SuperDrive Investments (RF) Limited

(Registration Number 2011/000895/06)
Annual Financial Statements
for the year ended 31 December 2019

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 Louette Nel CA(SA) at Maitland Outsourced Securitisation 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.

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SuperDrive Investments (RF) Limited

(Registration Number 2011/000895/06)
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Directors' responsiblity statement

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 2019, and the statements of 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 issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer; 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
Director
23 April 2020

RI Angus
Director
23 April 2020

SuperDrive Investments (RF) Limited

(Registration Number 2011/000895/06)
Annual financial statements for the year ended 31 December 2019

Directors' report

The directors present their report for the year ended 31 December 2019.

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 of the financial statements. As at 31 December 2019, 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	Resigned
WH Swanepoel (Chairman)	13 March 2014	17 April 2019
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 company designated 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.

TMF Corporate Services (South Africa) Proprietary Limited
Company secretary
23 April 2020

Directors' report (continued)

Dividend

No dividend was declared nor paid to the shareholder during the current year (2018: A preference dividend of R50 000 000 was declared and paid).

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

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 R28 727 494 (2018: R63 837 647) for the year ended 31 December 2019. As at 31 December 2019 the company had a net asset position of R142 104 142 (2018: R113 377 148).

Whilst the current COVID-19 situation is still changing on a daily basis at this point in time, business operations for the Servicer and the Administrator are continuing during the nation-wide lockdown as per Business Continuity Plans. A reliable estimate of the financial effects of COVID-19 cannot be made at this point in time; the annual financial statements however include expanded sensitivity disclosures with respect to the potential effects of COVID-19 on the carrying amount of assets (refer note 20.1).

As a result of the above, the directors believe that the company is liquid and solvent and would be able to settle it's current liabilties as they become due. Hence, the company has adequate resources to continue as a going concern for the forseeable future. The company therefore continues to adopt the going concern basis in preparing the financial statements.

Subsequent events

The development and spread of COVID-19 subsequent to 31 December 2019, is a non-adjusting event in terms of the requirements of IAS 10: Events after the reporting period, as the first COVID-19 case in South Africa was only reported on 5 March 2020 and as the nation-wide lockdown only took effect from midnight on 26 March 2020.

Whilst the current COVID-19 situation is still changing on a daily basis at this point in time, business operations for the Servicer and the Administrator are continuing during the nation-wide lockdown as per Business Continuity Plans.

A reliable estimate of the financial effects of COVID-19 cannot be made at this point in time; the Annual Financial Statement however include expanded sensitivity disclosures with respect to the potential effects of COVID-19 on the carrying amount of assets (refer note 20.1).

Directors' report (continued)

Subsequent events (continued)

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 (Class A8, Class A10, Class A11, Class A12 and Class A13 Notes) 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 the holding company Standard Bank Group 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.

Business Address

3rd floor, 200 on Main
Cnr Main and Bowwood Roads
Claremont
Cape Town
7708

Postal Address

Postnet suite 294
Private Bag X1005
Claremont
Cape Town
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: http://www.bmwfinance.co.za.

Audit committee report

We are pleased to present our report for the financial year ended 31 December 2019.

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 17 April 2019, 26 July 2019 and 8 October 2019 during which it reviewed its audit committee charter and fulfilled its responsibilities in terms thereof.

Expertise and experience of finance function

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 Outsourced Securitisation 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 secretarial administration of the company's statutory records is done by TMF Corporate Services (South Africa) Proprietary Limited, a specialist trust company that provides independent directors and trustees.

Independance 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.

PricewaterhouseCoopers Inc. is the company's auditor and was appointed on 8 October 2019, to replace KPMG Inc, as a result of auditor rotation.

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.

Audit committee report (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;
- Approved the external auditor's fees for the 2019 annual financial statement audit;
- 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 2019 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 2019 annual financial statements for approval by the Board on 23 April 2020.

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
23 April 2020

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 2019, 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 2019;
- the statement of 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 sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

Our audit approach

Overview

	Overall materiality • *Materiality: R 61.7 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	*R61.7 million.*
How we determined it	*1% of total assets.*
Rationale for the materiality benchmark applied	*The entity 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 entity.* *The Company purchased the underlying right to receive interest and capital on a portion of BMW Financial Services'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 88% 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 zour 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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Expected credit loss on BMW Financial Services receivable (Auto Loans)

At 31 December 2019, auto loans receivable from BMW FS amounted to R5,438 million against which an expected credit loss (ECL) of R294 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) which was adopted for the first time on 1 January 2018. IFRS 9 requires the recognition of expected credit losses (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 effect that ECL has on the impairment of auto loans receivable and the Company's credit risk management; and
- The auto loans receivable is material to the financial statements.

