STRENGTH IN NUMBERS

60 YEARS OF UNEARTHING OUR PEOPLE'S POTENTIAL

OUR PEOPLE, OUR PROVINCE, OUR PROGRESS

INTEGRATED ANNUAL REPORT 2018/19

MAKING IT HAPPEN TOGETHER

WWW.ITHALA.CO.ZA

Ithala

VISION, MISSION AND VALUES

VISION

Is to create a more prosperous and inclusive society where the previously disadvantaged have the opportunity for a better life.

MISSION

Is to reduce poverty through implementing infrastructure programmes, providing access to financial services and building the economy of KwaZulu-Natal, with a focus on rural and township areas.

VALUES

- Passion
- Integrity
- Future-focused
- Service
- Respect

COMPANY INFORMATION

GROUP COMPANY SECRETARY:
LS Mahamba

BANKERS:
ABSA Bank Ltd.

AUDITORS:
Auditor-General

CORPORATE ATTORNEYS:
Approved Panel of Attorneys

BUSINESS ADDRESS:
Ithala Trade Centre, 29 Canal Quay Road, Point Waterfront, Durban

POSTAL ADDRESS:
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ITHALA TRADE CENTRE

SECTION 1: ABOUT THIS REPORT

The annual integrated report encompasses the Ithala Development Finance Corporation Limited's (IDFC) strategy, material issues and its performance for the period 01 April 2018 to 31 March 2019 and our prospects for the future.

IDFC is a state-owned entity and, through this report, sets out to address our important stakeholders, most notably being, our shareholder, regulators, clients and communities, as well as potential investors, with regard to our ongoing viability. In determining the contents of this report, we are bound by the reporting requirements as set out by the Public Finance Management Act with regard to conveying our performance against our Annual Performance Plan (see pages 48 to 59).

Materiality is determined by the Board of Directors, in line with IDFC's mandate and the information requirements of both its shareholders and regulators, as well as other key stakeholder groups.

We have been guided by the International Integrated Reporting Council (IIRC) Integrated Reporting Framework, which was released in December 2013, and the King Code on Corporate Governance for South Africa (2015) (King Code). Further standards, applied in defining the contents of this report, include the IFRS, the Companies Act, Act No. 71 of 2008 (Companies Act) and the Public Finance Management Act, Act No. 1 of 1999 (PFMA).

FORWARD-LOOKING STATEMENTS

Certain statements in this document are deemed to be forward-looking. These relate to, inter-alia, the plans, objectives, goals, strategies, future operations and performance of IDFC.

Words such as 'anticipates', 'estimates', 'expects', 'projects', 'believes', 'intends', 'plans', 'may', 'will', 'should,' and similar expressions, are typically indicative of forward-looking statements. These statements are not guarantees of IDFC's future operating, financial or other results and involve certain risks, uncertainties and assumptions.

Accordingly, actual results and outcomes may differ materially from those expressed or implied by such statements.

APPROVAL AND ASSURANCE OF OUR REPORT

The Audit and Risk Committee is responsible for reviewing and recommending the annual integrated report and the annual financial statements to the Board of Directors for approval. The Board of Directors has applied its mind to the integrated report and believes that it addresses all material issues and fairly presents our performance.

STATEMENT OF THE BOARD OF DIRECTORS OF ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED

The Board of Directors acknowledges its responsibility to ensure the integrity of the annual integrated report and, in the Board's opinion, it addresses all material issues and presents fairly the company's integrated performance.

Chairman

Audit and Risk Committee

WHO WE ARE

As a development finance institution, IDFC is regarded as one of the key channels through which Government funding and other small, medium and micro enterprise (SMME) support interventions reach communities.

We are one of the pioneers of SMME development. We are also the first institution to bank unbanked communities and to establish shopping centres in rural areas, thus stimulating development in the more remote regions of KwaZulu-Natal. We seek to play a role in improving the quality of the lives of the province's people and economy.

We continue drawing on these core competencies in order to deliver ever more effectively and efficiently on our developmental mandate.

OUR PURPOSE

Is to be the bridge to a better life, through socio-economic development.

OUR VISION

Is to create a more prosperous and inclusive society where the previously disadvantaged have the opportunity for a better life.

OUR MISSION

Is to reduce poverty through implementing infrastructure programmes, providing access to financial services and building the economy of KwaZulu-Natal, with a focus on rural and township areas.

OUR VALUES

- Passion;
- Integrity;
- Future-focused;
- Service; and
- Respect.

OUR MANDATE

IDFC's mandate is expressed in the KwaZulu-Natal Ithala Development Finance Corporation Act, Act No. 5 of 2013, which is concerned with the pivotal role fulfilled by IDFC in the development landscape of the Province of KwaZulu-Natal. The clauses of the Act outlining the service pillars of IDFC are as follows:

- Mobilise financial resources and provide financial and supportive services to persons domiciled, ordinarily resident, or carrying on business within KwaZulu-Natal;
- Plan, execute, finance and monitor the implementation of development projects and programmes in KwaZulu-Natal;
- Promote, assist and encourage the development of the province's human resources and its social, economic, financial and physical infrastructure;
- Promote, encourage and facilitate private sector investment in the province and the participation of the private sector and community organisations in development projects and programmes and contribute to economic development generally; and
- Act as Government's agent for performing development-related tasks and responsibilities which the Government considers may be more efficiently or effectively performed by a corporate entity.

HOW WE DELIVER ON OUR MANDATE

- We fund business enterprises, SMMEs and Co-operatives;
- We provide entrepreneurial support and skills development;
- We develop and manage commercial and industrial properties;
- We provide savings, loans, insurance, home loans and financial services; and
- We strive to meet development goals, while deriving realisable economic opportunities for KwaZulu-Natal-based SMMEs and Co-operatives. Noting that 'green energy' is a growing field of practice, IDFC is committed to learning and adapting in line with industry trends, in order to carve a niche in the sector, with a view to increasing the scope of engagement in development practices.

MEC'S FOREWORD

Ms Nomusa Dube-Ncube, MPL
MEC for Economic Development, Tourism and Environmental Affairs

It is an honour and privilege to be a part of another milestone of IDFC 's service to society, as expressed in this annual report. IDFC has made noteworthy strides in the business of facilitating economic development, particularly in the context of slow global and domestic economic growth that is accompanied by complex social and economic transformation lags.

The economic growth forecast narrative is dominated by news of heightened global risks, such as the slow-down in Chinese economic growth rates, the uncertainty regarding Brexit negotiations in the United Kingdom and the US tariffs on imports, particularly steel imports. These global economic growth risks have the potential to weigh negatively on the demand for South African exports which, in turn, will have an adverse bearing on the Rand exchange rate, thus posing an upside risk to the inflation outlook.

This narrative also highlights domestic economic growth risks, such as stifled private sector fixed investment, constrained Government expenditure growth and sluggish primary and secondary sector growth rates. However, the economic growth outlook picture for South Africa is not all doom and gloom, as we have seen positive developments, such as the South African economy exiting technical recession in the third quarter of 2018, a relatively stable Rand exchange rate and downward adjustment to the inflation outlook.

The social environment is equally challenging, as we observe that the society we serve has since moved from a position of receiving whatever allotment is given to them by Government institutions, including organisations such as IDFC, and accepting it as is. We see nation-wide evidence that communities and individuals have become more assertive as they are increasingly aware of the mandate assigned to State institutions, as well as the levels at which services must be delivered to them. They display stronger understanding of their rights to services and are willing to raise their demands at designated institutions. These societal developments mean that there is no longer room for a sense of lethargy in the Government sector.

Society's demands impose more accountability on all role-players in the development sector to tangibly deliver on the promises they make. These growing expectations and demands are intensifying in a context of constrained State resources and intense competition for limited resources that are required to meet diverse social needs. These developments point to the critical requirement to plan and deliver smartly in the endeavour to produce tangible results for individuals and groups that are targeted by State institutions' development programmes.

In the context of KwaZulu-Natal province, IDFC is a central player to this scenario as we observe a remarkable increase in the social expectations of its organisational output. There is ample evidence that entrepreneurs in the rural and township economies are no longer willing to be silent regarding their frustration, caused by their exclusion from mainstream business, as well as seeing major economic activity taking place in their areas for the benefit of the already-empowered players. In this situation, IDFC and its peer entities are called upon to respond in smart and relevant ways to address the needs of this sector of society.

As Government, we continue to follow a 'hands-on' approach to programmes that have been announced to the public. This is to ensure that the programmes we pronounce are not only good words, but rather are instruments that can substantially improve people's lives. It is for this reason that as the Department of Economic Development, Tourism and Environmental Affairs, we get involved through the hands of IDFC and its fellow entities in initiating programmes that will develop and transform rural and township entrepreneurial operations into significant players in the provincial, and eventually national economic activities.

MEC'S FOREWORD (CONTINUED)

In this regard, IDFC has played a key role and will continue to be instrumental in unlocking sectors of the economy that have always kept the majority of our entrepreneurs outside. This will assist in driving these small enterprises towards long-term sustainability, as opposed to being merely subsistence operations.

It is in this context that we are unrelenting in our pursuit of reportable results in the programmes we have institutionalised, such as Operation Vula and Radical Agrarian Socio-economic Transformation (RASET). Through these programmes, we are ring-fencing large-scale provisioning of goods and services required in large Government Departments in favour of conglomerates of SMMEs and Co-operatives owned by historically disadvantaged individuals operating in relevant business environments. Furthermore, through the Bulk Buying and Warehousing Programme, which is aimed at lowering the cost of sales for our small and emerging retailers, in order for them to be competitive and to be able to expand their market-share and participate in the whole retail value chain, we are opening doors that were previously closed to SMMEs and Co-operatives.

As officials in Government, we are taking the initiative to see to it that these doors are opened, so that our promise of radical economic transformation becomes credible. It is important that while we create opportunities for SMMEs and Co-operatives, we also provide relevant support for them to ensure success and sustainability. IDFC is at the forefront of capacity-development initiatives aimed at gearing suppliers from historically disadvantaged backgrounds to raise their standards in the form of capital held, stock acquisition maintained and supply volumes achieved. This means that IDFC's focus is not only loan financing, but also capacity-development, through non-financial enablement interventions.

As we encourage rural communities to play a more significant role in the agriculture sector through RASET, we are aware that some significant attempts in the past years failed in this sector as a result of weak supply value chains and, specifically, the shortage of wholesale buyers of agricultural produce. This has been the function of monopolistic and anti-competitive practices in various aspects of the agriculture value chain. As a result, small operators in the past would be relegated to door-to-door or street selling of their hard- earned produce. This is a situation we aim to transform. IDFC continues to make progress in its mission of enabling SMMEs and Co-operatives by employing financial resources available to it, as illustrated by the performance results contained in this report. This is confirmed by the number of SMMEs and Co-operatives that have been successfully reached over the past year, a dedicated focus on the rural and township environments, investment in women and youth empowerment, and the flourishing of programmes such as Imbokod'iyazenzela (focusing on women entrepreneurs) and Inkunz'isematholeni (focusing on youth entrepreneurs). We also recognise IDFC's notable participation in provincial programmes that relate to radical economic transformation drives, such as Operation Vula, RASET and the Bulk Buying and Warehousing Programme, amongst others.

Our radical economic transformation initiatives are the only way, we believe, we can transition SMMEs and Co-operatives from the primary economy to the secondary economy. It is our view that the complexities of access can only be addressed through decisive engineering at policy, institutional and project levels. IDFC is an integral part of these initiatives.

I congratulate the Board and the Executive Team of IDFC for the good work done so far. All other employees of IDFC are included in this acknowledgement. I continue to appreciate the manner in which the new Board, led by Mr Roshan Morar, has 'hit the ground running' in ensuring that improvements due in delivering customer value are served without delay. I also take this opportunity to welcome the new IDFC Group CEO, Ms Pearl Bengu.

There is still a lot of hard work ahead to achieve the goals of our developmental state. Let's all roll-up our sleeves and make the radical economic transformation plans a reality for the benefit of our society at large.

....

Ms Nomusa Dube-Ncube, MPL
MEC for Economic Development, Tourism and Environmental Affairs

CHAIRMAN'S LETTER TO STAKEHOLDERS

STRATEGY

The 2018/19 financial year was characterised as one of significant change; a year in which IDFC successfully gave effect to addressing internal weaknesses impeding the organisation's ability to play a more strategic role in the implementation of and support for the critical drive towards social transformation.

The core values inherent in IDFC's strategic goals require that the organisation position itself as the face of exceptional service delivery and cutting-edge economic development to the benefit of the broader KwaZulu-Natal economic strategy.

Across its diverse range of business activities, IDFC works tirelessly towards the achievement of radical economic transformation. Our operational successes during the past five years are regarded as being critical, both in terms of the sheer number of SMMEs and Co-operatives to have benefited from our interventions, and in the added value we created, together with the creation of a space conducive for small enterprises to grow and develop, creating permanent new employment opportunities and, most importantly, actively assisting in the very transformation of the sector.

We now look to doing even more in the quest to maximise developmental outcomes across every sphere supported by IDFC throughout the province.

In so saying, we equally recognise that South Africa currently faces daunting economic challenges, which impact both the property and business finance components of our business. However, IDFC's Board, supported by our Shareholder, is of the view that we can look forward to increased value going forward, with the organisation geared to achieving its targets in the ensuing financial years.

To give tangible effect to such increased optimism requires a concerted effort from the organisation's leadership, executive team and members of staff to take IDFC and all it stands for to the next business level. In this endeavour, the next step in our strategy is to unlock Shareholder value through both our property portfolio and business finance environment.

Within our properties portfolio, the overriding goal is to improve sustainability by consolidating operations, exiting non-core businesses, diversifying into new opportunities within the property market and bulking-up other property business in order to achieve scale. Our business finance operation is targeting growth and expansion through an enabling governance and funding structure, by exploring potential Broad-Based Black Economic Enterprise partnerships, as well as facilitating product expansion into niche markets.

Both these initiatives are crucial to our achieving a fair evaluation of our business.

The properties and business financing development outcomes reflected substantial improvement during the review period, compared against the previous financial year. Unfortunately, a number of external factors played a role in somewhat hampering our 2018/19 performance, limiting, to a degree, said improvement.

However, it is the responsibility of the Board, supported by Executive Management, to continuously look to unlock value and to evolve a business development strategy capable of stimulating the growth of our business units and, in turn, ensuring the generation of profit during the upcoming years.

To this end, both our properties and business finance units have implemented initiatives aimed at adding both diversity and scale, which will unlock SMME funding and improve the profitability of the businesses we assist, for the benefit of both IDFC and the KwaZulu-Natal economy.

CHAIRMAN'S LETTER TO STAKEHOLDERS
(CONTINUED)

These initiatives include investing further in the township economy and improving IDFC's CAPEX projects, actively promoting vigorous involvement in Radical Agrarian Socio-Economic Transformation endeavours, improved capacity and efficiency, the effective implementation of infrastructure initiatives, becoming an implementing agent of choice in KwaZulu-Natal, and affording support for other Government entities in the execution of their service delivery mandates.

During the 2018/19 financial year, IDFC facilitated the creation of some 3 457 employment opportunities, in line with its strategic goal of driving SMME and Co-operative development. Of this number, employment opportunities created for women in business totalled 1 263, whilst 1 024 opportunities were created for the youth in business and 750 job opportunities came about as a result of new businesses. Such strategic endeavours have done much to bed-down IDFC's position as an enabler, creating a more prosperous and inclusive society where the previously disadvantaged have the opportunity for a better life.

We are exploring options now to give impetus to our growth strategy, with steps to reposition the business set to include identifying new sources of capital, through the Department of Economic Development, Tourism and Environmental Affairs and other partners from the public and private sectors.

Crucial components of this expansion strategy include the development and introduction of innovative new financial products, tailored for SMMEs, and the advancement of a new properties turn-around plan.

GOVERNANCE
The 2018/19 financial year witnessed IDFC 's continued commitment to conducting its business within the boundaries of a well-defined governance structure, driven by the Board.

Our organisation's core values, being Passion, Integrity, Future-focused, Service and Respect form a solid foundation for our overall approach to business, supported by sustainability measures to ensure the health and safety of all stakeholder groups with which we interact, and a commitment to both respect the province's communities and to minimise the degradation of its environment as a consequence of our business activities.

We have in place a robust risk-management system, which incorporates an assessment of the impact of identified risks on, and opportunities in, the six capitals of value creation, as outlined in the International Integrated Reporting Council's Integrated Reporting Framework and incorporated in King IV. The system creates a risk-conscious business culture by embedding agreed internal controls and mitigating actions through all levels of management and supervisory staff.

In addition, and in spite of our core function being developmental in nature, our organisation has a social conscience, with a Corporate Social Investment programme in place which favours educational and SMME projects, the latter being operated through 'My Business Indaba,' which seeks to empower women and youth in business.

Educational support, through Abantwana Bethu, takes the form of providing school uniforms to needy KwaZulu-Natal learners and teaching youngsters the importance of saving.

APPRECIATION
I would close by extending a few words of appreciation.

To the past and present MECs for Economic Development, Tourism and Environmental Affairs, Mr Sihle Zikalala and Ms Nomusa Dube-Ncube respectively, I proffer my most grateful thanks for the leadership, support and guidance you have afforded IDFC, which has been both inspirational and humbling.

It is an honour to once again be of service in this important and impactful organisation together with my Board colleagues, during these challenging times. This is an organisation which exists to serve, especially, KwaZulu-Natal's historically disadvantaged and marginalised communities and it is a privilege to be an ongoing part of its essential work. The diverse experience and expertise my fellow Board members bring to IDFC has, in no small measure, contributed to the successes achieved to date and augur well for the future growth and development of the organisation. During the course of the 2018/19 financial year, three key and senior appointments were made. Ms Pearl Bengu became the organisation's Group Chief Executive Officer, Mr Sandile Mnguni was appointed Group Chief Financial Officer and Mr Xolani Mkhize took up the position of Properties Executive. I take this opportunity to thank all three for accepting their respective appointments and believe each will make an invaluable contribution to IDFC's development journey. Rest assured, you may count on the Board's support as you take up the reins and give refreshed impetus to the execution of IDFC's business strategy.

It would be remiss of me not to thank Mr Themba Mathe, the organisation's Group Executive: Marketing Communications and Human Resources, who played a vital role as Acting Group Chief Executive, but who subsequently resigned on 30 April 2019. We thank him for his contribution to IDFC's past success and wish him well in his future endeavours.

I also thank my Board colleague, Mr Njabulo Nzuza, who resigned on 31 May 2019 to take up a new and important position, serving the country as a Deputy Minister of Home Affairs. We wish him well in the mammoth task of serving our nation.

Last, but not least, I express my most sincere gratitude to IDFC staff for the enormous and collective effort made during a year of significant change; a period which brought with it a measure of uncertainty and who, in spite of this rose to every challenge.

It is thanks to all involved with IDFC that we are well-positioned now to execute meaningfully on our organisation's strategy, creating a forward-looking and sustainable business to the advantage of our clients, communities, stakeholders and our Shareholder, the Provincial Government of KwaZulu-Natal.

....

