief provided, the company has seen a negative once off impact in 2020 from the pandemic on the impairment charges estimated at R20m. Business operations for the Servicer and the Administrator are continuing during the nation-wide lockdown as per Business Continuity Plans.

As a result of the above, the directors believe that the company is liquid and solvent and would be able to settle its current liabilities as they become due. The directors are satisfied that the company has adequate resources to continue as a going concern for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing the financial statements.

25. Subsequent events

All events subsequent to the date of the annual financial statements and for which the applicable financial reporting framework require adjustment or disclosure have been adjusted or disclosed.

On 24 February 2021 the Minister of Finance announced a proposed reduction in the corporate income tax rate from 28% to 27%. The proposed rate change is effective for companies with years of assessment commencing on or after 1 April 2022. Once enacted as proposed, the rate reduction will only impact the companies deferred and current tax balances from the 2023 financial year onwards. The deferred tax balances as at 31 December 2020 are therefore reflected at the substantively enacted tax rate of 28%.

The directors are not aware of any other matters or circumstances arising since the end of the financial year to the date of this report that could have a material effect on the financial position of the company.