The quality of credit is one of the primary risks of the Company. Origination, credit mitigation and monitoring of the participating assets is performed at BMW FS in terms of the servicing arrangements of the Superdrive Investments (RF) asset backed note programme. As such, the quality of the participating assets book, and the

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In terms of the servicing arrangements of the Superdrive Investments (FR) asset backed note programme BMW FS manage the participating assets that are the basis for the Auto Loans Receivable. We obtained an understanding 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 that related to the participating assets and its respective audit approach throughout all phases of the audit process.

Based on the procedures noted above, we accepted the audit work performed and the audit evidence obtained over the participating assets for purposes of our audit.

ECL for participating assets

Making use of our valuation 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, LGD) and how these were calibrated to use historical information to estimate future cash flows;
- We obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information to estimate future cash flows. This was obtained by reading the BMW IFRS 9 methodology document and conducting interviews with management.;
- We tested the design, implementation and, where appropriate, operating effectiveness of relevant controls over the model used to

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</table>

resultant credit impairments held, are key considerations by management.

The nature of participating assets is high volume, low value and therefore 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.

BMW FS management applies professional judgement in developing the models, analysing data and determining the most appropriate assumptions and estimates. Judgement and estimates such as calibration of the ECL statistical model components (probability of default "PD", exposure at default "EAD", and loss given default "LGD"), the forward looking economic factor being the prime rate, and determination of the write-off point are 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:

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

calculate impairments, including controls relating to data and models;

- We re-performed the ECL calculation; and
- We validated the data applied by management via input testing, from contract to source system, in their ECL calculation model.

No material exceptions were noted on our procedures performed over the ECL for participating assets.

Evaluation of SICR

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

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 less judgemental elements of the ECL:

- 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 own actuarial statistics and independent market data;
- Performed an independent correlation assessment and stress testing of the macro-economic environment and benchmarked this against other car dealerships;
- Evaluated management's assessment of historical post write-off recoveries, to determine the point at which there was no reasonable expectation of further recovery; and
- Through recalculation, we tested the application of the write off policy, including the exclusion of post write-off recoveries from the Loss Given Default (LGD).

	We noted no material exceptions in respect of the procedures performed above.

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 2019", which includes the Directors' Report, the Audit Committee Report 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, related safeguards.

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 1 year.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Stefan Beyers
Registered Auditor

4 Lisbon Lane
Waterfall City
24 April 2020

SuperDrive Investments (RF) Limited
(Registration Number 2011/000895/06)
Annual financial statements for the year ended 31 December 2019

Statement of financial position
at 31 December 2019

	Notes	31 Dec 2019 R'000	Restated 31 Dec 2018 * R'000 #	1 Jan 2018 R'000 #
ASSETS				
Cash and cash equivalents	2	389,425	610,026	426,781
Trade and other receivables	3	309,278	9,092	7,873
BMW Financial Services receivable (Auto Loans)	4	5,437,978	5,927,028	6,137,046
Current tax asset	5	-	6,959	17,292
Derivative financial asset	6	12,996	49,878	16,652
Deferred tax asset	7	21,786	11,818	8,165
Total assets		6,171,463	6,614,801	6,613,809
EQUITY AND LIABILITIES				
Capital and reserves		142,104	113,377	113,762
Share capital	8	-	-	-
Retained income		142,104	113,377	113,762
Liabilities		6,029,359	6,501,424	6,500,047
Trade and other payables	9	7,511	8,056	6,268
Current tax liabilities	5	144	-	-
Subordinated loans	10	1,357,018	1,473,090	1,473,186
Debt securities	11	4,664,686	5,020,278	5,020,593
Total equity and liabilities		6,171,463	6,614,801	6,613,809

\# The presentation of the Statement of financial position has been updated in comparison to the prior year, to reflect the assets and liabilities in order of liquidity.