Mr Roshan Morar
Chairman

FROM THE GROUP CHIEF EXECUTIVE'S DESK

The year 2018/19 was characterised by notable challenges in a number of different sectors of business activity across South Africa. These included currency weakness, constrained fixed investment, the curtailing of spending in Government services, the after-effects of the drought conditions of the three preceding years, subdued economic growth and low business and consumer confidence. Collectively, these events had a ripple effect on both consumers and business, especially as they gave effect to a reduced appetite for new ventures and encouraged extraordinary risk aversion.

Commercial lending institutions also became stricter in their assessment of funding applications in response to such economic volatility. IDFC was affected by such environmental challenges during the period under review. These conditions have necessitated heightened efforts on our part to ensure the organisation's continued sustainability, while also advancing the delivery of our developmental mandate.

In spite of an unfavourable economic climate, IDFC has vigorously pursued its mission to enable SMMEs and Co-operatives through on-lending and other business development services. The harsh economic times have demanded greater collaboration with our clients in order to create and package solutions which better fitted the prevailing conditions. Our success in expanding the economic participation of SMMEs and Co-operatives is evidenced by a 21% growth in the number of new businesses financed in the 2018/19 financial year compared against the previous financial year.

Our commitment to growing economic participation by SMMEs and Co-operatives is not without challenges and risk. The muted economic growth climate has put a massive constraint on our SMMEs' growth prospects. In particular, the agriculture sector, which was the hardest hit by the drought and producer price volatility, has - in turn - had a negative effect on the performance of our loan book. Nevertheless, the agriculture sector remains an important sector for the KwaZulu-Natal Provincial Government's economic development plans, and, as such, IDFC continues to support SMMEs and Co-operatives in this sector through, for example, restructuring the loans of distressed businesses. We also placed stronger emphasis on providing pre- and post-investment support to our clients in an effort to capacitate them and prepare them for financially viable and sustainable businesses.

IDFC's properties footprint provides for a lettable area of 1,2 million square metres, spanning the province.

IDFC continues to participate in provincial programmes such as RASET and Operation Vula. IDFC's involvement in these programmes have been affirmed in the allocation of SMME/Co-operative funding to the value of R40 million for disbursement to entities carrying out Operation Vula/RASET projects. The roll-out of these projects is progressing and other initiatives will be rolled-out in the 2019/20 financial year. Further to the above-mentioned programmes, IDFC also plays a significant role in other provincial initiatives, such as the School Nutrition Programme and the Scholar Transport Programme.

IDFC remains absolutely committed to advancing the objectives of the KwaZulu-Natal Provincial Government's Radical Economic Transformation (RET) programme, which entails, inter alia, the economic emancipation of women and youth. In this regard, IDFC continues to pay close attention to the implementation of programmes such as Imbokod'iyazenzela (Women Entrepreneurship) and Inkunz'isematholeni (Youth Entrepreneurship). These achievements are an outcome of IDFC's leadership, management and staff dedication. We believe implicitly that people are central to continued organisational achievement. Consistent delivery on our developmental mandate is indicative of the unwavering support and guidance we have received from our former Shareholder representative, Mr Sihle Zikalala, our Chairman, Mr Roshan Morar, and members of the Board and Board Committees. We further wish to extend our sincere appreciation to our new Shareholder representative, Ms Nomusa Dube-Ncube for her support and guidance in ensuring that IDFC fulfils its mandate.

....

Ms Pearl Bengu
Group Chief Executive Officer

GROUP CHIEF FINANCIAL OFFICER'S REPORT

INTRODUCTION

IDFC remained financially strong in the 2018/19 financial year. Net profit exceeded our approved budget of R220 million by approximately R15 million.

The resulting growth in profit and asset base will enable IDFC to continue making strategic investments in priority areas.

The investment in strategic areas in 2018/19 included spending on property refurbishments amounting to R127 million. In addition, to grow our loan book for future returns, a total of R380 million loans were approved and disbursed during the year.

This will not only contribute to future returns, but is significant in transforming the ownership of the economy in KwaZulu-Natal as about 54% of this investment was for women and youth-owned enterprises.

FINANCIAL PERFORMANCE

IDFC operating income has grown by more than 4% despite the challenging economic times. This revenue growth is mainly attributed to our property portfolio and Ithala SOC Limited. IDFC appreciates the continued support of tenants and customers.

The increase regarding our property portfolio is driven by a reduction of vacancies, which can be attributed to our investments in major refurbishments that have been conducted in the past year. We will continue with the refurbishment programme across our properties in KwaZulu-Natal.

Our subsidiary (Ithala SOC Limited) has grown its income by more than 7% during the period and this growth is due to increased demand for our banking products, such as debit cards for businesses, individuals, multi-term targets and club save accounts.

The operating expenditure has increased by approximately 8% and the increase in expenditure is mainly due to increased impairment and over the next 12 months the focus will be on driving efficiencies, whilst growing the revenue base. Despite the expenditure growth of 8%, the group was still able to achieve a net profit of approximately R235 million, compared against budgeted profit of R220 million.

FINANCIAL POSITION

IDFC has grown its non-current asset book by almost 7%. This growth is mainly as a result of our investment in minor and major refurbishment of our properties and increased loan disbursements during the year.

These investments are in fulfilment of our mandate of supporting SMMEs and creating and environment for economic development. The financial performance of the group compared to budget may be depicted as follows:

FINANCIAL REVIEW

Revenue	4%
Operational costs	8%
Net Profit	18%
Cost to income	33,9%
Return on assets	0,19%
Capital adequacy ratio	2,43%

GROUP CHIEF FINANCIAL OFFICER'S REPORT (CONTINUED

It should be noted that the group changed its accounting framework from Generally Acceptable Accounting Standards (SA GAAP) to the International Financial Reporting Standards (IFRS) framework in order to comply with directive 12, issued by the Accounting Standards Board. The group has prepared the annual financial statements, that comply with IFRS, as at 31 March 2019, together with the comparative period for the year ended 31 March 2018, as described in the summary of significant accounting policies. The date of transition for the group is 01 April 2017, except where IAS 1 exemption was applied.

The impact of IFRS adoption is a decrease of R6,3 million in net profit. The group has also adopted IFRS 9 from 01 April 2018, with the expected credit loss model resulting in a decrease of R3,7 million in the impairment of loans and advances. The comparative figures are, therefore, largely influenced by the adoption of the IFRS framework.

The group reported a profit of R235,1 million mainly due to a marginal increase in revenue.

IDFC has delivered healthy results amidst the modest economic recovery experienced over the financial year under review.

The Properties Department recorded a profit of R335 million. There has been a year-on-year increase in revenue of 5,3%, with the major contributors being an increase in rental income, as a result new leases coming into effect, and fee income, which is mainly driven by electricity recoveries. The appreciation in fair value of investment property, gave rise to a fair value adjustment of R109 million. The debtors' book has deteriorated by 2,9% compared to the prior year, owing to an increase in bad debtors written-off and an increase in expected credit losses.

The Business Finance Department recorded a profit of R38,5 million. This is due, largely, to the adoption of IFRS 9, resulting in a reduction in interest income recognised and increased expected credit losses. Interest income is further reduced by both the rate and volume mix as advances are mainly from the Enterprise Development Fund, which attracts lower interest. Early settlement of large loans during the year further impeded the department from achieving its interest income targets. In addition, an impairment loss of R10,5 million was recorded for a loan granted to a subsidiary, with poor performance raising doubt regarding repayment.
The largest subsidiary in the group, Ithala SOC Limited, reported a loss of R25,7 million, which is an improvement of 20,7% year-on-year. Such improvement is due, largely, to an increase in fee income of 14,7%. In addition, the adoption of IFRS 9 has resulted in a reduction in expected credit losses. Non-performing loans improved from 7,3% to 6,2% in the current year, thereby reducing the year-on-year credit impairment charge.

Ithala SOC Limited operates with an exemption to a full banking licence, granted by the South African Reserve Bank (SARB) up until 31 December 2021. An application for a full banking licence is in progress.

REVENUE

An increase of 4% in the total revenue of the group, was due largely to an increase in fee income arising from the utilisation of certain banking products, such as debit cards, in terms of businesses, individuals, multi-term targets and club save accounts. Furthermore, the sale of municipal services improved by 5%, the consequence of annual price increases. The Properties Department's new leases and renewals have led to rental income increasing by 5%. Interest income decreased by 2%, mainly due to the requirements of IFRS 9 for the recognition of interest on loans on stage 3.

Other income increased by 5% in the current year mainly due to an increase in grant income and other income. An analysis of other operating income is included in note 22.

OPERATING COSTS

Operating expenditure increased by 8% during the year under review, arising primarily from maintenance costs, purchases of electricity, water and sewage, rent, rates and utilities and non-credit impairment losses. An analysis of other operating expenditure is included in note 23.

CAPITAL ADEQUACY RATIO

The capital adequacy ratio has improved from 15,24% to 17,67% in the current year. This level remains above the minimum capital adequacy ratio required by the South African Reserve Bank.

The group has maintained its liquidity and solvency during the year under review.

FUTURE OUTLOOK

Ithala will be increasing its investment in development programmes and projects in line with the approved strategy. The investment in the property portfolio which will include investment in new developments and major refurbishments is planned for the next three years as this will support growth of our revenue base. In addition, as implementing agent of Government, IDFC will continue capacitating itself to ensure that projects are delivered in line with the service level agreement.

Furthermore, IDFC will continue investing in SMMEs and Co-operatives in line with the approved strategy. Business Finance will improve capacity to support businesses and the collection of overdue loans is top priority, as funds are required to support more businesses.

Ithala SOC Limited's exemption has been extended until 31 December 2021 and IDFC will continue providing support to the entity as it prepares for its licence application, which is due by June 2021.

Mr Sandile Mnguni
Group Chief Financial Officer

ITHALA WILSON'S WHARF

OUR LEADERSHIP

BOARD OF DIRECTORS

Roshan Morar
Independent Non-Executive Director (Chairman)
B Com, B Com Honours, Chartered Accountant (SA), Certified Fraud Examiner
Appointed 01/06/17

AREA OF EXPERTISE	OTHER DIRECTORSHIPS
• Financial Management • Business Advisory • Audit • Accounting • Forensic Services and Investigations • Taxation • Corporate Governance	• Harith General Partners • Capital Appreciation Ltd • Lancaster 101 (Pty) Ltd • Lancaster 102 (Pty) Ltd • Lancaster Foundation

Siphesihle Mkhize
Independent Non-Executive Director (Deputy Chairman)
B Compt, B Com (Honours) CTA, Auditing Specialised Course (APT), Chartered Accountant (SA)
Currently pursuing a LLB qualification
Appointed 01/06/17

AREA OF EXPERTISE	OTHER DIRECTORSHIPS
• Financial Management • Audit • Accounting • Supply Chain Management • Strategy Formulation and Management Taxation	• University of Zululand

Sipho C Gina
Independent Non-Executive Director
Social Legal Studies Diploma, Political Economy, Conciliation and Arbitration - Certificate, Arbitration - Certificate
Appointed 01/06/17

AREA OF EXPERTISE	OTHER DIRECTORSHIPS
• Human Resources and Labour Specialist • Social and Ethics	• Deputy General Secretary of SACTWU • National Textile Bargaining Council • Tsogo Sun International • Tsogo Sun HRSEC - Chairman • Star Knitwear - Mauritius • Edufundi • Port Shepstone Quarries (PSQ) - Chairman • KZN Economic Council - Labour

Inkosi Sbonelo Mkhize
Independent Non-Executive Director
B Com (Economics)
Certificate in Public Policy
Appointed 01/06/17

AREA OF EXPERTISE	OTHER DIRECTORSHIPS
• Financial Management • Economic Analysis • Social and Ethics • Credit and Investment Management • Foreign Exchange and Equities • Banking Legislation	• Ithala SOC Ltd • Just Share (NPC)

Njabulo Nzuza
Independent Non-Executive Director
B Com Economics, Certificate in Corporate Funding Strategies JSE, Non-Executive Director Port Shepstone Quarries
Appointed 01/06/17
(Resigned 31 May 2019)

AREA OF EXPERTISE	OTHER DIRECTORSHIPS
• Strategic Management • Economic Development • Project Management • Financial Management	• Port Shepstone Quarries (Pty) Ltd

OUR LEADERSHIP (CONTINUED)

Precious N Sibiya
Independent Non-Executive Director
B Accounting, Post-graduate Diploma in Accounting, Leadership Development - Certificate, Chartered Accountant (SA), Business Rescue Practitioner
Appointed 01/06/17

AREA OF EXPERTISE	OTHER DIRECTORSHIPS
• Financial Management and Reporting • Auditing (Internal and External) • Risk Management • Financial Planning (Budgets and Forecasts) • Supply Chain Management • Credit and Investment Management • Strategy Formulation and Management • Business Turn-around	• SENTECH SOC • AWCA Investment Holdings (AIH) • Reef Tankers (Pty) Ltd • Financial Intelligence Centre • Human Sciences Research Council • Cape Peninsula University of Technology

Sihle L Ndlovu
Independent Non-Executive Director
MBA, Professional Accountant (SAIPA), Advanced Diploma in Management Accountant (CIMA), National Diploma in Cost Management Accounting (CIMA), Business Management on Developing Countries - Certificate, Tax Practitioner (CIMA), Post-Graduate Diploma in Accounting and Finance, Member of Chartered Institute of Management Accountants (CIMA) United Kingdom Profession Accountant Body, Doctoral in Business Administration DBA (PHD) fourth year candidate at UKZN
Appointed 01/06/17

AREA OF EXPERTISE	OTHER DIRECTORSHIPS
• Financial Management • Economic Development • Credit and Investment Management • Agriculture • Planning (Budgets and Forecasts) • Client Relationship Management • Performance Management • Strategy Formulation and Management • Project Management • Social and Ethics	• Ezemvelo Wildlife Conservation Board • Joburg Market under City of Johannesburg Municipality • ILembe District Municipality and ILembe Enterprise Development Agency - Audit and Risk Committee Member • Built Environment Support Group - Chairman • Utility Management Systems - Chairman

Khulekelwe G Mbonambi
Independent Non-Executive Director
B Accounting, B Com Honours, Board Governance Certificate, Enterprise-Wide Risk Management - Certificate
Appointed 01/06/17

AREA OF EXPERTISE	OTHER DIRECTORSHIPS
• Corporate Governance • Strategy and Performance Management • Financial Management • Financial Reporting • Asset, Debt and Liability Management • Enterprise Risk Management • Supply Chain Management • Social and Ethics • Compliance • Taxation	• Rand Water • Water Research Commission • Department of International Relations & Co-operation - Chairperson Audit Committee • Department of Agriculture, Forestry and Fisheries

Pearl Bengu
Group Chief Executive Officer
Masters' in Public Administration, Financial Services Board Compliance Certificate, Advanced Certificate Programme in Management Development for Municipal Finance, Certificate Programme in Management Development for Municipal Finance, B Com, Licentiate Diploma Part 1
Appointed 04/11/18

AREA OF EXPERTISE	OTHER DIRECTORSHIPS
• Strategic Leadership Management • Stakeholder Management • Public Sector Banking • Business Acquisition	• Cowslip Investments SOC Ltd

OUR LEADERSHIP (CONTINUED)

MANAGEMENT TEAM

Pearl Bengu
Group Chief Executive Officer
Appointed 04/11/18

QUALIFICATIONS

- Masters' in Public Administration
- Financial Services Board Compliance Certificate
- Advanced Certificate Programme in Management Development for Municipal Finance
- Certificate Programme in Management Development for Municipal Finance
- B Com
- Licentiate Diploma Part 1

Sandile Mnguni
Group Chief Financial Officer
Appointed 15/03/2019

QUALIFICATIONS

- MBA
- Chartered Accountant (SA)
- B Com (Honours)

Mr Michael Matibe
Group Chief Information Officer
Appointed 01/12/2011

QUALIFICATIONS

- B.Sc
- B.Sc (Honours)
- Master of Information Management (MIM)

Xolani Mkhize
PROPERTIES EXECUTIVE
Appointed 18/03/2019

QUALIFICATIONS

- Post-graduate Diploma Management
- Post-graduate Diploma Project Management
- BScsc
- Global Executive Development Programme

Boitumelo Mokgatle
Group Chief Risk Officer
Appointed 04/05/2015

QUALIFICATIONS

- MBA - Enterprise Risk Management
- B Com (Accounting)

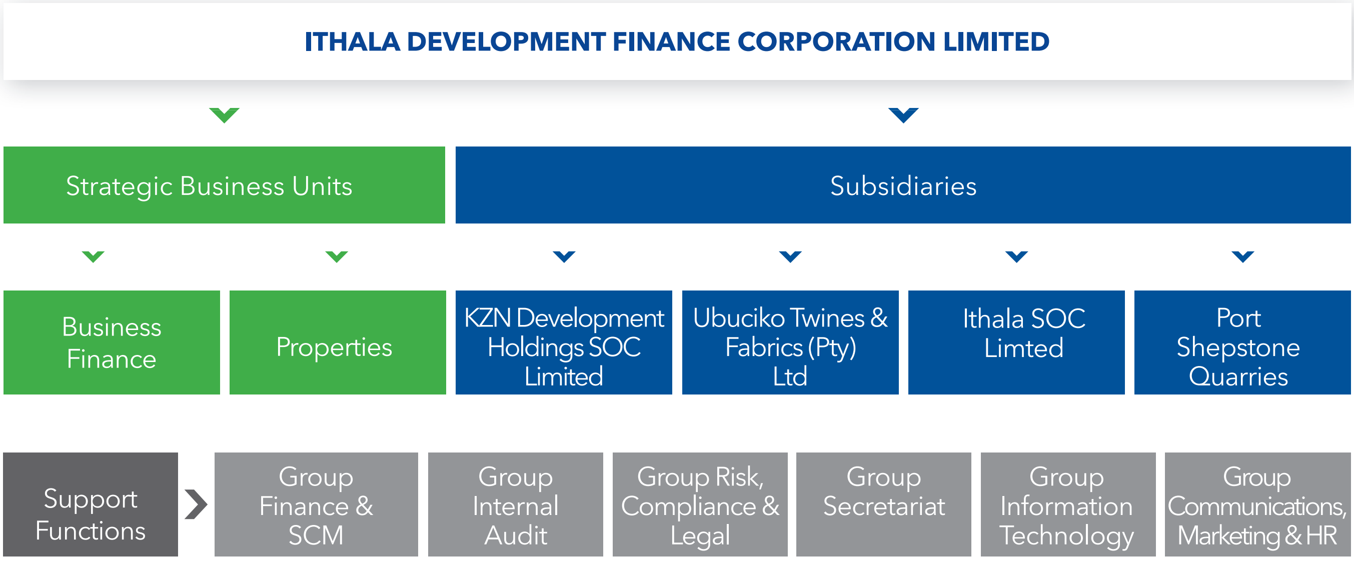
Bonginkosi Shangase
Business Finance Executive
Appointed 01/06/2017

QUALIFICATIONS

- MBA (Investments and Portfolio Management)
- Chartered Accountant (SA)
- B Com (Honours)
- B Com (Accounting)
- Diploma Development of Small Businesses and Industries
- Auditing Specialism Certificate

ITHALA ESHOWE CENTRE

SECTION 2: ORGANISATIONAL STRUCTURE



PROPERTIES

Our properties business is responsible for the effective management and development of IDFC's property portfolio, comprising a range of large industrial, retail, light industrial and SMME properties. IDFC is regarded as one of the largest property portfolio holders in KwaZulu-Natal. Details of our Properties Department's performance and prospects are contained on pages 35 to 37.

BUSINESS FINANCE

IDFC's lending activities are delivered through the Business Finance Department, which offers financial services to SMMEs and Co-operatives across KwaZulu-Natal. In so doing, we package a range of products and services designed to stimulate entrepreneurship amongst, especially, historically disadvantaged individuals and communities.

Our lending activities focus on sectors highlighted in the Provincial Spatial Economic Development Strategy, as well as on meeting our primary mandate, as expressed in the Ithala Act.

Details of our business finance performance and prospects may be found on pages 30 to 34.

SUBSIDIARIES

ITHALA SOC LIMITED:

Ithala SOC Limited, formally established in 2001 to enhance our service portfolio by providing effective deposit-taking activities, today provides financial services to the people of KwaZulu-Natal in, especially, areas where such services were lacking in the past. We offer customers retail financial services, savings and investment products, housing and loan products, as well as insurance products. Ithala SOC Limited functions in terms of a multi-channel distribution network, servicing the needs of individuals, groups, businesses and other public sector entities.

Please refer to the Ithala SOC Limited annual integrated report for additional information regarding this wholly-owned subsidiary. Such information may be downloaded from the website: www.myithala.co.za.

UBUCIKO TWINES AND FABRICS SOC LIMITED:

Originally located in Mkondeni, Pietermaritzburg, Ubuciko Twines and Fabrics is a wholly-owned subsidiary and was established in 2006. It produces polypropylene twine, woven material and polypropylene bags and sacks. Materials produced were aimed at a number of

ORGANISATIONAL STRUCTURE (CONTINUED)

economic sectors, including the mining and agricultural sectors, as well as the geo-textiles, poly-chemical, sugar and furniture industries.

During the 2017/18 financial year, IDFC was successful in securing a company to lease both the equipment and the property previously occupied by Ubuciko Twines and Fabrics. These two rental revenue streams continue being collected by IDFC. The majority of the enterprise's operational staff members, originally employed by Ubuciko Twines & Fabrics, were absorbed into the business by the new operator.

KWAZULU-NATAL PROPERTY DEVELOPMENT HOLDINGS:

In December 2016, the then MEC for Economic Development, Tourism and Environmental Affairs directed the Chairman of IDFC to wind-up KwaZulu-Natal Property Development Holdings, in line with its legal duty as the Shareholder of the entity. In February 2017, IDFC's Board, by written resolution, gave instruction to the Board of KwaZulu-Natal Property Development Holdings to cease the continuation of business by the end of March 2017, except to the extent necessary to wind-up the business. The Shareholder further resolved that KwaZulu-Natal Property Development Holdings be deregistered from the register of the Companies and Intellectual Property Commission and such action was afforded attention during the course of the 2018/19 financial year.

PORT SHEPSTONE QUARRIES (PTY) LIMITED:

Port Shepstone Quarries (Pty) Ltd is a business operation active in quarry mining on a leased farm in Port Shepstone. IDFC initially acquired a 30% shareholding in this company when it granted it debt facilities in September 2013. In July 2015 IDFC acquired the remaining 70% shareholding, through a settlement agreement entered into with the majority Shareholder, following the company's failure to service its debt obligations. In May 2017 the company was placed under business rescue until the end of January 2018. The company has developed and produced a turn-around plan, which explains, in detail, areas upon which it needs to focus and improve into the future. The turn-around plan is currently undergoing evaluation for implementation by the Shareholder. The quarry operation has been temporarily closed.

ASSOCIATE COMPANY:

Ntingwe Tea Estate (Pty) Ltd, which is located in the Nkandla district, was established in 1988. IDFC has 38% ownership, while 62% is held by the KwaZulu-Natal Department of Agriculture and Rural Development. IDFC is responsible for the management support of the enterprise, which employs between 200 and 300 people from surrounding villages. In 2017, the KwaZulu-Natal Provincial Executive Council adopted, in principle, the rcommendation by the KwaZulu-Natal Rationalisation of Public Entities Task Team (RAPETT), which recommended that shares still held by IDFC be transferred to DARD/ADA.

OUR STRATEGY

IDFC develops strategic objectives aligned with the shareholder's expectation. The progress towards the achievement of these objectives is monitored through key performance indicators (please refer to our Annual Performance Plan, details of which are contained on pages 48 to 59 in this report).

OVERVIEW OF EXTERNAL ECONOMIC ENVIRONMENT

Characterising the environment at the time of the strategic review were several economic, political and social dynamics. Key amongst these were the following:

GLOBAL ECONOMIC DEVELOPMENTS:

Following an improved global growth about a year ago where economic activity was increasing in almost all regions of the world, the global economic expansion decelerated in the second half of 2018. Global growth, which peaked at 3,8% in 2017, softened to 3,6% in 2018.

The escalation of US-China trade disputes, macro-economic problems in Turkey and Argentina, tighter credit policies in China and financial tightening alongside the normalisation of financial policies in the advanced economies all contributed to significantly weakened global growth in the second half of 2018.

Global growth is now projected to decline further to 3,3% in 2019 and return to 3,6% in 2020. While the overall global outlook remains benign, there are many downside risks. These include accelerated trade tensions which could disrupt global supply chains, risks surrounding Brexit and significant financial vulnerabilities associated with private and public sector debt in several countries. Global public and private debt levels have continued to rise.

In several countries, high debt service obligations already constitute a heavy burden on Government finances. More broadly, the rise in debt in developing economies has generally not been matched by an equivalent expansion of productive assets. This raises concerns about the longer-term sustainability of debt, as well as concerns about productive capacity over the medium-term, given large infrastructure gaps, the degradation of existing capital and their related impact on productivity.

On the other hand, climate risks are also intensifying, as the world experiences an increasing number of extreme weather events. Over the past six years, more than half of extreme weather events have been attributed to climate change. Climate shocks impact developed and developing countries alike, putting large communities at risk of displacement and causing severe damage to vital infrastructure. Recently, tropical Cyclone Idai hit Southern Africa, affecting multiple nations and leaving more than 700 people dead and hundreds more missing. Idai brought strong winds and caused severe flooding in Madagascar, Mozambique, Malawi and Zimbabwe and contrived to compound South Africa's electricity crisis, forcing Power utility, Eskom, to increase load shedding from stage two to stage four due to a shortage of capacity, exacerbated by the loss of 900 MW from Mozambique.

The weak growth potential is weighing heavily on the global economy's capacity to reduce unemployment levels in the medium-term, notably with regard to the quantity and quality of jobs. The ILO has estimated that the global unemployment rate stood at 5,6% in 2017, corresponding to 192,7 million unemployed persons. This represents an increase of 2,6 million compared against 2016. For 2018, the global unemployment rate is expected to fall by 0,1%, keeping the number of unemployed essentially unchanged, in spite of the presence of a growing labour force. This is due to the strong performance of developed countries' labour markets, where the unemployment rate is projected to fall by an additional 0,2 percentage points to 5,5% - a rate below pre-crisis levels.

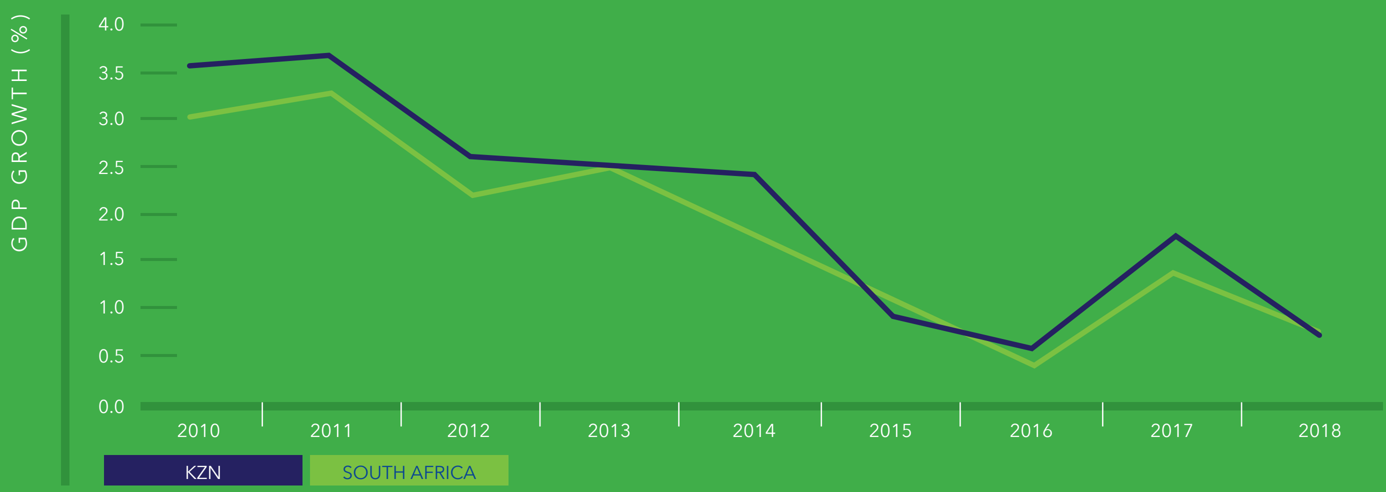
DOMESTIC ECONOMIC DEVELOPMENT AND OUTLOOK:

The International Monetary Fund has lowered South Africa's projected GDP growth rate for 2019 from 1,4% to 1,2%, while the South African Reserve Bank projects growth of 1,3% from an earlier projection of 1,7%, putting the country among the worst performers not only in sub-Saharan Africa, but also the world. In 2020, growth is projected to grow by only 1,5%. The projected GDP growth rate for 2019 and 2020 is well below the 5% growth required in terms of the National Development Plan to reduce poverty and inequality by 2030.

OUR STRATEGY (CONTINUED)

The lower growth projections are partly due to weaker investment outcomes in 2018, a more fragile recovery in household income and slower than expected export demand, due to moderate global growth. The projections also take into account the global outlook, which is becoming less supportive of South Africa's economy, with signs of slower growth in China and Europe.

ANNUAL GDP GROWTH (SOUTH AFRICA AND KWAZULU-NATAL)



Domestically, growth rebounded in the third and fourth quarters of 2018 after entering a technical recession in the second quarter. Growth declined by 2,6% in the first quarter and by a revised 0,4% (from -0,7%) contraction in the second quarter.

Gross Domestic Product increased by 2,6% and 1,4% quarter-on-quarter and annualised in the third and fourth quarter of 2018 respectively. South Africa remains in the longest business cycle downswing on record, since the fourth quarter of 2013, with annual growth below the estimated potential growth rate of the country. Growth momentum remains very weak.

The country's slow growth is not only affected by domestic problems, but by other external factors, such as the rebalancing of the Chinese economy, which is reducing demand for exports throughout the world and contributing to the fall in commodity prices. This includes South African exports, such as iron ore, coal and platinum. The country, therefore, needs to be innovative in order to turn the current economic situation around, improve basic education and align training with business needs.

The general low economic activity facing the country and the province adversely affects tax collection for the current financial year and this has a direct impact on the sustainability of public finances and South Africa's development.

Lower tax collections reduce fiscus space and will further constrain economic growth.

SECTORAL GDP CONTRIBUTION

Industry	South Africa		KwaZulu-Natal	
	2018:Q3	2018:Q4	2018:Q3	2018:Q4
Agriculture, forestry and fishing	13,7	7,9	10,2	2,2
Mining and quarrying	-8,9	-3,8	-8,5	-3,0
Manufacturing	7,5	4,5	7,6	4,7
Electricity and water	0,8	0,2	0,3	-0,3
Construction	-1,7	-0,7	-1,4	-0,3
Wholesale and retail trade, hotels and restaurants	3,4	-0,7	3,6	-0,4
Transport and communication	6,8	7,7	6,6	7,5
Finance, real estate and business services	2,1	2,7	2,1	2,6
Community, social and other personal services	0,6	1,7	0,7	1,8
General government services	1,9	-0,6	2,0	-0,6
All industries at basic prices	**2,5**	**1,7**	**3,7**	**2,2**
Taxes, less subsidies on products	**4,0**	**-1,7**	**4,0**	**-1,7**
GDPR at market prices	**2,6**	**1,4**	**3,7**	**1,9**

Growth of 1,4% for South Africa and 1,9% in KwaZulu-Natal during the fourth quarter of 2018 was supported by significant recovery in the agricultural and manufacturing sectors.Both these sectors play a crucial role in the economy of the province in terms of GDP contribution.

History has shown that poor performance in one or both of the sectors, growth output tends to decline and visa-versa. Manufacturing contributes more than 15% to KwaZulu-Natal GDP while agriculture contributes about 5% to GDP, compared to about 2,5% nationally.

REAL ANNUAL % CHANGE*	AVERAGE	AVERAGE
	2012-17	2018-23
Final household consumption expenditure	**1,9**	**2,3**
Durable goods	2,7	4,2
Semi-durable goods	4,1	3,0
Non-durable goods	1,4	1,6
Services	1,7	2,3
Gross fixed capital formation	**1,7**	**2,5**
Private residential	2,6	1,9
Private excluding residential	0,7	3,4
Government	4,9	0,9
Public corporations	1,9	2,0
Gross domestic expenditure	**1,6**	**2,2**
Exports of goods and services	2,0	2,4
Imports of goods and services	2,0	3,1
GROSS DOMESTIC PRODUCT	**1,6**	**1,9**

SOURCE: BER

OUR STRATEGY (CONTINUED)

The muted medium-term GDP growth rate forecasts are, to a large extent, a function of the following factors:
- Weak consumer demand;
- Stagnant formal sector employment;
- Persistent subdued business and consumer confidence levels, plus constrained Government spending which has suppressed fixed investment growth rates; and
- Global political and economic headwinds, which impact negatively on emerging markets, including South Africa.

The KwaZulu-Natal economy mirrors the national trend of modest economic growth, although it is pleasing that the province's agriculture sector has continued to recover and grow, in line with the national trend, after being hard-hit by adverse climatic conditions between 2015 and late 2016.

The KwaZulu-Natal Provincial Government continues to focus on economic development plans in, particularly, the productive sectors of the economy, such as agriculture and manufacturing. This focus is driven through a number of programmes, including Radical Agrarian Socio-Economic Transformation (RASET), Operation Vula and the Black Industrialists Programme.

IDFC's strategic focus is geared towards facilitating and supporting the implementation of these Governmental economic development initiatives and is a key role-player in the ongoing execution of sound economic growth initiatives throughout KwaZulu-Natal.

OVERVIEW OF THE LABOUR MARKET

Employment

The weak growth performance that has characterised the South African economy since the end of the 2008/09

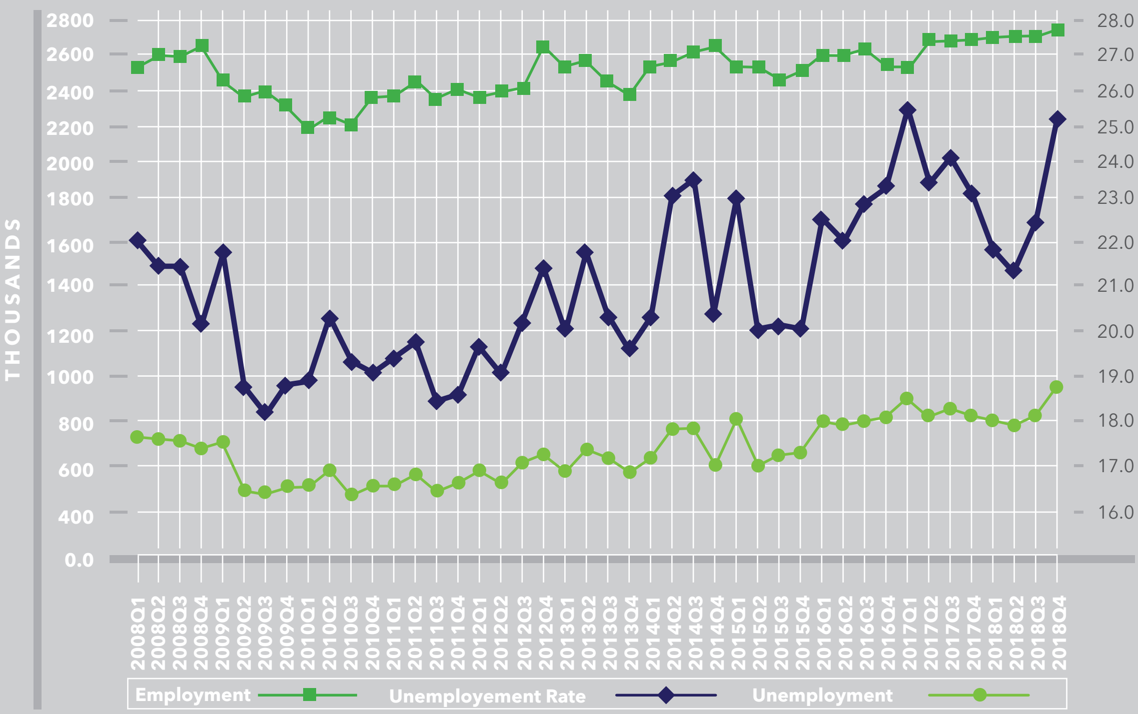
financial crisis is still evident in the labour market.

Although the economy recovered in the third and fourth quarters of 2018, recording seasonally-adjusted and annualised growth rates of 2,6% (revised upwards from the previously announced 2,2%) and 1,4% respectively, the overall weak performance in output growth remains evident in the long-term trends of key labour market aggregates.

In KwaZulu-Natal, employment has been declining gradually from its peak of 2,58 million in the fourth quarter of 2008. Provincial employment has remained below the pre-recession level for nine years, rising above the pre-crisis level for the first time in the fourth quarter of 2017.

In other words, it has taken more than nine years to overcome the remnants of a crisis which lasted a little longer than 12 months.

In the fourth quarter of 2018, provincial employment was estimated at 2,648 million jobs, 13 000 higher than in the previous quarter.



The fourth quarter of 2018 labour market estimates for KwaZulu-Natal are reflective of a province that is struggling to sustain job creation. In the third quarter of 2018, the province recorded a buoyant 98 000 additional jobs to reach 2,635 million. Three months later, the province could only manage an additional 13 000 jobs. Unfortunately, a simultaneous injection of 141 000 new labour market entrants over the same period (partly from the growing working-age population and declining number of discouraged workers) saw provincial unemployment rise by 128 000 to reach 913 000 quarter-on-quarter. As a result, the corresponding official unemployment rate in the province increased by 2,6 percentage points to reach 25,6%.

UNEMPLOYMENT

Unemployment, especially among the youth, remains a pressing challenge requiring immediate policy priority in the country. Its effects extend beyond financial depravation to include high social costs, emanating from problems associated with crime and the lack of social cohesion which may ultimately hinder economic

OUR STRATEGY (CONTINUED)

growth in the long-term. The unemployment rate in the final quarter of 2018 was 25,6% provincially and 27,1% nationally.