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

Statement of comprehensive income

	Notes	2019 R'000	Restated 2018 R'000	
Interest income using effective interest rate	12.1	659,533	707,737	*
Other interest income	12.2	15,841	22,374	
Interest expense	13	(568,569)	(588,544)	
Net interest income		106,805	141,567	
Other income	14	37,597	43,443	
Fair value changes of derivative instruments	6	(36,259)	33,517	
Total income		108,143	218,527	
Impairment charges	15	(30,411)	(90,972)	*
Other expenses	16	(37,827)	(39,338)	
Profit before taxation		39,905	88,217	
Taxation	17	(11,178)	(24,380)	
Total comprehensive income for the year		28,727	63,837	

* This amount has been restated. 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 2018 as previously reported	-	113,762	113,762
Correction of error (net of tax)	-	-	-
Restated balance at 1 January 2018 *	-	113,762	113,762
Adjustment to opening retained income for IFRS 9	-	(14,222)	(14,222)
Restated total comprehensive income for the year *	-	63,837	63,837
Dividend paid on redeemable preference share	-	(50,000)	(50,000)
Restated balance at 31 December 2018 *	-	113,377	113,377
Balance at 31 December 2018 as originally presented	-	113,377	113,377
Correction of error (net of tax)	-	-	-
Restated total equity as at 31 December 2018 *	-	113,377	113,377
Total comprehensive income for the year	-	28,727	28,727
Balance at 31 December 2019	-	142,104	142,104

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.

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

Statement of cash flows

	Notes	2019 R'000	2018 R'000
Cash flows from operating activities			
Cash utilised in operations	18	(301,416)	(6,235)
Interest received	18.1	676,330	704,453
Interest paid	18.2	(575,240)	(588,955)
SARS interest received	14	122	4,277
Taxation paid	5	(14,043)	(12,169)
Net cash (used in) / generated from operating activities		(214,247)	101,371
Cash flows generated from investing activities			
Settlement of income earning assets	4	1,802,270	2,694,980
Buybacks of income earning assets	4	510,367	45,777
Acquistion of income earning assets	4	(1,853,998)	(2,608,883)
Net cash inflow from investing activities		458,639	131,874
Cash flows used in financing activities			
Settlement from redemption of debt securities	11	(1,450,000)	-
Proceeds from debt securities issued	11	1,099,000	-
Decrease of subordinated loan	10	(113,993)	-
Dividend paid on redeemable preference share		-	(50,000)
Net cash outflow used in financing activities		(464,993)	(50,000)
Net (decrease) / increase in cash and cash equivalents		(220,601)	183,245
Cash and cash equivalents at beginning of the year		610,026	426,781
Cash and cash equivalents at end of the year	2	389,425	610,026

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.

The financial statements set out on pages 16 to 50 which have been prepared on the going concern basis, were approved by the board of directors.

1.1 Basis of preparation

The financial statements at 31 December 2019 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. The accounting policies are consistent with those applied in the previous years.

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 / asterisk.

1.1.1 Judgements and estimates

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. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 estimates, assumptions and judgements 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 judgments 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 20.1 - Credit risk
- Note 1.2.2.3 - Impairment of financial assets
- Note 1.3 - Taxation

1.1.2 Change in accounting policies

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

1. Accounting policies (continued)

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.

1.2.2 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 lost ("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 includes BMW Financial Services receivable (Auto Loans), derivative financial assets, trade and other receivable 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

  All other financial assets are classified as "at FVTPL".

1. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.2 Financial assets (continued)

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, for financial assets, adjusted for any expected credit loss allowance.

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits 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. 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. Accounting policies (continued)

1.2 Financial instruments (continued)

1.2.2 Financial assets (continued)

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 allowance is measured on the basis of lifetime expected credit losses (stage 2 - general approach).

In the case of credit-impaired assets which had not been credit-impaired at the time they were acquired or originated, an expected credit loss allowance is recognised at an amount equal to lifetime expected credit losses (stage 3).

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 carrying amount less any expected credit loss.

Expected credit loss allowance 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.

Refer note 20.1.

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

1.2.3.2 Measurement

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

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 and 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 taxation 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 taxation asset balance and is currently trading and expected to make profits which will enable them to recover the deferred taxation asset.

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.

1. Accounting policies (continued)

1.3 Taxation (continued)

Tax expense (income)
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, will recognised in other comprehensive income.
- directly in equity, will 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.

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.

1.5 Other income

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

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.

1.6 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 - acquring 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. Accounting policies (continued)

1.7 Adoption of new and revised pronouncements

IFRIC 23: Uncertainty over Income Tax Treatments
Effective date: 1 January 2019.

The interpretation specifies how an entity should reflect the effects of uncertainties in accounting for income taxes.

The company has adopted this interpretation note with effect from 1 January 2019. It does not have a material impact on the financial statements of the company, since the only uncertainties in accounting that impact the income taxes of the company relates to provision for doubtful debt, which is not considered to be significant.