With regard to educational attainment, evidence points to large employability premiums and high returns to tertiary education and high school graduation (passing matric). Those with tertiary education are less likely to be unemployed compared against other educational cohorts. Only 10,4% of workers with degrees were unemployed in the province, compared against 20,9% and 28,4% among holders of primary education and secondary education respectively.

The unemployment rate is highest among matriculants because they account for the largest proportion the provincial labour force. Labour market developments provide a mirror image of changes in the productive sector of the economy.

The outlook for the productive side in the first quarter of 2019 points to subdued economic activity, partly attributed to electricity shortages that characterised this period. By extension, the forecast for the job market remains muted in the short-term.

Employment growth will be limited by lacklustre economic activity and difficult operating conditions in the local business environment - including higher input costs, taxes and unreliable electricity supply. This, together with spare capacity, affects expansionary drives by private firms. The then pending elections added a level of uncertainty that often weighs down on investments.

SHAREHOLDER/STAKEHOLDER EXPECTATIONS

At the time of formulating this strategy, the Shareholder and the broader development finance sector had developed a renewed set of expectations, expressed in a variety of forums. It was expected of IDFC to:

- Bolster its capacity to execute on commitments, improve governance and advance engagement with the community sectors its serves;
- Deliver visible transformational shifts, in line with its mandate, create jobs, capacitate SMMEs and Co-operatives and sustain inputs;
- Participate actively in Government initiatives aimed at improving inclusive and radical economic transformation, such as the Black Industrialist Programme, Operation Vula, RASET and the like;
- Participate in spin-off catalytic initiatives, advancing economic activities in rural and township environments;
- Demonstrate its unique relevance, relative to other players involved in development finance; and
- Execute business support with SMMEs and Co-operatives at both pre- and post-investment stages.

OVERVIEW OF INTERNAL ENVIRONMENT - KEY ORGANISATIONAL CHALLENGES AND A REDUCTION OF GRANT FUNDING

In recent years, IDFC has faced reduced grant funding, with the consequential effect of limiting its ability to grow the number of SMMEs and Co-operatives benefiting from on-lending activities.

The extent of the grant funding reduction was first seen in the 2016/17 financial year, with funding reducing to R57,8 million from R129,5 million in the prior year. The 2017/18 financial year saw a further reduction to R35 million.

The reduction of funding received by IDFC for on-lending purposes necessitated exploring alternative funding sources to reach additional SMMEs and Co-operatives in terms of ensuring the organisation's continued relevance and in respect of its suite of services not being drastically impacted.

CONSTRAINED PROPERTY BUSINESS

Key breakthrough points envisaged in the Repositioning Strategy were based on the turn-around of the properties business, affected by the sale of non-strategic assets. The sale of these assets would relieve the organisation from incurring holding costs and raising capital for the refurbishment of strategic properties, extending Gross Lettable Area and investing in new properties.

However, the disposal of non-strategic/unprofitable properties did not practically materialise over the life of the Repositioning Strategy, thus resulting in the organisation having to consider borrowing funds to invest in its dilapidated property portfolio.

STRATEGIC GOALS: 2018-2022

STRATEGIC GOALS	SUB-GOALS
To drive SMME and Co-operative development	• To provide SMME and Co-operative finance up to 1 332 entities; • To lend up to R1,3 billion to SMMEs and Co-operatives; • To drive youth entrepreneurial development; and • To support small-scale subsistence farmers.
To recapitalise and grow the property portfolio	• To double the value of the property portfolio; • To recapitalise the property portfolio; and • To attain compliance standards across the total portfolio.
To improve financial sustainability	• To improve the cost-to-income ratio to 60% (excluding grants and fair value adjustments); • To lobby for grant funding from Government (R500 million); and • To leverage external funding (up to R 1,5 billion).
To forge development partnerships	• To forge partnerships with other Government lending agencies; • To forge development partnership with the Department of Small Business; • To double business support activities through development partnerships; • To increase the value of lending on the National School Nutrition Programme to R100 million; • To increase the value of lending on the Scholar Transportation Programme to R60 million (26% of asset loan book); • To re-establish IDFC as an implementing agent for Provincial Government's social infrastructure projects; and • To increase the footprint of collaborative initiatives in order to advance business support, entrepreneurial development and social outreach.
To improve the customer experience	• To improve loan turn-around times; • To improve property lease turn-around times; • To improve maintenance turn-around times; • To improve the condition of the retail portfolio; • To reduce customer complaints; and • To improve customer service.
To drive radical economic transformation	• To effect procurement set-asides; • To effect B-BBEE thresholds for lending; • To implement supplier and enterprise development initiatives; and • To drive Government's radical economic transformation initiatives.

OUR STRATEGY (CONTINUED)

BUSINESS FINANCE STRATEGIES

Business Finance Mission:
To provide financial and supportive services to persons and businesses carrying on businesses within KwaZulu-Natal.

Target Market:
Primarily previously disadvantaged individuals seeking to establish and/or grow their small and medium-sized business enterprises.

PORTFOLIO PERFORMANCE: PAST % YEARS	2018/19	2017/18	2016/17	2015/16	2014/15
Loans book ('Rm)	888,7	839,9	871,6	845,9	915,9
Non-performing loans ('Rm)	230,5	218,2	201,5	138,3	157,1
Non-performing loans % - total	25,94%	24,24%	23,10%	16,40%	21,10%
Non-performing loans per product type: Micro finance %	22,12%	15,50%	9,40%	7,70%	8,90%
Agri-finance %	29,53%	5,50%	5,10%	3,70%	34,70%
Franchise finance %	17,29%	32,90%	18,90%	9,30%	6,60%
Procurement finance %	23,69%	77,80%	66,30%	74,30%	52,60%
Property finance %	12,58%	27,50%	22,40%	80,00%	1,90%
Asset finance %	33,54%	27,00%	32,60%	30,70%	18,80%
Structured finance %	28,96%	34,80%	34,70%	32,30%	34,60%

PROVINCIAL DEVELOPMENT IMPERATIVES RELATED TO SMME AND CO-OPERATIVE FINANCE

Alignment with Provincial Growth Development Strategy:

- Improve access to finance by KwaZulu-Natal-based SMMEs and Co-operatives;
- Propel sustainable economic development and job creation;
- Drive and support programmes aimed at reducing poverty and inequality;
- Beneficiation in agriculture and manufacturing;
- Enable the tourism and services sector;
- Institutionalise business support services;
- Rural and township economic development;
- Drive Radical Economic Transformation, such as RASET;
- Improve SMME support interventions;
- Reduce unnecessary red tape;
- Build a culture of service excellence; and
- Drive innovative business solutions.

COMPETITOR ANALYSIS

COMPETITOR
a) Business Partners
b) Small Enterprise Finance Agency (SEFA)
c) Industrial Development Corporation (IDC)
d) National Empowe trment Fund (NEF)
e) Land Bank
f) Growth Fund
g) National Youth Development Agency (NYDA)

FOCUS ECONOMIC SECTORS

ECONOMIC SECTOR
a) Agriculture and agro-processing
b) Manufacturing
c) Trade and services sector
d) Commercial property
e) Micro-finance
f) Construction
g) Logistics
h) Mining
i) Tourism

KEY CHALLENGES IN BUSINESS FINANCE

Funding:
Presently, the total loans book is facing insufficient growth. The Development Fund, provided by the Shareholder, has been gradually reduced over past years, as detailed in the sections above. This occurred at a time when IDFC was highly dependent on the fund in order to advance its on-lending activities. For this reason, the IDFC Fund requires re-capitalisation as an urgent priority.

Profitability:
The variables affecting profitability include:
- The interest rate on the Development Fund, which is below the market rate;
- A reduction in the management fee on the Development Fund;
- Zero interest income on the restructured portfolio (R169 million); and
- Increased provisions as a result of high non-performing loan levels.

Lack of Business Support:
The organisation lacks capacity in terms of providing ongoing non-financial business support, which would contribute to a reduction of business failures, optimise levels of SMME success and translate to the timely repayment of loans disbursed. In the Business Finance value chain, this relates to:
- Pre-investment support (business planning, feasibilities and the like); and
- Post-investment support (coaching, mentorship, training and the like).

Adverse Market Economic Conditions Affecting Small Businesses:
Unfavourable trading conditions, as stated above, have a bearing on the SMME sector and on the likelihood of success of entrepreneurial ventures.

Inadequate Secondary Source of Repayments (Collateral):
IDFC's target market, largely as a result of the past inequalities, often has minimal or no collateral to back-up loan commitments, from which recovery can be guaranteed in the case of defaulting loans.

Human Capital and Information Technology:
The profile and needs of the clientele served by the organisation's Business Finance Department evolves at a rapid pace, adapting to opportunities that become available within the broad operating environment. There appears to be a significant lapse between the pace of these changes and the capability of the organisation to align itself in respect of the people (structure, skills, attitudes and behaviours), as well as current technologies.

OUR STRATEGY (CONTINUED)

BUSINESS FINANCE STRATEGIC OPTIONS

In the face of reduced grant funding, the organisation seeks to employ well-defined interventions to secure the resources necessary to fulfil the developmental mandate assigned to IDFC.

To this end, the following options have been examined for viability and suitability to the environment.

They have been defined as follows:

Capitalisation of IDFC Fund through Grant Funding:
This option entails drawing more funding resources from the existing base. It involves the following actions:
- Submitting a proposal to the Department for Economic Development, Tourism and Environmental Affairs to re-capitalise the current fund. Such recapitalisation would be used to anchor the development fund in accordance with current practice;
- Funding would be provided purely on a commercial basis, with capital ring-fenced to ensure the sustainable growth of the fund;
- Linked to the above, the application of correct credit extension principles would need to be enforced; and
- Keeping the Development Fund available would be beneficial to the sector as it provides clients with a reduced cost of credit.

Capitalisation of IDFC Fund through borrowings and self-funding:
This option requires applying focus beyond the present funding mechanisms and involves the following undertakings:
- Approaching wholesale credit providers for on-lending capital;
- IDFC gradually contributing its own resources to the IDFC Fund;
- Gradually ring-fencing the IDFC Fund (excluding repayments to capital providers) to ensure growth;
- Funding to be provided purely on a commercial basis; and
- Applying the correct credit extension principles.

Utilisation of Strategic Partnerships:
This option implies the establishment of partnerships focused on churning funding resources from other sources through IDFC infrastructure. Such partnerships entail:
- Driving lending programmes for other development finance institutions, whereby such institutions provide input or direction on credit extension policy;
- Reaching customers that may not necessarily be similar to those serviced by IDFC; and
- Recognising that in this arrangement, sustainability would be marginal, as IDFC would earn a portion of interest and fees.

This option is to be robustly pursued, if options 1 and 2 above prove unsuccessful.

FUNDING REQUIREMENTS

Funding requirements ('R000)	2018/19	2019/20	2020/21	2021/22	2022/23
IDFC Fund (Internal)	52 000	50 000	50 000	50 000	50 000
IDFC Fund (sourced externally)	100 000	100 000	100 000	100 000	100 000
Development Fund	88 000	108 000	118 000	128 000	138 000
TOTAL	**240 000**	**258 000**	**268 000**	**278 000**	**288 000**

DEVELOPMENTAL RETURNS

Developmental returns	2018/19	2019/20	2020/21	2021/22	2022/23
Loan approvals ('Rm)	250	260	270	280	290
Loans advances ('Rm)	240	258	268	278	288
Collections ('Rm)	207	198	201	208	214
Non-Performing Loans (%)	25%	25%	25%	25%	25%
Number of businesses financed	200	210	220	230	240
Number of jobs facilitated	2 810	2 850	2 860	2 880	2 890
Number of businesses supported	100	105	110	115	125

STRATEGIC OUTCOMES

Advances - per entrepreneur category ('R000)	2018/19	2019/20	2020/21	2021/22	2022/23
Women-owned businesses financed	72 000	77 400	80 400	83 400	86 400
Youth-owned businesses financed	48 000	51 600	53 600	55 600	57 600
Other	120 000	129 000	134 000	139 000	144 000
TOTAL	**240 000**	**258 000**	**268 000**	**278 000**	**288 000**

ADVANCES CONCENTRATION

Advances - rural versus urban ('R000)	2018/19	2019/20	2020/21	2021/22	2022/23
Rural and peri-urban	72 000	77 400	80 400	83 400	86 400
Urban	168 000	180 600	187 600	194 600	201 600
TOTAL	**240 000**	**258 000**	**268 000**	**278 000**	**288 000**

OUR STRATEGY (CONTINUED)

PORTFOLIO GROWTH

Total portfolio - per product ('R000)	2018/19	2019/20	2020/21	2021/22	2022/23
Micro-finance	12 318	17 140	22 200	27 453	33 112
Franchise finance	31 338	45 261	59 741	74 763	90 401
Structured finance	172 796	159 490	145 719	131 437	116 852
Commercial property finance	204 684	200 214	195 631	190 880	186 207
Procurement finance	13 380	8 182	7 070	6 980	7 011
Asset finance	178 594	190 994	203 928	217 348	231 474
Agricultural finance	319 113	370 421	423 753	479 076	536 533
TOTAL	**932 226**	**991 704**	**1 058 045**	**1 127 941**	**1 201 593**

BUSINESS SUPPORT SERVICES

Business support refers to the provision of non-financial services which are intended to nurture, grow and sustain small businesses. The historical performance of IDFC-funded SMMEs indicates that significant non-financial support is required in order to sustain benefits derived from the funding activities carried out by the organisation. Such support takes the form of end-to-end hand-holding support, offered during the pre- and post-investment phases of the client relationship.

The scope of business information services includes:

- Business advisory (general/technical);
- Business directory and market linkages, and
- Business counselling.

Business development services include:

- Technical and business training, mentorship and coaching;
- Business plan development;
- Marketing plans and research;
- Feasibility studies;
- Budget preparation and cash flow projections; and
- Administrative and compliance support.

The purpose of business support services includes:

- Ensuring business finance activities are complemented by a robust business support capability;
- Ensuring that business support programmes drive and contribute to SMME development;
- Ensuring business support assists in reducing business failures and non-performing loans;
- Ensuring the implementation of an outsourced business support model; and
- Offering tailor-made support for specific sectors.

Key Performance Indicators include:

- A decrease in business failures;
- An increase in the number of start-up businesses (pre-funding);
- An increase in the success rate of start-up businesses;
- An increase in the average life-span of existing businesses; and
- The number of training mentorship programmes implemented for SMMEs.

VALUE PROPOSITION

Pre-investment support includes:

- Capacitating the Business Support Division;
- Providing business advisory services;
- Assisting clients to access grants and incentives;
- Establishing partnerships for clients' referrals, such as with SEDA;
- Establishing a sector-specific business support database, through SCM; and
- Assisting with business plans and feasibility studies (outsourced service).

Post-investment support includes:

- Facilitating coaching, training and mentorship (skills development);
- Providing periodic reporting per IDFC funding agreements;
- Providing administrative and compliance support; and
- Providing business turn-around solutions where applicable.

PROPERTIES STRATEGY

Background To IDFC Properties Business:

History on Capitalisation of Property Portfolio - The portfolio was funded by the previous Government through infrastructure grants. Rentals were subsidised, whereby tenants paid 30% and the previous Government contributed 70%. Various other incentives were provided to industrialists to establish in former decentralised areas. All grants and subsidies were phased-out from 1990.

Municipal Services - The industrial portfolio ('estates'), which constitute 70% of IDFC's portfolio, was also given the responsibility to provide all municipal services to industrialists, such as the provision of electricity, water, sewage, refuse removal, roads and the like. IDFC also has a responsibility to maintain such historical services and infrastructure.

Retail Portfolio -The retail portfolio was a catalyst for economic activity in peri-urban and rural towns, given that developments were carried out in partnership with anchor tenants. Most of the properties in the portfolio are anchored by national retailers. Again, rental rates were historically below market pricing norms, as these were deemed to be catalytic projects.

Key Challenges in IDFC Properties Business -
The strategic business unit faces five key challenges, which may be summarised as follows:

- Condition: The portfolio is some 45 years of age and its condition has deteriorated and requires urgent intervention to restore functionality and compliance;
- Competition: The portfolio is facing competition from new developments, resulting in increasing vacancies;
- Profitability: Operational expenses are increasing at a rate higher than rental escalations;
- Growth: The portfolio has not grown during the past 15 years, the result of new developments; and
- Funding: The portfolio is in need of urgent recapitalisation in order to address the current condition and growth opportunities.

Strategic Considerations:

Current Ownership and Asset Management -

- It is unusual for a property-owning entity to hold its property assets for an indefinite period without a clear exit strategy;
- Property strategy usually entails 'Develop or Acquire', 'Hold' and 'Divest or Recapitalise';
- Property assets have a life-cycle i.e. growth, maturity, decline;
- A decision to divest is usually informed by increasing operational costs, declining yields, growth prospects and investment requirements; and
- Most of IDFC's property assets are in a decline phase and require major investment to remain competitive in the market.

Decline of the Current Industrial Sector Business -

- The sector is in decline, due largely to the globalisation of the South African economy and the removal of import restrictions;
- Industrial estates have experienced the shut-down and/or relocation of industrialists due to the phasing-out of incentives and subsidies, as well as the effects of global competition;
- Industrial estates have experienced an exodus of skilled labour; and
- 70% of IDFC's property portfolio is at risk.

Competitive Forces in the Retail Property Sector - The retail portfolio faces competition from private sector-driven developments. The growth of these areas has attracted new players, as evidenced by the entry of the following developments at sites previously dominated by IDFC:

- Mandeni - Two new centres have been developed;
- Umlazi - Two new centres have been developed;
- Nongoma - Two new centres have been developed;
- Ulundi - Four new centres have been developed;
- KwaMashu - Two new centres have been developed;
- Tugela Ferry - One new centre has been developed;

OUR STRATEGY (CONTINUED)

- Madadeni - Two new centres have been developed;
- Harding - One new centre has been developed;
- Jozini - One new centre has been developed;
- Mbazwana - One new centre has been developed; and
- Howick - One new centre has been developed.

PROPERTIES BUSINESS STRATEGIC OPTIONS

Optimisation of Strategic Partnerships:

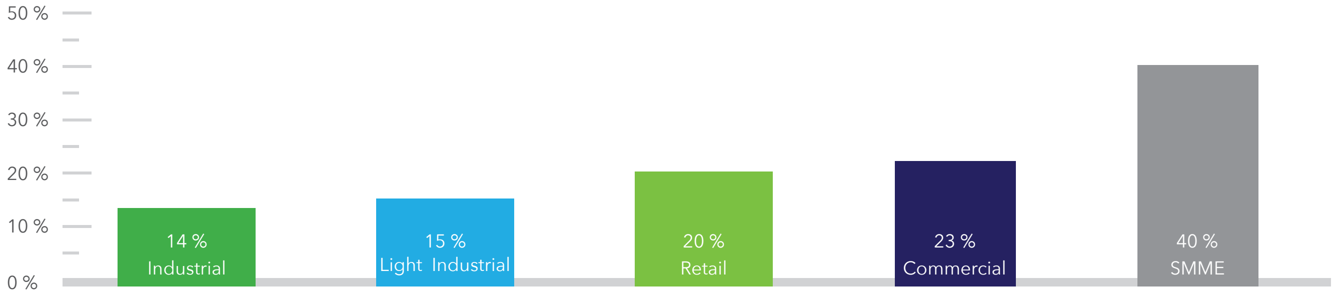
An opportunity exists for IDFC to pursue strategic partnerships with the private sector and Government Departments and, in particular, the Department of Public Works, in terms of facilitating a needs analysis and the provision of office space for end-user departments in the province.

IDFC's properties footprint provides for a gross lettable area of 1,2 million square metres and spans the entire province, from Manguzi in the north to Kokstad in the south and inland to Newcastle.

DIVERSIFICATION OF PORTFOLIO

Portfolio	%	Square metres
Industrial	70%	839 513
Light Industrial	12%	142 185
Retail	12%	143 238
SMME	3%	38 270
Commercial	3%	34 316
TOTAL	100%	1 197 522

FOCUS ON RENTAL VACANCY REDUCTIONS:



The portfolio vacancy rate improved from 17,67% to 15,97%, split as follows:
- 10% Large industrial;
- 2% Light industrial;
- 3% Retail; and
- 1% SMME.

CORE STRATEGIC THEMES

ENTERPRISE RISK MANAGEMENT

The Board assumes overall responsibility for the effective management of risks and has mandated the Audit and Risk Committee to assist it in the execution of its responsibilities regarding risk management, so as to ensure that its risk management is embedded into all of IDFC's processes and activities.

Risk management at IDFC is guided by the following key principles:

- Protect IDFC's reputation through a sound risk culture;
- Compliance with regulatory requirements and principles;
- Having in place a strongly-defined risk management structure; and
- Communication and co-ordination between the Executive Committee (EXCO), as executive management and the Audit and Risk Committee.

IDFC defines risk as any factor which could cause it not to achieve its desired business objectives or result in adverse outcomes, including reputational damage. IDFC's risk management process is to ensure that its risks are identified and understood, evaluated and managed. Risk mitigation is an integral part of this process.

The Audit and Risk Committee is charged with responsibility for the identification and assessment of risks which IDFC could face in the execution of its strategy.

The Audit and Risk Committee reviews IDFC's Risk Management Framework and oversees the control and enhancement of systems, policies, practices and procedures to ensure risks (strategic, operational and fraud) - inclusive of their key risk indicators, risks appetite, tolerance and avoidance levels - are identified, measured, controlled, monitored and reported.

To be a centre of excellence in risk mitigation and the monitoring of management action in order to effectively address evolving business needs, we recognise that identifying and managing risks and opportunities is fundamental to generating sustainable profits, safeguarding IDFC's reputation and creating a competitive edge.

Risk management is required to ensure IDFC's success and stability, primarily for the benefit of the historically disadvantaged people of the region.

Group Risk is responsible for proactively managing IDFC's strategic risk by ensuring that such risks are identified annually in terms of the strategic objectives and direction of the organisation and key risk indicators are also then updated in terms of managing these risks and their corresponding key risk indicators, risk appetite, tolerance and avoidance levels.

We have also embedded our governance culture, which includes the management of ethics and fraud risks, through the formulation of the Anti-Fraud and Ethics Committee, which reports to the Board's Human Resource, Social and Ethics (HRSEC) Committee about fraud, ethics and governance issues, which provide the foundation for embedding a robust risk culture within IDFC.

Management is committed to ensuring that the risk management process remains robust, thus ensuring that IDFC's assets are protected and, where necessary, risk is mitigated through adequate insurance.

An IDFC risk workshop was held in January 2018 whereby the strategic risk register was revised and mapped to IDFC's strategy. In total, 11 strategic risks faced by IDFC were identified, and are listed overleaf:

ENTERPRISE RISK MANAGEMENT (CONTINUED)

Risk Name	Strategic Goals	Opportunities	Mitigating Controls
Liquidity risk	To improve financial sustainability	• Diversification of funding sources; • Proactive cash and capital management; and • Cost rationalisation.	• Credit collections management; • Cash-flow management; • Monthly cash-flow forecasting; and • Monthly management information reporting.
Return on Properties assets risk	To recapitalise and grow the property portfolio	• Diversification of funding sources; • Public-Private Partnerships; and • Implementation of properties turn-around strategy.	• Market rental valuation to ensure market-related rentals are charged; • Monthly management information reports; • Commission of market studies to support investment decisions; • Financial viability analyses are conducted to ensure the required rates of return are achievable; and • Execution and monitoring of refurbishment and maintenance programmes.
Return on Business Finance assets risk	To drive SMME and Co-operative development	• Improved loan book performance; • Improved governance, risk and compliance management; and • Diversification of revenue streams.	• Approval structures and committees for the assessment and approval of client loan facilities; • Due diligence team analyses of loan applications; • Robust portfolio management; and • Implementation of customer services policy as part of our customer base and customer services strategy.
Return on Subsidiary investments assets risk	To improve financial sustainability	• Performance; • Sustainability; and • Revenue growth.	• Regular Joint Board Meetings with Ithala SOC Limited; • Regular feedback from Sub-Committees to Board; • Shareholder Compact ; • Monitoring performance in terms of key performance indicators; and • Nominated Directors to subsidiary Boards.
Technology risk	To improve customer experience	• Systems readiness for business continuity; • Retention of IT personnel; and • Improved operationalisation of IT projects.	• IT strategy has been developed to drive the department's budget and key IT projects to be delivered, including staffing requirements; • A disaster recovery plan has been implemented to assist in recovering systems in the event of disasters; and • The Return on Investment Framework is used to monitor the effectiveness of the utilisation of systems.

Strategy risk	To drive SMME and Co-operative development	• Alignment of strategy with stakeholder expectations; • Meeting stakeholder expectations; • Improved reputation; and • Increased stakeholder engagement to communicate plan successes and foster co-operation between role- players.	• Quarterly Economic Indicator Reporting to EXCO; • The corporate plan is developed to adapt to the changes in the external environment; • KPIs and targets are set in the Annual Performance Plan which are directly linked to the SMME and Co-operative development mandate; and • Performance is monitored quarterly against the Annual Performance Plan.
Over-reliance on third party service providers	To improve financial sustainability	• High-performance culture; • Proactive talent management; and • Skills development.	• There are budgets set for each department for the use of professional services that are monitored monthly and reported upon; • We have an approved recruitment and retention policy, whilst a talent management policy and procedure is also in place; • EXCO performs consistency checks and moderation of the performance ratings of employees in relation to their departmental performance; • We have implemented a succession planning programme; and • There is monitoring of performance through the use of score cards on a quarterly basis.
Developmental impact to the economy and society	To drive SMME and Co-operative development	• Attract target market; • Customer perceptions; • Client-centricity; • Market intelligence; and • Innovative product offerings.	• Classification of clients into different socio-economic profiles; • Industry sector analyses and reporting by the Research and Development Division to identify declining industry sectors; • An EDTEA Steering Committee is in place to ensure alignment with the Provincial Development Plan and alignment of IDFC's new strategy with the EDTEA strategy; • Business Finance Lending Policies have been updated to include companies/individuals with an unfavorable credit rating status; and • Weekly Management Credit Committee (MCC) meetings are held to assess applicants and the developmental impact of applications on an individual basis.

ENTERPRISE RISK MANAGEMENT (CONTINUED)

Appropriate skills at governance structures	To improve customer experience	• Maintain good governance of risks; and • Compliance with applicable legislation.	• The Ithala Act (S 6 (2)) defines the minimum skills, expertise and qualification that the Board must possess; • HR developed a Skills Matrix (based on the minimum skills matrix requirements, in line with the Ithala Act and strategy); • The Act allows the Board to co-opt required skills it believes are lacking; and • We have a Board Continuity Policy and Board Rotation Plan in place, providing for succession planning at Board level.
Fraud, theft and corruption	To improve financial sustainability	• Maintain good governance of risks and compliance with applicable legislation; and • Ethical work environment.	• Robust implementation of ethics programme and policies; • The implementation of the Anti-fraud and Ethics Committee has led to accountability for the monitoring of and reporting on fraud and ethics activities; • Anti-fraud and ethics policies enhance the mitigation of fraud and the enhancement of the ethics environment; • The forensic investigation unit assists in the investigation and reporting of irregular and fraudulent activities; and • IDFC has implemented an ethics and values rejuvenation programme, re-defining its values, mission and vision.
Inability to harness and build human capacity to be competitive	To improve customer experience	• High performance culture; • Proactive talent management; • Building trust with organised labour; • Skills development; • Staff wellness; • Cost rationalisation; • Improved customer relationships; and • Increased revenue.	• HR Talent Acquisition, Talent Development and Performance Management Policies and Procedures are in place; • HR Talent Acquisition, Succession and Performance Management Policies and Procedures are in place to up-skill employees; • A Remuneration and Benefits Policy and Procedure has been developed to offer employees attraction and retention benefits; • Job-specific learning and development solutions have been developed, linked with training and development programmes, based on identified gaps; and • HR has conducted a remuneration benchmarking exercise, benchmarking salaries against the market place.

Non-compliance to laws, regulations and operating policies	To improve financial sustainability	• Compliance with all applicable legislation; and • Building trust with regulators.	• An annual compliance plan is developed to monitor, test and report on compliance issues; • Quarterly reporting to EXCO and the Audit and Risk Committee on compliance issues and related areas of concern takes place; • Performance management monitoring; • Governance structures have been implemented; and • The Compliance Department deals with regulatory compliance issues.

Existing controls are in place for identified risks and where additional controls are required, management develops detailed risk mitigation action plans to address the residual risk exposure. Fraud risk, strategic risk, operational risk, risk appetite and tolerance key risk indicators are continuously monitored and integrated into all business processes in order to ensure business sustainability.

Group Risk has implemented a capacitating of risk function so as to ensure that it has subject matter specialists from business who will be the business drivers of all risk matters. To ensure that IDFC is able to execute its roles and responsibilities diligently, it has formally appointed risk champions in all its business units, so enabling the organisation to improve its risk maturity level.

COMPLIANCE

IDFC operates in a highly regulated environment and we consider all applicable legislative and regulatory requirements when determining our strategic objectives. The Compliance Division ensures that IDFC meets its legal and regulatory requirements across the industry. Failure to do so could lead to potential litigation for not complying with applicable regulatory requirements. Some of the key controls which have been put in place to mitigate this risk include the development of Compliance Manuals, Policies and Procedures and Compliance Regulatory Management Plans (CRMPs). During the past financial year, our focus centred on improved compliance methodologies, policies and the development and testing of CRMPs, embedding a compliance culture within IDFC.

IDFC's strategic objectives are defined through the Ithala Act, Act No. 5 of 2013. IDFC is a Public Entity in terms of the Public Finance Management Act, Act No. 1 of 1999 and listed under Schedule 3 D of the Act. IDFC is defined as an Accountable Institution in terms of Schedule 1 to the Financial Intelligence Centre Act, Act No. 38 of 2001. We are also a registered credit and authorised financial services provider in terms of the National Credit Act, Act No. 34 of 2005 (NCA) and Financial Advisory and Intermediary Services (FAIS) Act, Act No. 37 of 2005, respectively. IDFC is the holding company of Ithala SOC Limited, a subsidiary which operates under an exemption notice as a deposit-taking institution and is regulated by the provisions of the Banks Act, Act No. 94 of 1990.

Compliance is also regarded as being strategically important in protecting the organisation's reputation, minimising operational risk and setting the standard for a strong compliance culture throughout all our business activities. Legal Compliance has forged partnerships with regulatory bodies in order to strengthen knowledge and work relationships. Regulatory Compliance ensures assurance with legislation and statutory reporting to relevant third party regulators and the payment of annual levies. The regulatory compliance universe was developed to integrate compliance legislation affecting all business processes. IDFC's primary legislations are then extracted, identifying those affecting IDFC, after consultation with all business units, and are listed as follows:

ENTERPRISE RISK MANAGEMENT (CONTINUED)

IDFC KEY LEGISLATIONS

No.	Legislations
1.	Financial Intelligence Centre Act, Act No. 38 of 2001 (FICA)
2.	National Credit Act, Act No 34 of 2005 (NCA)
3.	Public Finance Management Act, 1999
4.	Preferential Procurement Policy Framework Act, Act No. 5 of 2000
5.	Ithala Development Finance Corporation Act, 2013
6.	Protection of Personal Information Act, 2013 (POPI)
7.	Occupational Health and Safety Act, Act No. 85 of 1993
8.	Labour Relations Amendment Act, Act No. 6 of 2014
9.	Consumer Protection Act, Act No. 68 of 2008
10.	Prevention and Combating of Corrupt Activities Act, Act No. 12 of 2004
11.	Electronic Communications and Transactions Act, 2002
12.	Basic Conditions of Employment Amendment Act, Act No. 20 of 2013
13.	The Financial Advisory and Intermediary Services Act, Act No. 37 of 2002

The Regulatory Compliance Division monitors levels of compliance in terms of the above legislations, identifying, measuring, aggregating and testing CRMPs, monitoring management actions and reporting the level of compliance thereto.

The Legal Compliance Division endeavours to implement efficient business processes capable of further improving operations within IDFC so as to ensure regulatory compliance through the capacitation of this function as a centre of excellence in regulatory research, thereby effectively addressing evolving regulatory requirements and business needs.

ANTI-FRAUD AND ETHICS

Ethics/Fraud Risk Assessment Anti-Fraud and Ethics programme.

An ethics and fraud risk assessment was undertaken in the 2018/19 financial year and a three-year (2019/20 - 2022/23) Anti-Fraud and Ethics programme was developed for implementation.

The Anti-Fraud and Ethics programme includes identified areas of ethics that IDFC needs to address, roles and responsibilities, as well as completion dates for action owners (Executives and Divisional Managers) responsible for its implementation.

The updated new three-year ethics programme will be rolled-out from 2019/20 (year 1) until 2021/22 (year 3).

STAKEHOLDER CONTEXT

IDFC's Board actively promotes a stakeholder-inclusive approach with regard to the governance of the organisation.

In determining our strategy to deliver against our developmental mandate, we remain ever mindful of the diverse needs of our range of stakeholder groups; groups which have either a direct or indirect economic and social interest in IDFC's business activities by virtue of such stakeholders being in the position to affect or be affected by our decisions, actions, objectives and policies.

Stakeholder Groups' Material Issues	Engagement Method	Stakeholder Expectations	IDFC's Response
Provincial Government	• Quarterly performance reports; • Quarterly meetings; • Annual general meeting; and • Meetings with Legislature/ Portfolio Committee.	• Financial sustainability and viability; • Alignment with Provincial Government's economic development agenda; and • Efficient and effective utilisation of allocated funds.	• Shareholder Compact signed with the Department of Economic Development, Tourism and Environmental Affairs; • Annual Performance Plan (APP) aligned to the Provincial Growth and Development Plan; • Quarterly performance reports against the APP are compiled and submitted to the department; and • Quarterly engagements are held with the department to discuss performance and the achievement of targets.
Clients	• Business Finance clients – pre-funding interaction; • Post-funding interaction; and • We visit and interact with our properties' clients and tenants on an ongoing basis.	• Accessible and affordable financial services; • Non-financial support services; • Well-maintained commercial and industrial properties; • Affordable rentals; and • Business premises in prime development nodes.	• Pricing for Government Grant funding is less than prime; • Post-funding non-financial support is provided through the post-investment monitoring units of business finance; • Increased allocations for capital and maintenance expenditure; • We offer competitive and, in most cases, highly favourable rentals; and • Industrial and commercial premises are located in growth nodes.
Regulators	• Regulatory reporting.	• Responsible lending; • Fair treatment of clients; • Safekeeping of client records; and • Good corporate governance.	• Submission of all regulatory reports in a timely manner; and • A fully capacitated compliance unit established.

STAKEHOLDER CONTEXT (CONTINUED)

Stakeholder Groups' Material Issues	Engagement Method	Stakeholder Expectations	Ithala's Response
Employees	• Quarterly briefings by the Group Chief Executive; and • On-line internal magazine business broadcasts.	• Job security; • Fair reward and recognition; • Personal growth and development; and • Healthy working environment.	• Stabilising the finances of the organisation to ensure sustainability; • Advancing skills development through study loans and other forms of training support; and • Advancing talent management initiatives.
Service Providers	• Ongoing.	• Fair and transparent process of selecting service providers; • Pay for services rendered in a timely manner; and • More opportunities for smaller enterprises.	• Approved supply chain policies and procedures in line with Government policy; and • Specific focus on engaging B-BBEE-compliant service providers (see page xx).

HOW WE CREATE VALUE

IDFC's approach to creating value is to focus on activities which optimise developmental outcomes across all the sectors supported by the organisation in KwaZulu-Natal.

Our value proposition vests in the achievement and sustainability of opportunities which would otherwise be unavailable without our intervention.

We fully subscribe to the principles of the International Integrated Reporting Council, which seeks to enhance accountability for and stewardship of the broad base of capitals, being financial, manufactured, intellectual, human, social and relationship and natural, and promotes an understanding of organisational value creation through the active consideration of the relationships between its various operating and functional units and the capitals it uses or affects.

INPUTS

- Financial capital: We receive grant funding from the Provincial Government for lending to SMMEs (R64,8 million during the 2018/19 financial year);
- Social and relationship capital: We are dependent on the support of our Shareholder, being the Provincial Government of KwaZulu-Natal; and
- Intellectual capital: We are guided by our mandate from the Provincial Government of KwaZulu-Natal.

BUSINESS ACTIVITY

- Business Finance offers financial and support services to SMMEs and co-operatives operating within KwaZulu-Natal;
- We develop and manage large industrial, retail, light industrial and SMME properties;
- We invest in developing and retaining our people in order to execute our strategy and ensure delivery to our customers and clients;
- We invest in our operations, inclusive of information technology systems and infrastructure, in order to improve efficiency and deliver appropriate products and services to our customers and clients;
- We offer bursaries and internships to top-performing students in KwaZulu-Natal; and
- We provide both public sector banking and corporate and investment banking services to SMME businesses, as well as to Co-operatives, through our subsidiary, Ithala SOC Limited.

OUR IMPACT

- Our activities result in a broad economic impact, by stimulating the private sector and assisting to fuel the economy through the creation of employment opportunities, providing income and improving living standards, thus generating lasting development impacts;
- During the past six years, we have facilitated the creation of 20 042 employment opportunities, generated by way of our lending activities, and have advanced loans valued in excess of R1 billion;
- We facilitate access to financial services, enabling socio-economic development and financial well-being, both of which are especially relevant to our markets;
- Our activities facilitate the allocation of capital for economic development; and
- We focus on understanding the needs of the public sector environment and to developing innovative solutions relevant to the local environments.

THIS YEAR

During the 2018/19 financial year, we:

- Created 3 457 employment opportunities through the financing of business enterprises;
- Disbursed business loans to the value of R379,85 million; and
- Held 111 643 active transactional accounts, against a target of 110 544.

OUR PERFORMANCE

During the course of the 2018/19 financial year, IDFC was responsible for financing 914 businesses and co-operatives, estimated to have enabled the creation of some 3 457 new employment opportunities.

BUSINESS FINANCE

Our legislation requires that we mobilise financial resources and provide financial and supportive services to persons domiciled, ordinarily resident, or carrying on business within KwaZulu-Natal.