Notes to the annual financial statements

2. Cash and cash equivalents

	2019 R '000	2018 R '000
Current bank account	2	2
Collections bank account	343,203	560,294
Permitted investments bank account	46,220	49,730
	389,425	610,026

The permitted investments bank account includes the cash reserve of R46 220 000 (2018: R49 730 000), 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

	2019 R '000	2018 R '000
Collections receivable	289,859	-
Prepayments	5	5
Interest accrued	1,880	2,836
VAT receivable	17,534	6,251
	309,278	9,092

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.

	2019 R '000	Restated 2018 * R '000
BMW Financial Services receivable (Auto Loans)	7,000,995	7,624,701 *
Unearned finance charges	(1,269,098)	(1,378,163)
Expected credit loss allowance	(293,919)	(319,510) *
	5,437,978	5,927,028

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

Notes to the annual financial statements

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

	2019 R '000	Restated 2018 * R '000	
Reconciliation of movement in balance			
Balance at beginning of the year	5,927,028	6,137,046	*
Adjustment to opening balance for IFRS 9	-	(19,754)	
Adjusted balance at the beginning of the year	5,927,028	6,117,292	
Adjustment for prior year error (interest accrual)	-	23,216	*
Acquisitions	1,853,998	2,608,883	
Top ups for the year	1,853,998	2,608,883	
Settlements	(1,802,270)	(2,694,980)	
Buybacks	(510,367)	(36,411)	
Impairments	(30,411)	(90,972)	*
Impairment (raised) / reversed - Stage 3 (refer note 15)	4,525	(74,093)	*
Impairment raised - Stage 1 & Stage 2 (refer note 15)	11,702	(15,738)	
Write-offs (refer note 15)	(46,638)	(1,141)	
At end of the year	5,437,978	5,927,028	

The company has pledged BMW Financial Services receivable (Auto Loans) amounting to R5 484 198 630 (2018: R5 976 756 664), which includes the reserve fund held, as collateral to the note holders. The associated liabilities of R4 664 686 466 (2018: R5 020 277 627) are disclosed in note 11.

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

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

5. Current tax assets and liabilities

	2019 R '000	2018 R '000
Balance at the beginning of the year	6,959	17,292
Payment to SARS	14,043	12,169
Current taxation	(21,146)	(22,502)
Balance (due to) / owing by SARS at year end	(144)	6,959

Notes to the annual financial statements

6. Derivative financial asset

	2019 R '000	2018 R '000
At fair value through profit and loss		
Interest rate swap		
Balance at beginning of the year	49,878	16,652
Fair value changes of interest rate swap	(36,259)	33,517
Net interest accrued throughout the period	(16,464)	(22,665)
Interest accrued throughout the period - payable	226	-
Interest accrued throughout the period - receivable	(16,690)	(22,665)
Net interest paid throughout the period	15,841	22,374
Interest paid throughout the period	(130)	-
Interest received throughout the period	15,971	22,374
Balance at the end of the year	12,996	49,878

An interest rate swap agreement has been entered into between The 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.

7. Deferred tax

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

	2019 R '000	Restated 2018 R '000
Deferred tax analysis		
Allowance for expected credit losses	25,413	19,565
Income not recognised for accounting purposes	(12,392)	6,035
Derivative financial asset	(3,705)	(13,857)
Provisions	12,470	75
	21,786	11,818
Deferred tax reconciliation		
Deferred tax asset at beginning of the year	11,818	8,165
Fair value changes of derivative instruments	10,152	(9,384)
Allowance for expected credit losses	5,848	1,405
Income not recognised for accounting purposes	(18,427)	6,035
Provisions	12,395	66
Adoption of IFRS 9 (adjustment to retained earnings)	-	5,531
Deferred tax asset at end of the year	21,786	11,818

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

	2019 R '000	2018 R '000
8. Share capital		
Authorised and issued share capital		
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.

	2019 R '000	2018 R '000
9. Trade and other payables		
Accrual accounts payable	2,670	3,947
Sundry creditors	4,841	4,109
	7,511	8,056

Notes to the annual financial statements

10. Subordinated Loans

Movement in subordinated loans

Balance at the beginning of the year	1,473,090	1,473,186
Decrease of subordinated loan	(113,993)	-
Repayment of accrued interest	(17,226)	(17,322)
Accrued unpaid interest	15,147	17,226
	1,357,018	1,473,090

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

2019:	Total R '000	Debt Securities R '000	Accrued Interest 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

2018:	Total R '000	Debt Securities R '000	Accrued Interest R '000
Class A6	522,811	518,000	4,811
Class A7	301,820	299,000	2,820
Class A8	918,851	910,000	8,851
Class A9	639,004	633,000	6,004
Class A10	605,796	600,000	5,796
Class A11	1,003,286	994,000	9,286
Class A12	1,028,710	1,019,000	9,710
	5,020,278	4,973,000	47,278