The purpose of Business Finance is to fulfil this mandate by promoting, supporting and facilitating sustainable socio-economic development in KwaZulu-Natal by providing financial and non-financial support to small, medium and micro enterprises (SMMEs), including Co-operatives.

A financial support service is offered through credit extension, which includes debt facilities and - in some cases - equity funding.

Business Finance also provides a range of pre-investment support services, inclusive of advisory services, market linkages and coaching.

During the financial year under review, Provincial Government has worked exceptionally hard to implement radical economic transformation initiatives, aimed at ensuring the creation of an inclusive economy, encompassing - especially - previously marginalised demographic groups.

The development of the economy of KwaZulu-Natal is also supported by the Provincial Growth and Development Strategy and the KwaZulu-Natal Provincial Spatial Development Strategy.

These provincial strategy documents and Government initiatives combine to inform the Business Finance lending strategy, ensuring that alignment exists in the provision of financial and supportive services to the people of KwaZulu-Natal. Our objective is to ensure that we accelerate economic growth, facilitate the creation of employment opportunities, assist in reducing unemployment and contribute towards the eradication of poverty.

Our credit investment policies are aligned to Provincial Government's strategic documents and focus on the following targeted key economic sectors; sectors which have the potential to accelerate provincial economic growth:
- Manufacturing;
- Agriculture and agro-processing;
- Construction and tourism; and
- Trade and services.

The businesses and projects funded by Business Finance should clearly demonstrate a positive economic development impact, when giving consideration to the following factors:
- Employment creation;
- Black economic empowerment;
- Beneficiation of South Africa's raw materials;
- New technology and skills introduction;
- Export and/or import replacement; and
- The general multiplier effect of projects to the economy.

Business Finance manages a number of strategic funds for credit extension and offers a wide range of products and services, tailored specifically for SMMEs and Co-operatives. These products and services included inter alia:
- Asset-based finance;
- Structured and empowerment finance;
- Micro-finance;
- Franchise finance;
- Agricultural finance;
- Procurement finance; and
- Commercial property finance;

In an effort to maximise the delivery of services to our clients, IDFC has in place strategic business centres across KwaZulu-Natal.

Clients are able to approach these centres in order to submit their applications and to receive business advisory or business support services. Our clients are also able to tap into the network of Ithala SOC Limited's retail branches.

Post-Investment Monitoring and Support:
IDFC operates a fully-fledged post-investment management unit.

Every approved client within our investment portfolio is allocated an Investment Monitoring Officer, who is responsible for the continuous monitoring of the performance of each investment, using the risk-based approach. This is undertaken so as to ensure that challenges are identified in a timely manner and that corrective interventions are rapidly deployed. This also contributes to a reduction in non-performing loans within our investment portfolio. Key interventions may take the form of mentorship, coaching, the facilitation of business linkages and various other administrative support services, as well as the possible restructuring of our investment. Our Investment Monitoring Officers report regularly on the monitoring of the portfolio.

Credit Risk Management:
IDFC's Board has implemented a very strong credit risk management culture within the organisation.

In this regard, Business Finance has in place appropriate policies for the granting and management of credit. We have also implemented a structured process, whereby lending business units are kept separate from the credit approval division and associated approval committees.

During loan investigations, applications undergo intensive due diligence scrutiny, ensuring that only viable business investments which are compliant with our investment policies receive approval.

The credit risk division is responsible for monitoring the performance of each class of the loan investment portfolio on a continuous basis. Continuous risk grading, or categorisation, is applied to investments when their status changes as a result of default, challenges faced by each investment or changes in market conditions. The Credit Risk function reports to the Board on a quarterly basis with regard to the performance of the total debtor's investment portfolio.

Defaulting clients are monitored on a continuous basis by Credit Risk. Various interventions, including work-out and restructuring, are explored in order to assist distressed clients return to profitability. These interventions are regarded as critical, given that many of the challenges faced by clients are short-term in nature and are occasionally cyclical, due to prevailing market conditions.

This careful evaluation of credit risk also assists in the management and containment of non-performing loans. In instances where all interventions fail, client accounts are handed over to the legal division for collection.

During the year under review, IDFC implemented the IFRS 9 impairment model which is a forward-looking model based on expected credit losses. The model has been fully rolled-out and is expected to improve the management of the loan book.

Portfolio Investment Performance:
The overall size of our debtors investment portfolio increased by R51 million, or 6%, from R837 million at the beginning of the financial year to R888 million by the end of the year. The size of the performing portion of our investment portfolio at year-end totalled R658 million, being 74,1% of the overall investment portfolio and represented a 9,8% increase over the previous financial year.

The non-performing portion of our investment portfolio stood at R230 million, being 25,9% of the overall investment portfolio and representing a 3,3% improvement over the previous year. This non-performing investment portfolio is significantly better than the 31% target reflected in our risk tolerance level, set at the beginning of the year by the Board.

During the financial year under review, IDFC approved investments in terms of SMME loans totalling R585 million and disbursed R380 million. The balance of the approved loans will be disbursed during the ensuing reporting period. This performance reflects a 93% improvement on approvals and an 80% improvement on disbursements, when compared against the previous year. We expect further improvement to this performance in the upcoming financial year, due to a number of opportunities envisaged.

OUR PERFORMANCE (CONTINUED)

Development Outcomes:
- During the 2018/19 financial year, the following statistics were recorded:
- Total value of funding approved totalled R585 million, which is 125% higher than the annual budget;
- Total debtor's investment portfolio increased by 6% to R888 million at year-end;
- Disbursements totalled R380 million, which is 80% higher than the previous year;
- Gross collections totalled R357 million, which is 31,25% higher than the previous year;
- We provided finance to 914 SMMEs and facilitated the creation of 3 457 employment opportunities; and
- Non-performing loans remained high at 25,9%.

Outlook:
Economic growth in South Africa for 2019 is projected to be below 2% per annum.

This remains a matter of serious concern, given that IDFC must play an active role in mobilising financial resources to assist SMMEs and Co-operatives to actively participate in growing the economy of the province.

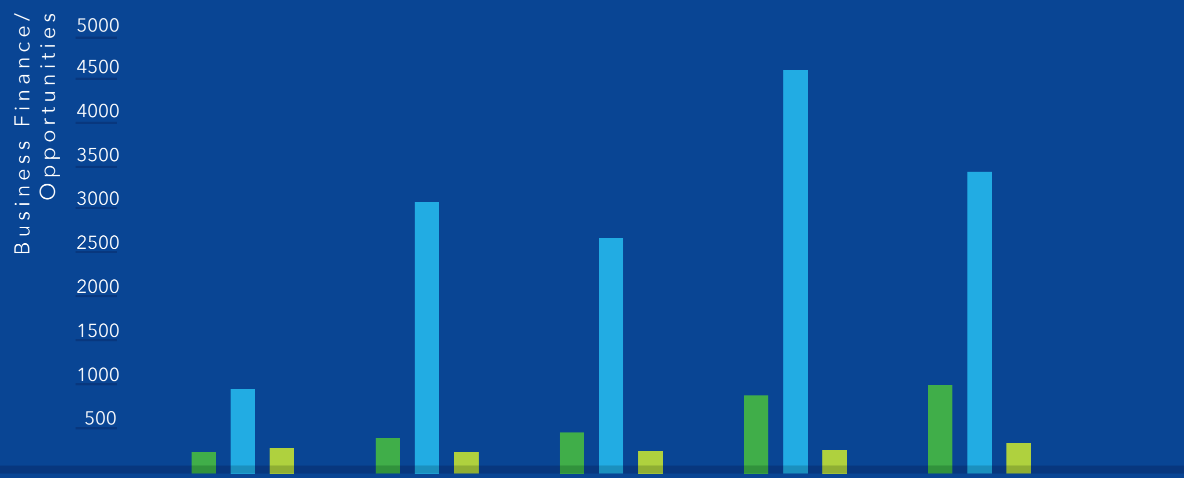
New Government administration has also been formed, following the recent elections and we expect to see new Government programmes being introduced.

These will create opportunities for small businesses and IDFC will continue playing an active role in facilitating the creation of employment opportunities.

It should be stressed that IDFC remains committed to playing an active role in Government projects which are aimed at providing business opportunities for SMMEs. To this end IDFC has participated in initiated programmes, such as the Radical Agrarian Socio-Economic Transformation programme (RASET) and the Black Industrialists Programme.

Business Finance strategic priorities include:
- Growing our debtors' investment portfolio by expanding credit advances. To this end we have substantially increased our advances budget for the new year;
- Increasing our participation in Government-led programmes, such as the National School Nutrition Programme and the Scholar Transport Programme;
- Actively targeting the provision of funding for businesses owned by women and members of the youth. We will also target businesses and initiatives aligned to rural and township revitalisation programmes;
- Improving liquidity by developing our credit collection efforts;
- Improving the level of profitability by increasing investment yields through the levying of charges and risk-adjusted pricing;
- Forming strategic partnerships with both public and private sector organisations, with the intention of leveraging the provision of non-financial support services for our clients;
- Improving the overall quality of our debtors investment portfolio by actively driving initiatives aimed at reducing non-performing loans; and
- Providing an improved customer experience, by continuously improving loan application turn-around times.

Our performance during the past five years is tabled as follows:



Years	2014/15	2015/16	2016/17	2017/18	2018/19
Number of businesses financed	114	336	381	619	914
Number of job opportunities created	886	3 043	2 644	4 606	3 457
SMME loan advances	R277 million	R167 million	R183 million	R211 million	R380 million

PROPERTIES

IDFC's Properties Department assumes responsibility for the management of the organisation's large and diverse property portfolio, which currently comprises approximately 1,2 million square meters of gross lettable area and is located in, primarily, urban and peri-urban areas across KwaZulu-Natal. The property portfolio serves as a catalyst for economic development in the province.

The Properties Department also undertakes the management of certain projects in which IDFC acts as an implementing agent on behalf of Government's infrastructure programmes.

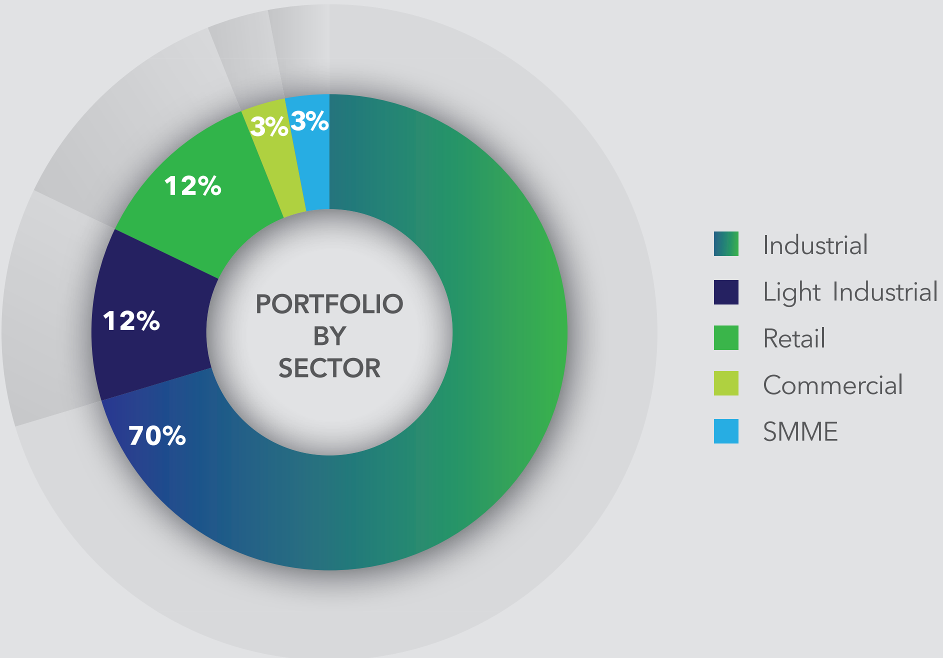
Both these objectives are closely aligned to IDFC's mandate.

The Properties Department comprises three main divisions, being:

- Property management - Responsible for leasing, ensuring an optimal tenant mix and managing tenants;
- Asset management - Responsible for long-term, strategic and financial planning to optimise property asset values and the realisation of returns and growth objectives;
- Technical services - Comprises four sub-divisions, namely:
  - Facilities management: Responsible for both the planned and reactive maintenance of properties;
  - Project management: Responsible for managing construction and refurbishment projects;
  - Construction management: Responsible for contract and on-site management of construction projects; and
  - Engineering services: Responsible for the management of infrastructure and Municipal services, such as electricity, water, sewage and solid waste disposal provided to tenants.

OUR PERFORMANCE (CONTINUED)

Portfolio Overview:



The property portfolio comprises large industrial, light industrial, retail, commercial and SMME properties.

The large industrial portfolio consists of the three industrial estates, namely Isithebe, Ezakheni and Madadeni, which collectively accommodates 220 large manufacturing and other enterprises, which provide employment to approximately 40 000 people from areas surrounding these estates.

The light industrial portfolio comprises nine industrial parks and five stand-alone factories, providing accommodation for 204 businesses. Two of these light industrial parks are co-owned with Growth Point Properties.

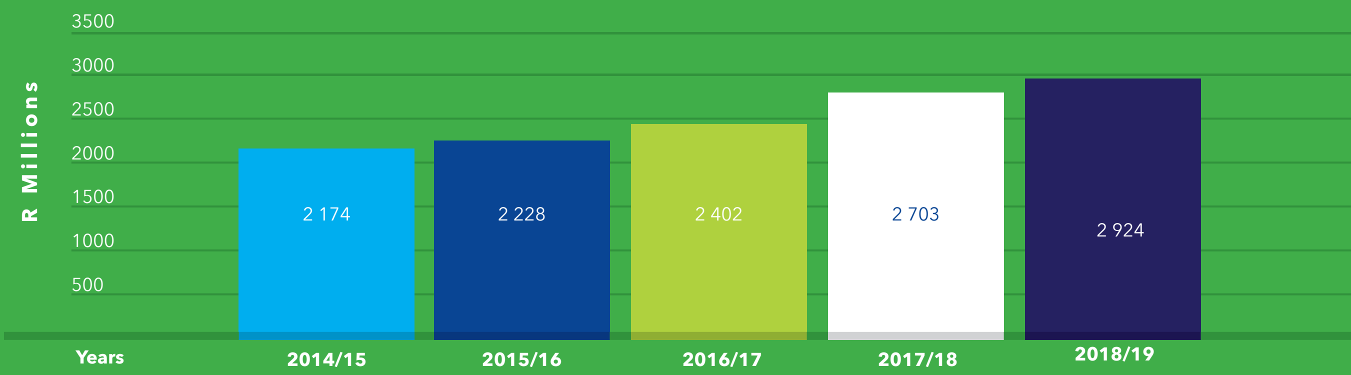
Our retail portfolio comprises 22 shopping centres, with shops ranging from just four square metres up to 5 000 square metres, and caters for both small businesses and national tenants. There are currently 511 tenants in the retail portfolio.

The commercial portfolio consists of 12 properties, inclusive of five office blocks and seven other commercial buildings. Two office blocks are occupied by IDFC, whilst the remainder are let as part of the leasing portfolio, accommodating 73 tenants. Ithala Trade Centre, located in Durban's Point Waterfront precinct, is the organisation's flagship property in this portfolio and is IDFC's head office.

The SMME portfolio consists of 45 small properties, let as small industrial factories, handicraft centres and motor parks.

In terms of vacant land, IDFC currently holds 167 fully serviced sites, which are located within our various industrial estates, 23 commercial sites and 234 residential sites. A total of 120 of these sites are currently illegally occupied.

Investment Overview:



The total portfolio investment grew by 8% during the financial year under review. The large industrial, light industrial and retail portfolio grew by 8%, 12% and 11% respectively.

Refurbishment Programme:

IDFC continued with a refurbishment programme for 10 of the shopping centres in our retail portfolio, six light industrial parks, one SMME industrial park and one residential building. In addition, re-roofing and the refurbishment of roof structures of our factories was undertaken at the industrial estates. The refurbishment programme focused on the physical condition, functionality and compliance requirements of the properties.

Work in respect of the major refurbishment of retail and industrial properties of some R300 million has been carried out to date, with a further R40 million to be expended during the 2019/20 financial year.

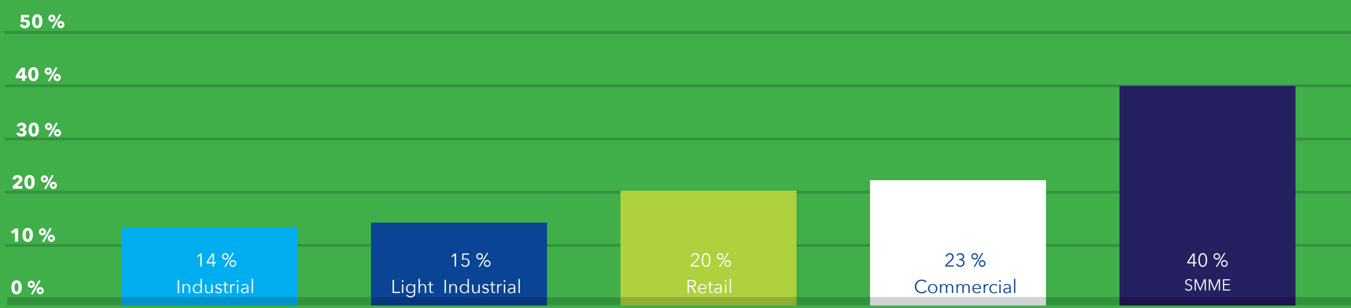
Investment Opportunities:

A number of investment opportunities identified during the review period are being pursued. In addition, two new retail property developments are being planned at Mondlo and Ulundi, as part of our growth strategy.

The Mondlo project is located in the central hub of Mondlo and is being touted as a catalytic project for the area, given that no such facilities currently exist in Mondlo.

The Ulundi development is aimed at providing a modern and up-market-styled shopping mall, catering for the middle to upper LSM (Living Standards Measure) groups in Ulundi.

Vacancy Levels:



VACANCIES PER SECTOR

OUR PERFORMANCE (CONTINUED)

The 2018/19 financial year saw the portfolio's vacancy rate improve from 17,67% to 15,97%, split as follows:
- 10% large industrial;
- 2% light industrial;
- 3% retail; and
- 1% SMME.

Implementing Agent:
The Properties Department currently manages a number of projects on behalf of the provincial Department of Economic Development, Tourism and Environmental Affairs, including:
- Industrial Hubs - Clothing and textiles and leather processing;
- Ndumo Retail Development; and
- Proposed Refurbishment of Thokazi Royal Lodge.

Strategy:
A five-year strategy has been crafted and is set to focus on:
- Refurbishing and upgrading the current portfolio in order that it remains relevant, competitive and compliant;
- Expanding and growing the retail portfolio for market capitalisation, in line with Government's Township Revitalisation Programme, and to reduce the concentration risk posed by the industrial portfolio, which constitutes 70% of the portfolio;
- Diversifying and re-purposing the portfolio in order to take into account the needs of the province (housing and both student and office accommodation);
- Re-establishing IDFC as an implementing agent for Government infrastructure programmes; and
- Exploring innovative funding models, inclusive of Public-Private Partnerships.

Prospects for 2019/20:
Looking ahead, the Properties Department is targeting to achieve the following objectives:
- Grow property revenue by 9%;
- Maintain operational expenditure at current levels;
- Reduce property vacancy levels to 13,5%; and
- Improve the value of the investment portfolio.

SUBSIDIARIES

ITHALA SOC LIMITED

The 2018/19 financial year ended with Ithala SOC Limited registering a net loss of R23,8 million (2017/18: R32,7 million). This reflects an improvement of R8,9 million year-on-year.

Delays affecting the roll-out of automatic-teller machines and self-service devices, coupled with lower than expected sales of insurance products, the unsecured loan product and salaried and debit order debit card accounts resulted in the failure to achieve budgeted fee income targets for the period ended 31 March 2019.

Achievements Against Target:
- At year end we held 111 643 active transactional accounts, against a target of 110 544;
- We achieved a capital adequacy ratio percentage of 17,7%, against a target of 24,3% (72,8% achieved), the consequence of the Shareholder providing capital of R94,8 million to finance the 'Build the Bank' Strategic Plan;
- We achieved a JAWS ratio (income growth rate exceeds its expenses growth rate) of positive 3,7%, against a target of positive 1,8%;
- We planned to achieve a net profit of R6,1 million by year-end. However, a loss of R23,7 million was the outcome. Although such as result is disappointing, an improvement of 29,9% over the prior year was achieved;
- A negative variance in new advances, the return on surplus funds and non-interest income also contributed to the non-achievement of the targeted cost-to-income ratio of 93,3%, as the actual ratio was 103,2%; and
- We achieved a non-performing loans percentage of 5,5%, an improvement when compared against the prior year's measure of 6,2%.

The 'Build the Bank' strategy to re-engineer, restructure and take Ithala SOC Limited forward towards sustainability was developed in the prior year and commenced implementation during the review period.

A new integrated enterprise-wide digital core banking platform was in the process of being implemented.

The Shareholder has committed to providing capital injections totaling R217,6 million during the next three years in order to fund the 'Build the Bank' strategic plan.

Looking ahead, we expect a slight increase in economic activity.

Our continued investment in the people we exist serve resulted in a notable and pleasing improvement in our 'Investors in People' journey.

We are confident that this, together with our investment in our new integrated enterprise-wide digital core banking platform - which is due for completion during the upcoming financial year - will propel Ithala SOC Limited to the next level in the quest for vision achievement.

ASSOCIATE

NTINGWE TEA ESTATE

Ntingwe Tea Estate, which was established in 1988, is located in the Nkandla district.

IDFC currently has 38% ownership, whilst 62% is owned by the KwaZulu-Natal Department of Agriculture and Rural Development.

IDFC assumes responsibility for the provision of management support.

The KwaZulu-Natal Provincial Executive Council took a decision to assess the feasibility of Ntingwe Tea Estate during the course of the 2017/18 financial year and that, thereafter, it be transferred to the Agribusiness Development Agency.

The implementation of such recommendation has commenced, but has not yet reached completion.

ANNUAL PERFORMANCE REPORT 2018/19

Strategic Goal 1: To drive SMME and Co-operative development				
Strategic Objectives	**Key Performance Indicators**	**Target 2018/19**	**Annual actual output**	**Management Comment**
Enterprise Development	Number of jobs expected to be facilitated - Total (cumulative)	2 973	3 457	Target achieved
	Number of jobs expected to be facilitated - Women (cumulative)	892	1 263	Target achieved
	Number of jobs expected to be facilitated - Youth (cumulative)	595	1 024	Target achieved
	Number of new businesses financed - Total (cumulative)	925	750	Target not achieved. Approvals lag disbursements due to loan conditions not being fulfilled in a timely manner

OUR PERFORMANCE (CONTINUED)

Strategic Goal 1: To drive SMME and Co-operative development				
Strategic Objectives	**Key Performance Indicators**	**Target 2018/19**	**Annual actual output**	**Management Comment**
Enterprise Development	Number of new businesses financed - Women (cumulative)	277	229	Target not achieved. Approvals lag disbursements due to loan conditions not being fulfilled in a timely manner
	Number of new businesses financed - Youth (cumulative)	185	314	Target achieved
	Total value of loans disbursed - Total (cumulative)	R184 million	R379,85 million	Target achieved
	Total value of loans disbursed - Women (cumulative)	R55,2 million	R84,4 million	Target achieved
	Total value of loans disbursed - Youth (cumulative)	R36,8 million	R120,7 million	Target achieved
Business Support	Number of businesses supported (cumulative)	100	1 315	Target achieved

Strategic Goal 2: To recapitalise and grow the property portfolio				
Strategic Objectives	**Key Performance Indicators**	**Target 2018/19**	**Annual actual output**	**Management Comment**
Property Investments	Capital and maintenance expenditure (cumulative)	R179,3 million	R127,1 million	Target not achieved. Capital expenditure on re-roofing, refurbishments, new developments, sprinklers and infrastructure has not been fully spent
Private Public Partnerships	Sustained and operationalised	4	3	Target not achieved. No new partnerships were entered into in the fourth quarter of the 2018/19 financial year

Strategic Goal 3: To improve financial sustainability				
Strategic Objectives	**Key Performance Indicators**	**Target 2018/19**	**Annual actual output**	**Management Comment**
Financial Sustainability	Gross collections (cumulative)	R1,048 billion	R1,149 billion	Target achieved
	Non-performing loans percentage ceiling	31%	25,9%	Target achieved
	Net profit (cumulative)	R208,7 million	R251,8 million	Target achieved
Financial Efficiency	Cost to income ratio ceiling	72,05%	65,06%	Target achieved

Strategic Goal 4: To forge development partnerships				
Strategic Objectives	**Key Performance Indicators**	**Target 2018/19**	**Annual actual output**	**Management Comment**
Forge and Sustain Strategic Partnerships	Sustain and operationalise community partnerships	3	17	Target achieved
	Sustain and operationalise business partnerships	10	21	Target achieved
	Sustain and operationalise Government partnerships	4	25	Target achieved

Strategic Goal 5: To improve customer experience				
Strategic Objectives	**Key Performance Indicators**	**Target 2018/19**	**Annual actual output**	**Management Comment**
Customer experience (external)	Recent brand experience - Business Finance (Annual Measure)	88%	90%	Target achieved
	Recent brand experience - Properties (Annual Measure)	80%	85%	Target achieved
Customer experience (Internal)	Information technology operating expenditure (cumulative)	R65,8 million	R48,4 million	Target not achieved. Delays in the appointment of service providers contributed towards the target not being met.

OUR PERFORMANCE (CONTINUED)

Strategic Goal 5: To improve customer experience (continued)				
Strategic Objectives	**Key Performance Indicators**	**Target 2018/19**	**Annual actual output**	**Management Comment**
Customer experience (Internal)	Information technology capital expenditure (cumulative)	R21,2 million	R3,7 million	Target not achieved. Delays in the appointment of service providers contributed towards the target not being met

Strategic Goal 6: To drive radical economic transformation				
Strategic Objectives	**Key Performance Indicators**	**Target 2018/19**	**Annual actual output**	**Management Comment**
B-BBEE Spend	% spent on B-BBEE-compliant service providers	90%	99%	Target achieved
Improve Human Capital	Number of new interns, learners and graduates admitted (cumulative)	15	38	Target achieved
RASET	Number of jobs expected to be facilitated - Total (cumulative)	220	N/A	The programme is currently suspended by EDTEA
	Number of jobs expected to be facilitated - Women (cumulative)	66	N/A	The programme is currently suspended by EDTEA

Strategic Goal 6: To drive radical economic transformation (continued)				
Strategic Objectives	**Key Performance Indicators**	**Target 2018/19**	**Annual actual output**	**Management Comment**
RASET	Number of jobs expected to be facilitated - Youth (cumulative)	44	N/A	The programme is currently suspended by EDTEA
	Number of new businesses financed - Total (cumulative)	20	N/A	The programme is currently suspended by EDTEA
	Number of new businesses financed - Women (cumulative)	6	N/A	The programme is currently suspended by EDTEA
	Number of new businesses financed - Youth (cumulative)	4	N/A	The programme is currently suspended by EDTEA
	Total value of loans disbursed - Total (cumulative)	R56 million	N/A	The programme is currently suspended by EDTEA
	Total value of loans disbursed - Women (cumulative)	R16,8 million	N/A	The programme is currently suspended by EDTEA
	Total value of loans disbursed - Youth (cumulative)	R11,2 million	N/A	The programme is currently suspended by EDTEA

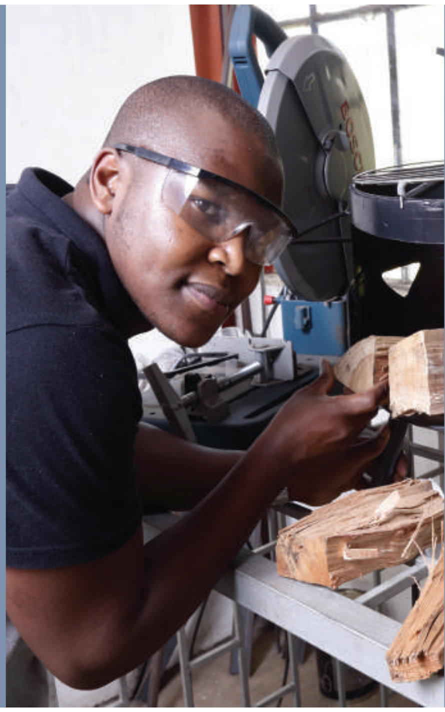
WILD BEAN CAFE
ultimate

HUMAN CAPITAL

IDFC's human capital function aims to be a key resource in partnering with business as a means of driving the strategic imperatives of the organisation, by way of thoroughly consistent and professional human resource management services.

We set out to:

- Provide a human capital base that is capable, motivated, challenged and stimulated enough to ensure that IDFC drives economic development and empowerment, whilst remaining financially sustainable, and continuing to remain relevant as a development financial institution; and
- Ensure that our human capital strategy supports the organisation's human capital initiatives, making certain that IDFC is properly staffed with resources which possess the requisite skills and competencies to deliver on the organisation's mandate through:
  - Inculcating a high-performance orientated organisational culture;
  - Implementing an integrated human resources system to support a transformational human resources service philosophy;
- Supporting business units to achieve their business objectives;
- Implementing human resources processes aimed at transformational activity and service delivery;
- Implementing an effective talent management process;
- Implementing an Integrated Employee Value Proposition as a retention mechanism;
- Implementing a delivery model to achieve our strategic intent, as follows:
  - **Human Resource Operations** - Partner with business to deliver on their resourcing needs;
  - **Centre of Excellence** - Performance management, talent management, organisation design, learning and development, change and transformation management, reward management and employee wellness; and
  - **Transactional Function** - Payroll services and logistical services.



HUMAN CAPITAL (CONTINUED)

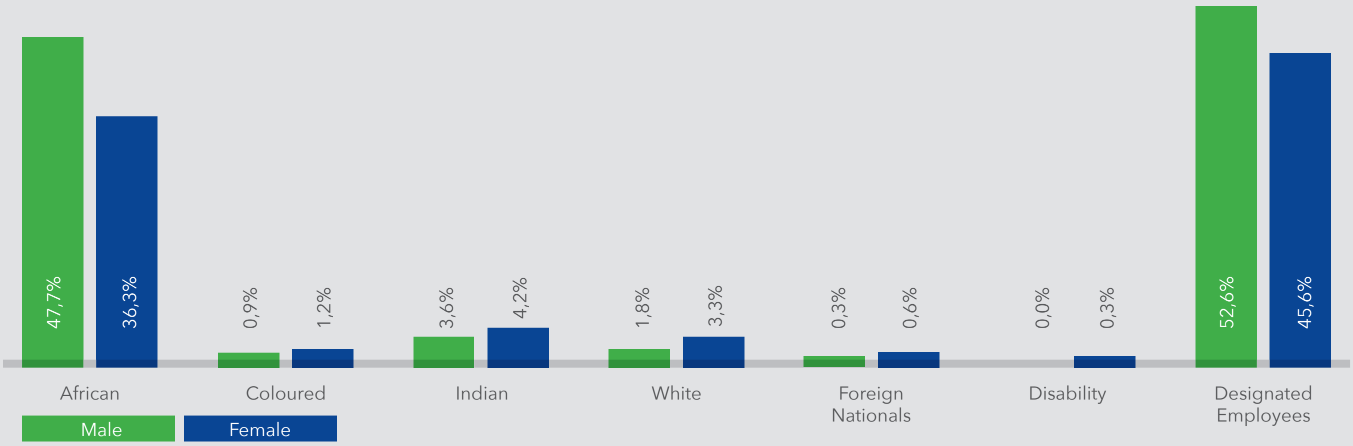
Staff Profile: IDFC Employee Profile as at 31 March 2018/19

Occupational Level	All Male Employees						All Female Employees						Total Employees	Disabled
	African	Indian	Coloured	White	Foreign Nationals	Sub-Total	African	Indian	Coloured	White	Foreign Nationals	Sub-Total		
Top Management	3	-	-	-	-	**3**	2	-	-	-	-	**2**	5	-
Senior Management (excluding those counted as top management)	5	1	-	-	-	**6**	4	1	-	-	-	**5**	11	-
Professionally qualified and experienced specialists and mid-management	30	9	1	6	1	**47**	19	5	1	3	1	**29**	76	-
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	48	2	2	-	-	**52**	74	8	3	7	1	**93**	145	1
Semi-skilled and discretionary decision-making	43	-	-	-	-	**43**	15	-	-	1	-	**16**	59	-
Unskilled and defined decision-making	29	-	-	-	-	**29**	6	-	-	-	-	**6**	35	-
Permanent Total	**158**	**12**	**3**	**6**	**1**	**180**	**120**	**14**	**4**	**11**	**2**	**151**	**331**	**1**
Fixed-Term Contracts	16	1	2	1	-	**20**	4	-	-	1	-	**5**	25	-
Learners	27	-	-	-	-	**27**	32	2	-	-	-	**34**	61	-
Non-Permanent Total	**43**	**1**	**2**	**1**	**-**	**47**	**36**	**2**	**-**	**1**	**-**	**39**	**86**	**-**
GRAND TOTAL	**201**	**13**	**5**	**7**	**1**	**227**	**156**	**16**	**4**	**12**	**2**	**190**	**417**	**1**

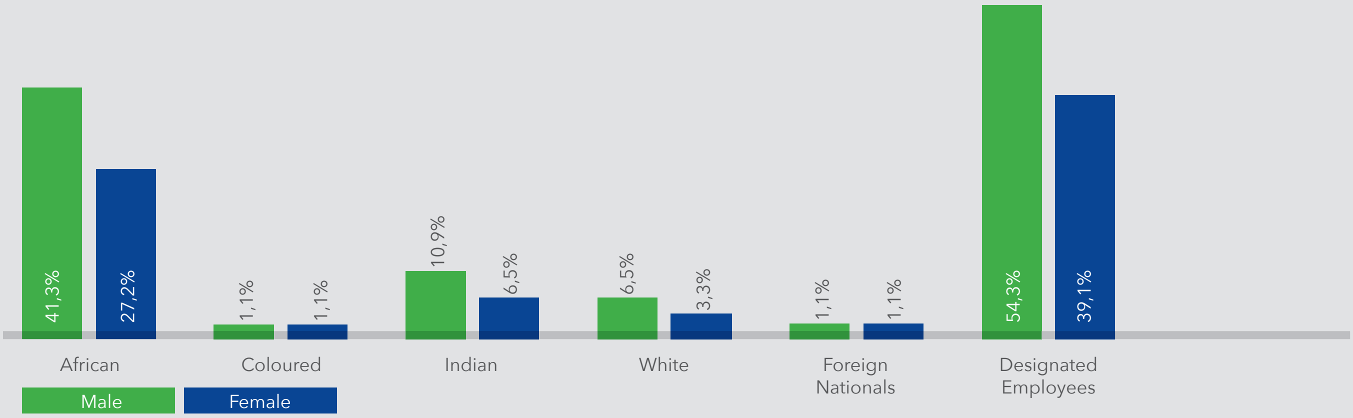
The profile of our staff complement of 331 permanent employees (2017/18: 341) is depicted below:

- 98,2% are historically disadvantaged individuals;
- 45,6% of IDFC staff are female and 54,4% are male. There is an improvement of 1,6% compared against 2017/18 in the number of females represented. The organisation is making great strides in ensuring that there is appropriate female representation, especially at managerial level. Going forward, the organisation aims to ensure that female representation within the managerial function reflects provincial and national demographics. Work has begun in earnest to ensure that this is achieved in the ensuing financial year;
- 0,3% of our staff have disabilities. The national norm is 1%. Various interventions have been considered to improve this percentage. IDFC continues with endeavours to attract people with disabilities into its employ. The organisation plans to, at least, achieve the national norm of 1% in terms of disabled representation in both managerial and non-managerial functions; and
- The organisation has a healthy age profile, with 87% of the staff complement aged 55 and younger. Only 13% of the staff complement is due for retirement in less than 10 years. The Integrated Talent Management Framework, introduced in the third quarter of the 2017/18 financial year, has ensured that robust succession plans are in place, thus ensuring continuity of business activities when employees close to retirement age exit the system.