Class of securities	Interest rate	Rate at year end 2019	Rate at year end 2018	Maturity Date
Class A6	1.45% above 3 month JIBAR	N/A	8.600%	21-Aug-19
Class A7	1.58% above 3 month JIBAR	N/A	8.730%	21-Aug-19
Class A8	1.85% above 3 month JIBAR	8.650%	9.000%	21-Aug-21
Class A9	1.63% above 3 month JIBAR	N/A	8.780%	21-Aug-19
Class A10	1.79% above 3 month JIBAR	8.590%	8.940%	21-Aug-21
Class A11	1.50% above 3 month JIBAR	8.300%	8.650%	21-Aug-20
Class A12	1.67% above 3 month JIBAR	8.470%	8.820%	21-Aug-22
Class A13	1.43% above 3 month JIBAR	8.230%	N/A	21-Aug-24

Interest rates on all notes are reset quarterly.

	2019 R '000	2018 R '000
Movement in debt securities		
Balance at the beginning of the year	5,020,278	5,020,593
Accrued interest paid	(47,278)	(47,593)
Accrued interest	42,686	47,278
Notes issued	1,099,000	-
Notes redeemed	(1,450,000)	-
	4,664,686	5,020,278

Notes to the annual financial statements

	2019 R '000	2018 R '000	
12. Interest income			
12.1 Interest income using the effective interest rate			
Interest income on financial assets at amortised cost:			
Interest on BMW Financial Services receivable (Auto Loans)	625,008	678,146	*
Interest on call account	31,341	23,679	
Interest on cash reserves	3,184	5,912	
	659,533	707,737	*
12.2 Other interest income			
Interest income on financial assets at fair value through profit or loss:			
Interest on swap	15,841	22,374	
	675,374	730,111	*

13. Interest Expense

	2019 R '000	2018 R '000
Interest expense on financial liabilities at amortised cost:		
Interest on subordinated loan	148,768	157,178
Interest on Class A6 notes	28,356	43,896
Interest on Class A7 notes	16,616	25,726
Interest on Class A8 notes	80,680	80,755
Interest on Class A9 notes	35,378	54,781
Interest on Class A10 notes	52,836	52,885
Interest on Class A11 notes	84,649	84,730
Interest on Class A12 notes	88,510	88,593
Interest on Class A13 notes	32,776	-
	568,569	588,544

14. Other income

	2019 R '000	2018 R '000
Retail settlement income	24,420	26,163
Retail administration fee	13,055	13,003
SARS interest received	122	4,277
	37,597	43,443

15. Impairment charges

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)	(4,525)	46,638	30,411

2018:

	Stage 1 R'000	Stage 2 R'000	Stage 3 R'000	Write-offs R'000	Total R'000
Amount per IFRS 9	7,356	8,382	74,093 *	1,141	90,972 *

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

Notes to the annual financial statements

	2019 R '000	2018 R '000
16. Other expenses		
Other expenses include the following:		
Audit fees	322	211
Directors' fees	177	175
Liquidity facility commitment, backup servicer and admin fees	3,521	4,233
Servicer fee	29,291	30,392
VAT apportionment expense (unclaimable VAT input)	4,516	4,327
	37,827	39,338
17. Taxation		
South African normal taxation:		
- current year tax	21,146	22,502
- deferred tax (note 7)	(9,968)	1,878
	11,178	24,380
Taxation rate reconciliation:		
Taxation at standard rate	28.00%	28.00%
Permanent differences (SARS penalties and interest)	0.01%	-0.36%
Effective tax rate per statement of comprehensive income	28.01%	27.64%

	2019 R '000	Restated 2018 * R '000	
18. Cash utilised in operations			
Profit before taxation	39,905	88,217	
Adjusted for non-cash items:			
Fair value changes of derivative instruments	36,259	(33,517)	
Impairment charges	30,411	90,972	*
Cash generated before working capital changes	106,575	145,672	
Changes in working capital:	(301,064)	(6,063)	
(Increase) / decrease in trade and other receivables	(301,142)	1,223	
(Decrease) / increase in trade and other payables	(545)	1,788	
Non-cash flow item related to impairment of legal debtors	-	(9,365)	
Decrease in derivative financial asset	623	291	
Interest income	(675,374)	(730,111)	*
Interest expense	568,569	588,544	
SARS Interest received (refer note 14)	(122)	(4,277)	
Cash utilised in operations	(301,416)	(6,235)	

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

Notes to the annual financial statements

18. Cash utilised in operations (continued)

18.1 Interest received

	2019 R '000	Restated 2018 * R '000	
Interest income	675,374	730,111	*
Movement in interest accrual	956	(25,658)	*
Interest accrued current year	(25,096)	(26,052)	*
Interest accrued prior year	26,052	394	
Cashflow	676,330	704,453	

18.2 Interest paid

	2019 R '000	Restated 2018 * R '000
Interest expense	(568,569)	(588,544)
Movement in interest accrual	(6,671)	(411)
Interest accrued current year	57,832	64,503
Interest accrued prior year	(64,503)	(64,914)
Cashflow	(575,240)	(588,955)

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

19. Related parties

A related party is a person or entity that is related to the entity 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.

Notes to the annual financial statements

19. Related parties (continued)

19.1 Related party transaction with BMW Financial Services

Financing
Subordinated funding has been provided by BMW Financial Services. Interest expense on subordinated funding amounted to R148 767 958 (2018: R157 178 223) for the year. Refer note 13.

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:

Purchase of additional auto loans
The company had normal top ups of R1 853 998 161 (2018: R2 608 882 503) for the year. Refer note 4.

Settlements
The company paid settlements of R1 802 268 779 (2018: R2 694 981 451) for the year. Refer note 4.

Buybacks
BMW Financial Services bought back assets to the value of R510 366 554 (2018: R36 410 616) for the year. Refer note 4.

Interest income
The company received interest income from BMW Financial Services to the value of R625 008 111 (2018: R678 145 996) for the year. Refer note 12.1.

BMW Financial Services receivable (Auto Loans)
The company has an amount receivable of R5 437 978 630 (2018: R5 927 026 664) from BMW Financial Services in respect of auto loans legally acquired. Refer to note 4.

BMW Financial Services is the appointed service provider. The servicing fee for the year amounted to R29 291 290 (2018: R30 392 105). Refer to note 16.

Notes to the annual financial statements

19. Related parties (continued)

19.2 Key management personnel

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

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 R177 456 (2018: R175 419) 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 creditworthiness 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.

Notes to the annual financial statements

20. Risk Management

20.1 Credit risk (continued)

Trade and other receivables

Trade and other receivables reported, are receivables at year end, as a result of timing differences in receiving interest from the bank and collections from BMW Financial Services.
Given the nature of these receivables, management does not expect any counterparty to default on meeting its obligations.

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 2019 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 recognized 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 recognized 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 group 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.

Notes to the annual financial statements

20. Risk Management

20.1 Credit risk (continued)

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

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.

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%	1% *	52,909	53,436	52,378

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

Covid-19 situation

In line with existing procedures, the company considers moratoriums for customers on a case-by-case-basis, if requested by customers due to the Covid-19 situation. The main criteria being considered is that a customer must be in good standing, i.e. the customer must be up to date with all payments (or only a maximum of 30 days in arrears with the last payment). The maximum period of a moratorium being granted is for 3 months, whereas such deferred amounts will be recovered through increased instalments over the remaining contract term or through contract term extensions. Despite such moratoriums, additional defaults / delinquencies are expected from March 2020 onwards, with related negative cash- flow-impacts and related increases in credit risk costs. The company expects the credit risk cost and therefore the expected credit loss allowance for 2020 to increase by R 10 000 000 to R 15 000 000 due to the COVID-19 situation.

Notes to the annual financial statements

20. Risk Management

20.1 Credit risk (continued)

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 difficulties of 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 behavior 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

20.1 Credit risk (continued)

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

	2019				
IFRS 9 stage	**IFRS 9 Class Description**	**ECL Type**	**Number of accounts R'000**	**EAD R'000**	**ECL R'000**
	1	12 months	6,346	1,609,373	6,165
Stage 1	2	12 months	4,708	1,278,592	9,386
	3	12 months	3,596	959,797	11,255
	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**
Stage 2	7	LifeTime	1,428	273,839	35,793
	8	LifeTime	124	26,776	6,105
	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 ECL			**18,327**	**5,062,648**	**293,919**

	2018					
IFRS 9 stage	**IFRS 9 Class Description**	**ECL Type**	**Number of accounts R'000**	**EAD R'000**	**ECL R'000**	
	1	12 months	81	23,471	241	
Stage 1	2	12 months	7,821	1,910,577	8,185	
	3	12 months	5,022	1,411,274	11,648	
	4	12 months	3,818	1,053,343	14,485	
	5	12 months	876	238,158	5,160	
	6	12 months	477	112,553	3,082	
	7	12 months	11	2,319	213	
	9	12 months	2	424	114	
Total stage 1			**18,108**	**4,752,119**	**43,128**	
Stage 2	7	Lifetime	1,406	280,552	43,426	
	8	Lifetime	102	23,807	6,256	
	9	Lifetime	102	22,879	6,957	
	10	Lifetime	41	9,048	2,949	
Total stage 2			**1,651**	**336,286**	**59,588**	
Stage 3	Default	Lifetime	**1,359**	**345,059**	**216,794**	*
Total ECL			**21,118**	**5,433,464**	**319,510**	*

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

Notes to the annual financial statements

20. Risk Management

20.1 Credit risk (continued)

Expected Credit Loss allowance

Transfers

At initial recognition, all assets are categorized 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 and 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, managment 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 evidences 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:

	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**

Notes to the annual financial statements

20. Risk Management

20.1 Credit risk (continued)

Expected Credit Loss allowance (continued)

	Restated 2018				
	Stage 1 R'000	**Stage 2** R'000	**Stage 3** R'000	**Total** R'000	
Impairment allowance (IAS 39)				**200,561**	*
Changes due to IFRS 9 adoption				19,754	
Expected credit loss allowance - restated balance opening balance	**35,770**	**51,206**	**133,339** *	**220,315**	*
Transfer to other stages	(63,616)	(70,081)	-	(133,697)	
Additional changes including model parameters and transfers from other stages	70,974	78,463	84,596 *	234,033	*
Write-offs	-	-	(1,141)	(1,141)	
Expected credit loss allowance 31 December 2018	**43,128**	**59,588**	**216,794** *	**319,510**	*

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

Impaired loans
Impaired loans are loans for which the company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Loans with renegotiated terms
Loans with renegotiated terms are loans that have been structured due to deterioration in the borrower's financial position and where the company made concessions that it would not necessarily consider under normal circumstances.

Impairment of assets
The company established an allowance for impairment that represents its estimate of incurred losses in respect of auto loans instalment sales. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for companies of similar assets in respect of losses that have been incurred but not yet identified. The collective expected credit loss allowance is determined based on historical data of payment statistics for similar financial assets.

Assets in default
The company defines assets in default as assets that are more than 90 days overdue. The company have legal recovery policies in place for the repossession of vehicles which are held as collateral for retail financial contracts. Repossessed assets are sold on a public auction to the highest bidder. Proceeds from the sale of the assets are used to offset retail finance balances which are owed by the client. Any remaining balances are recovered from the client in terms of a legal recovery process.

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.

Notes to the annual financial statements

20. Risk Management

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 R231 100 000 in place with Standard Bank of South Africa to meet 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.

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)

2018:	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	(8,056)	-	-	(8,056)	(8,056)
Subordinated loans	(563,429)	(390,061)	(824,218)	(1,777,708)	(1,473,090)
Debt securities	(1,855,809)	(1,284,578)	(2,787,474)	(5,927,861)	(5,020,278)
	(2,427,294)	(1,674,639)	(3,611,692)	(7,713,625)	(6,501,424)

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.

Notes to the annual financial statements

20. Risk Management

20.3 Interest rate risk (continued)

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 and Prime-linked plain vanilla funding should be encouraged. 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.

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)**

Restated 2018		**Carrying value** R '000	
Sensitivity	-1%		+1%
Interest expense on debt securities		5,020,278	
Impact on profit or loss	50,203		(50,203)
Sensitivity	-1%		+1%
Interest expense on subordinated loan		1,473,090	
Impact on profit or loss	14,731		(14,731)
Sensitivity	-1%		+1%
Cash and cash equivalents		610,026	
Impact on profit or loss	(6,100)		6,100
Sensitivity	-1%		+1%
BMW Financial Services receivable (Auto Loans)		5,927,028	
Impact on profit or loss	(59,270)		59,270

Sensitivity net of the above items:	**(437)**	**437**
Sensitivity after tax:	**(315)**	**315**

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.

Notes to the annual financial statements

21. Analysis of assets and liabilities

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**

2018	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	-	-	11,818	11,818	11,818	-
Current tax receivable	-	-	6,959	6,959	-	6,959
Derivative financial instruments	-	49,878	-	49,878	43,269	6,609
BMW Financial Services receivable	5,927,028	-	-	5,927,028	3,906,527	2,020,501
Trade and other receivables	2,841	-	6,251	9,092	-	9,092
Cash and cash equivalents	610,026	-	-	610,026	-	610,026
Total assets	**6,539,895**	**49,878**	**25,028**	**6,614,801**	**3,961,614**	**2,653,187**
Liabilities						
	R'000	R'000	R'000	R'000	R'000	R'000
Debt securities	5,020,278	-	-	5,020,278	3,523,000	1,497,278
Subordinated loans	1,473,090	-	-	1,473,090	1,034,896	438,194
Trade and other payables	8,056	-	-	8,056	-	8,056
Total Liabilities	**6,501,424**	**-**	**-**	**6,501,424**	**4,557,896**	**1,943,528**

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 2019 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 2019

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 2019:

	31 December 2019	
	Carrying value	Fair value
	R' 000	R' 000
BMW Financial Services receivable (Auto Loans)		
(including accrued interest, excluding impairments)	5,731,897	6,584,923
	5,731,897	6,584,923
Debt Securities		
(including accrued interest)	4,664,686	5,579,315
Subordinated loans	1,357,018	1,694,867
	6,021,704	7,274,182

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 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

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	R' 000	R' 000	R' 000	R' 000
Measured at fair value				
Derivatives	-	49,878	-	49,878
	-	49,878	-	49,878

The fair values of the financial assets 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.

23. Correction of prior period error

During the current year, the company realised that there has been a misallocation between interest income and impairment charges. As such, the company has restated the financials going back to 1 January 2018 and to 31 December 2018 to update the respective numbers.

1 January 2018

	Results as previously reported	**Restatement adjustment**	**Restated result**
	R'000	R'000	R'000
Statement of financial position			
BMW Financial Services receivable (Auto Loans) - gross receivable	6,308,942	28,665	6,337,607
BMW Financial Services receivable (Auto Loans) - impairments	(171,896)	(28,665)	(200,561)
BMW Financial Services receivable (Auto Loans)	**6,137,046**	**-**	**6,137,046**

Notes to the annual financial statements

23. Correction of prior period error (continued)

31 December 2018

	Results as previously reported R'000	Restatement adjustment R'000	Restated result R'000
Statement of comprehensive income			
Interest income using effective interest rate	684,521	23,216	707,737
Impairment charges	(67,756)	(23,216)	(90,972)
Total comprehensive income for the year	**63,837**	-	**63,837**
Statement of financial position			
BMW Financial Services receivable (Auto Loans) - gross receivable	6,194,657	51,881	6,246,538
BMW Financial Services receivable (Auto Loans) - impairments	(267,629)	(51,881)	(319,510)
BMW Financial Services receivable (Auto Loans)	**5,927,028**	**-**	**5,927,028**
Statement of cash flows			
Impairment charges	67,756	23,216	90,972
Interest income	(706,895)	(23,216)	(730,111)
Cash utilised in operations	**(6,235)**	**-**	**(6,235)**
Interest income	706,895	23,216	730,111
Movement in interest accrual	(2,442)	(23,216)	(25,658)
Interest received	**704,453**	**-**	**704,453**

24. Going concern

The company recorded a profit of R28 727 494 (2018: R63 837 647) for the year ended 31 December 2019. As at 31 December 2019 the company had a net asset position of R142 104 142 (2018: R113 377 148).

Whilst the current COVID-19 situation is still changing on a daily basis at this point in time, business operations for the Servicer and the Administrator are continuing during the nation-wide lockdown as per Business Continuity Plans. A reliable estimate of the financial effects of COVID-19 cannot be made at this point in time; the annual financial statements however include expanded sensitivity disclosures with respect to the potential effects of COVID-19 on the carrying amount of assets (refer note 20.1).

As a result of the above, the directors believe that the company is liquid and solvent and would be able to settle it's current liabilties as they become due. Hence, the company has adequate resources to continue as a going concern for the forseeable future. The company therefore continues to adopt the going concern basis in preparing the financial statements.

Notes to the annual financial statements

25. Subsequent events

The development and spread of COVID-19 subsequent to 31 December 2019, is a non-adjusting event in terms of the requirements of IAS 10: Events after the reporting period, as the first COVID-19 case in South Africa was only reported on 5 March 2020 and as the nation-wide lockdown only took effect from midnight on 26 March 2020.

Whilst the current COVID-19 situation is still changing on a daily basis at this point in time, business operations for the Servicer and the Administrator are continuing during the nation-wide lockdown as per Business Continuity Plans.

A reliable estimate of the financial effects of COVID-19 cannot be made at this point in time; the Annual Financial Statement however include expanded sensitivity disclosures with respect to the potential effects of COVID-19 on the carrying amount of assets (refer note 20.1).

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 (Class A8, Class A10, Class A11, Class A12 and Class A13 Notes) 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 the holding company Standard Bank Group 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.