IDFC GENDER AND RACIAL REPRESENTATION AS AT 31 MARCH 2019

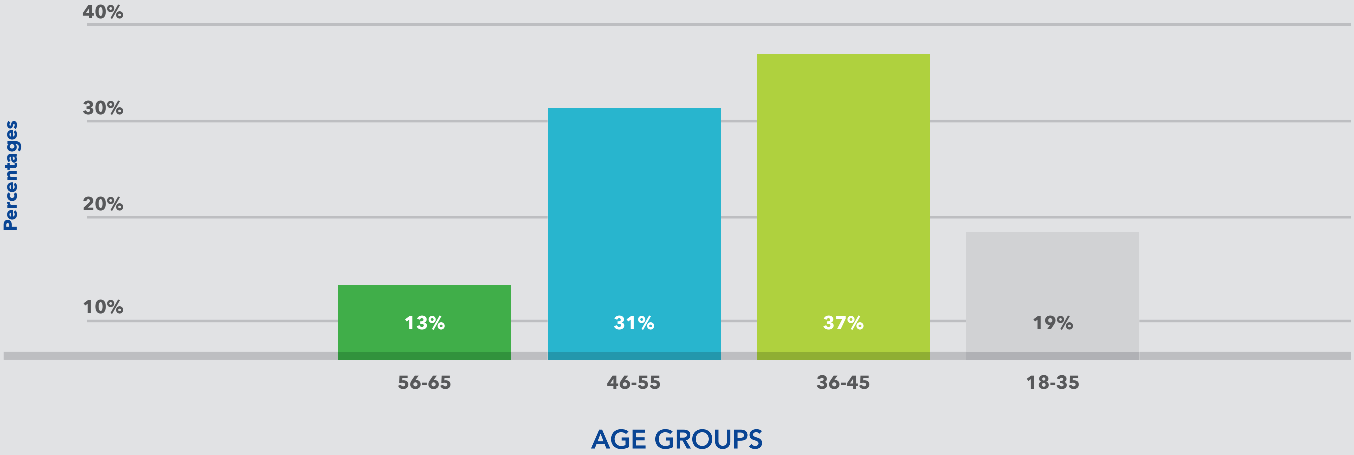


IDFC GENDER AND RACIAL REPRESENTATION AT MANAGERIAL LEVEL AS AT 31 MARCH 2019

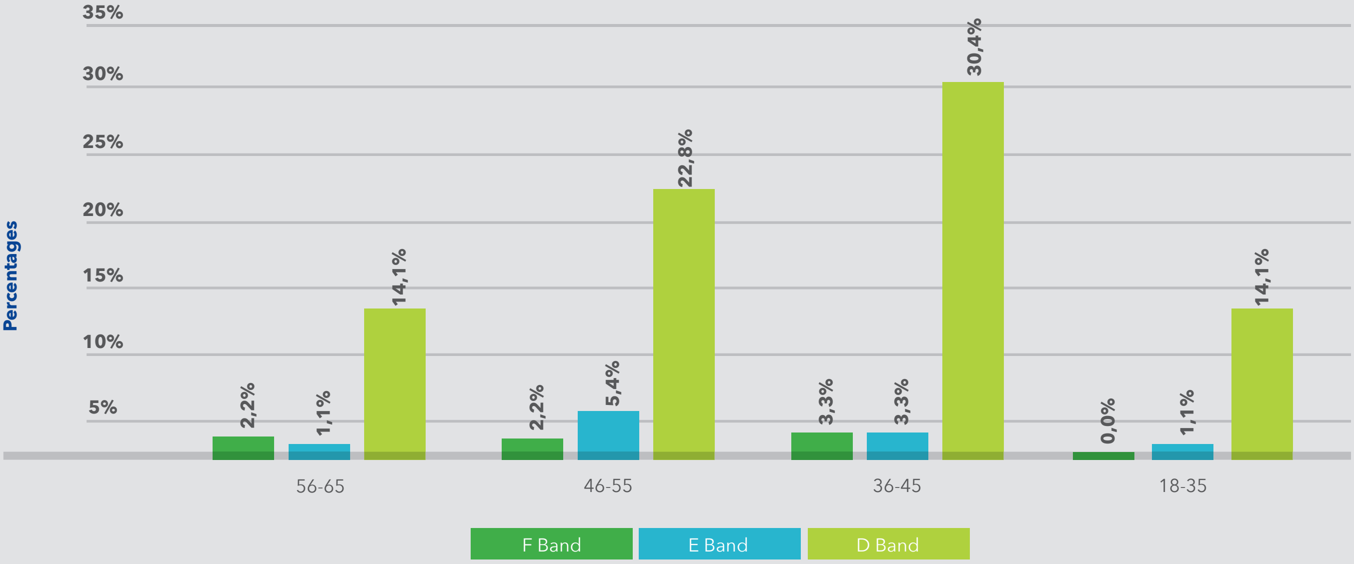


HUMAN CAPITAL (CONTINUED)

IDFC AGE PROFILE AS AT 31 MARCH 2019



IDFC MANAGERIAL AGE PROFILE AS AT 31 MARCH 2019



Talent Management and Succession Planning:
We firmly believe that our members of staff are our organisation's most valuable asset and, accordingly, we constantly seek to identify and develop talented people who have the skills, potential and ability to take IDFC to the next business level.

- IDFC is intent on empowering members of staff who share the group's values and are a good fit with our business culture; members of staff with the passion for contributing towards the achievement of our vision, so that, jointly, we can enable the organisation to broaden its business portfolio and achieve its developmental mandate - that of facilitating economic development and empowerment in KwaZulu-Natal; and
- Given that it is our members of staff who give effect to our business strategy, we believe it essential that we have in place an effective process for attracting the right talent, enabling them to develop personally and professionally, retaining their services and ensuring that they are afforded the skills, insights and capabilities to assist in the execution of our strategic business objectives.

Effective and Efficient Employee Relations:

- Our approach to employee relations ensures that we develop relations with all our stakeholders and further recognise our employees' right to fair and equitable employment practices;
- It is pleasing to note that the organisation did not experience any industrial action during the 2018/19 financial year; and
- IDFC continues to apply a zero tolerance policy with regard to dishonest and fraudulent behaviour by any member of staff. Robust systems have been put in place to ensure a significant reduction in any such incidents.

Remuneration and Benefits Practices and Management:

- IDFC remunerates members of staff based on a total reward approach, which caters for a mix of both financial and non-financial rewards. This reward mix enables us to keep our existing members of staff motivated and engaged, while attracting and retaining key talent; and
- We conduct annual remuneration benchmarking exercises against our defined pay policy in order to remain competitive in the relevant market.

Remuneration Philosophy:

- The core element of our remuneration philosophy is to drive a high-performance culture within the organisation and this is underpinned by the following principles:
  - Remuneration will be managed at all times, ensuring that it is both externally and internally equitable;
  - The remuneration system will be sufficiently flexible so as to provide managers at all levels with the tools necessary to attract, retain and motivate staff of the calibre required to achieve organisational goals; and
  - Remuneration practices will be open and transparent at policy level, but will simultaneously respect the confidentiality of the remuneration of individuals.

Recognition of Excellence:

- A new recognition and reward programme was implemented, which culminated in the organisation celebrating Employee Awards for the first time in the history of the organisation. An automated recognition and reward platform was also implemented to ensure the effective implementation of the programme, which aims at driving employee engagement and retention.

Employee Wellness:

- Our employees' well-being lies at the heart of the organisation.

  This is due to the clear link between employee well-being and performance. A comprehensive employee wellness strategy was approved by the Board, necessitated by challenges of employee well-being faced by the organisation.

  The organisation's health profile indicated a need for a robust employee wellness strategy. Our approach to employee well-being in the workplace goes beyond merely preventing illness, injuries and accidents, but also involves taking a proactive and positive stance with regard to improving the overall well-being of our employees.

HUMAN CAPITAL (CONTINUED)

Change Management:

- The utilisation of a structured methodology for the delivery and facilitation of change has greatly assisted in assessing the corporation's change maturity and to understanding whether we are making progress in terms of looking after the interests of our people in times of change, as well as the level of leadership involvement and ownership during such times; and
- In the 2018/19 financial year, IDFC launched its revitalised values to the organisation.

Youth Development:

- In order to contribute positively to national and provincial youth development and employability initiatives, IDFC targets taking on-board 15 interns per annum, in terms of our Interns/Learners/Graduates intake; and
- As at the end of the fourth quarter of the 2018/19 financial year, IDFC had placed 51 interns. A number of interns taken on in prior years were absorbed by IDFC and placed in permanent positions after completing their internship programmes.

Learning and Development:

- A total of R2 301 955 was spent on training interventions during the course of the 2018/19 financial year; and
- IDFC approved 15 study loans for the benefit of members of staff.

SOCIO-ECONOMIC TRANSFORMATION

IDFC believes in and contributes towards the national socio-economic transformation agenda, placing special emphasis on Broad-Based Black Economic Empowerment and related community-based initiatives.

As a Public Entity, IDFC is subject to the Public Finance Management Act (PFMA) and Broad-Based Black Economic Empowerment principles.

Central to our mission is the requirement to incorporate previously disadvantaged and marginalised black people into the mainstream economy of the country. In giving effect to this need, we set out to conduct business activities which are designed to contribute appreciably to Broad-Based Black Economic Empowerment, inclusive of corporate social investment, poverty alleviation endeavours, bursary scheme provision, sponsorships, skills development initiatives, employment equity, the application of preferential procurement ideals, female empowerment workshops and the approval of loans to Black-owned Co-operatives and SMME business enterprises.

As a State-owned entity, we adhere to the PFMA, which promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of limited resources.

In terms of the PFMA, and in line with section 217 of the Constitution, an appropriate procurement and provisioning system must be maintained, which aims to be fair, equitable, transparent, competitive and cost-effective.

IDFC is a Level 4 Broad-Based Black Economic Empowerment contributor and is classified as a value-adding supplier, a benefit that accrues to all those who utilise IDFC as a supplier.

Our procurement spend in the 2018/19 financial year amounted to R251 million, against R349 million during the prior year. In addition, our weighted procurement spend from Broad-Based Black Economic Empowerment suppliers in the 2018/19 review period totalled R262,5 million (2017/18: R359 million).

EXCLUSIONS	RAND
Eskom	208 235 761
Municipalities	111 774 497
Sponsorships	1 762 829
Universities and Colleges	459 528
Government Departments and SOEs	9 946 889
TOTAL	332 179 503

In an effort to align IDFC with the Provincial Government's mandate to catalyse radical economic transformation, IDFC has committed itself to enforcing fundamental change through the robust implementation of preferential procurement in favour of African Exempted Micro-Enterprises (EMEs) and Qualifying Small Business Enterprises (QSEs), together with females, the youth, the disabled and military veterans, wherever practicably possible.

CORPORATE SOCIAL INVESTMENT ACTIVITIES

IDFC's Corporate Social Investment (CSI) programmes resonate with our organisation's brand message, 'Enabling Dreams,' and create hope, access and opportunity for the people of KwaZulu-Natal.

Our CSI flagship programmes are focused on:
- Skills Development: Through Imbokodo Iyazenzela Women in SMMEs and the Siyasebenza SMME and Co-operative Financial Literacy and Business Support;
- Job Creation and Entrepreneurship Focusing on the Youth: Through our Inkunzi'sematholeni Youth in Business Competition; and
- Financial Wellness: Through both the Star Saver, a 'Teach Children to Save' initiative, and the School Enterprise Challenge.

MY BUSINESS INDABA

The role of SMME development is critical to KwaZulu-Natal and South Africa. A need exists to stimulate economic development and empowerment so as to address the triple challenge of poverty, inequality and unemployment.

Our 'My Business Indaba' road-show initiative brought together IDFC's three primary empowerment programmes; programmes specifically designed for SMME Development in KwaZulu-Natal. They include:
- Imbokodo Iyazenzela Women in SMMEs programme;
- Inkunz'isematholeni Youth in Business Competition; and
- Siyasebenza SMME Development Workshops.

The 'My Business Indaba' initiative successfully reached out to more than 1 400 SMMEs across the province.

IMBOKODO IYAZENZELA

Imbokodo Iyazenzela is premised upon the need for pillars of support for women entrepreneurs in KwaZulu-Natal; businesswomen seeking access to information and the resources vital for growth and development.

This is a province-wide women in SMMEs development programme and focuses, in the main, on rural areas and townships, with the objective of offering inspirational talks, advice, direction and opportunities for women in start-up businesses or who aspire to becoming entrepreneurs.

The programme theme Imbokodo Iyazenzela Women in SMMEs, is aligned to the following key priority areas:
- Rural development;
- Township revival; and
- Youth and women empowerment.

Imbokodo Iyazenzela Women in SMMEs Results:
A total of 568 nominations were received in the 2018/19 financial year.

This reflected a 25,8% improvement over the previous year's 421 entries and more than double the 201 entries received in the 2016/17 financial year.

The popularity of this competition is an indication of just how many women are intent on developing the knowledge to significantly improve and grow their businesses.

Imbokodo Iyazenzela Mentorship Programme:
The top 20 nominated finalists became part of a mentorship programme designed to provide solutions specifically tailored to meet the needs of their respective business enterprises.

These businesswomen were nominated by their peers in the communities in which they operate as individuals who have made significant advancements in the small business environment.

This mentorship programme is regarded as a means of giving back to communities and, especially, those who were previously disadvantaged.

The programme affords participants guidance and advisory services with regard to business plans, cash-flow management, tax compliance documents, starting and/or registering a business and regulatory compliance, amongst other things.

IDFC continues to recognise and reward business success in the SMME sector, emphasising our commitment to the continued development of entrepreneurs across KwaZulu-Natal.

INKUNZ'ISEMATHOLENI YOUTH IN BUSINESS COMPETITION

The key focus of this competition is to drive innovation, specifically within the 'Green' economy.

The development and enhancement of the knowledge economy is one of the key strategic goals of KwaZulu-Natal's Provincial Government, whilst the growth of the 'Green' economy is in line with Government's agenda to encourage and support the youth to develop innovative ideas within this economic sector.

The Inkunzí sematholeni programme attracts youths aged between 18 and 35 years who reside in either rural or urban areas of KwaZulu-Natal and sets out to promote the development of innovative and sustainable business concepts, whilst providing incubation and start-up support to participants on their journey to becoming seasoned entrepreneurs.

The ultimate objective of this important programme is to enable aspiring young entrepreneurs to turn their creative concepts into fully-operational businesses by providing start-up capital and the necessary business support to assist them launch, manage and run their businesses successfully.

Strategic partnerships with the Technology Innovation Agency and Innovate Durban, experts in the innovation space, have led to this programme proving to be a great success.

To date the competition has produced eight worthy winners. Finalists currently in the incubation programme include:

- A young man from Elandskop who designed a solar-operated, portable power source and who was set to launch during the course of 2019; and
- A University of KwaZulu-Natal student who designed a Maths App for smart phones and tablets. His is an application which enables students to learn Maths freely, without having to worry about paying tutors. The service uses an Android App and a website as a platform to enable learning. To date this innovative App has achieved significantly more than 48 000 downloads.

Key Highlights:

- The Inkunzi'sematholeni competition attracted a total of 250 entries, against the 198 and 132 entries received in the two prior years respectively;
- The winner, Blessing Nzama, designed a mobile App solution which introduces Uber-like technology in the Emergency Medical Services sector;
- The first runner-up, Sphiwe Zuma, a young man living with a disability, designed a backpack with an integrated umbrella attached to the backpack; and
- The second runner-up, Mpendulo Nzuza, manufactures mobile phone protector covers from recycled tyre rubber.

SIYASEBENZA ENTREPRENEUR DEVELOPMENT PROGRAMME

The Siyasebenza programme comprises a series of developmental outreach workshops, which are aimed at uplifting the youth, women and SMMEs in both townships and rural areas. The purpose behind the development programme is to educate and inspire existing and aspiring entrepreneurs with methods of building and growing sustainable businesses.

Key Highlights:

Phase 1: As part of the 'My Business Indaba' road-show, the series comprised presentations and one-on-one consultations with KwaZulu-Natal-based SMMEs and Co-operatives, dealing with key subject matter.
Phase2: The Siyasebenza workshops were rolled-out in the Amakhosi Traditional areas. Workshops dealt with key topics relating to starting a business, compliance, market research, funding a business and financial record-keeping.

SCHOOL ENTERPRISE CHALLENGE

The School Enterprise Challenge, sponsored by IDFC, is a global enterprise competition designed by a London-based organisation called 'Teach a Man to Fish'.

The partnership is in response to current challenges in education, entrepreneurship and community development and is geared to enable significant and relevant social change in KwaZulu-Natal. The project aims to bridge the employment gap between education and the workplace.

CORPORATE SOCIAL INVESTMENT ACTIVITIES (CONTINUED)

Through a competition, teachers and students are encouraged to work together to establish profitable businesses.

Learners attending nominated schools across KwaZulu-Natal have been exposed to vital attributes, including: business skills, gaining a competitive advantage, SWOT analyses, market research and sales, operational planning, financial planning and business sustainability.

ABANTWANA BETHU 'BACK TO SCHOOL DRIVE'

This programme is driven by members of IDFC's staff and is aimed at providing much-needed support for schools in regions in which our organisation operates.

The objective is to entrench the IDFC brand in KwaZulu-Natal by assuring the people of the province that the organisation cares for their well-being.

Support ranges from providing much-needed school uniforms for the needy, to supplying non-perishable food items to schools with learners in desperate need of nutrition.

Key Highlights:
As part of our stakeholder relations activities with the Amakhosi and Traditional Council areas, full school uniforms were donated to learners from disadvantaged backgrounds.

Seven schools falling under traditional council areas benefited:

TRADITIONAL AUTHORITY AREA	SCHOOL NAME
Jozini Ntsinde Traditional Authority	Majozini Primary School Nkangala Primary School Nkuthazelo Primary School
Manguzi Tembe Traditional Authority	Emfihlweni Seconday School Mhlupheki Primary School
Mbazwane Mbila Traditional Authority	Sunshine Primary School Nkosisonto Primary School

STAR SAVER (TEACH CHILDREN TO SAVE)

Aligned to IDFC's vision of driving financial literacy, IDFC rolled-out the Star Saver programme.

This is aimed at empowering young children through teaching them the importance of saving.

The Star Saver campaign's key objectives are to enhance the organisation's role in youth development, drive financial literacy and empower youngsters through the provision of access to information by way of learning and exchanges within the financial services sector.

Key Highlights:

- Financial literacy classes were rolled-out in Bulwer and Greytown, as part of a Global Money Week programme;
- A total of 1 175 learners from Weenen benefited from financial literacy lessons rolled-out by IDFC, in partnership with the Office of the Premier Spousal Office;
- The spirit of ubuntu came alive when an IDFC team of volunteers facilitated lessons for 600 learners at Hlathikhulu High School in the AbaMbo Traditional Authority area; and
- A total of 1 916 learners participated in financial literacy classes held during the course of the 2018/19 financial year.

BURSARY PROGRAMME

The IDFC Bursary Programme is aimed at assisting learners from disadvantaged backgrounds, enabling them to undertake further studies at tertiary educational institutions.

Key Highlights:

- Through a partnership with the KwaZulu-Natal Premiers' Office and the Mangosuthu University of Technology, a student living with a disability was awarded a full bursary to pursue his studies towards a National Diploma in Information Technology. He is currently in his second year of study;
- A young woman from Madadeni, outside Newcastle, completed a B.Tech qualification in Internal Auditing. The student is currently working as an intern in our organisation's Internal Audit Department. The internship programme is geared to assist her, and others, gain invaluable real work experience; and
- A young man from Vryheid, who had completed a Bachelor of Technology: Cost Management Accounting qualification, was placed within IDFC's Group Finance Department to gain real work experience and has since been absorbed as a permanent member of IDFC's staff.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ORDINARY
SOUTH
AFRICANS
WEALTH


ithala


WITHDRAWAL
BUY AIRTIME
PURCHASE ELECTRICITY
ARGO


KUZWA

INFORMATION TECHNOLOGY

Information and Communication Technology (ICT) plays a crucially important role in the enablement of IDFC's business units to meet their respective mandates, inclusive of goals and objectives, by delivering cost-effective business solutions and services by way of people, processes and technology.

The role played by our ICT Department includes the provision of IT governance, the automation of business processes, the provision of robust ICT infrastructure, IT strategic planning and architecture, information security and IT risk management, application design, development and implementation, application support and maintenance and data and information management.

During the 2018/19 financial year, our ICT Department achieved a number of outcomes, including:

- Continuing to ensure that we have the correct resources to support the business. We appointed a Divisional Manager: IT Service Delivery and a Senior MS Systems Engineer during 2018/19. The IT Department continuously endeavours to attract the best personnel in terms of providing efficient ICT services for the business;
- Ensuring the approval and implementation of all ICT policies and practices required for IT, as per the ICT governance framework;
- Implementing initiatives to improve system controls and to automate business processes, given that ICT is one of the most critical strategic functions necessary for operational efficiency. The following initiatives were implemented:
  - JD Edwards enhancements; and
  - User-friendly Declaration of Interest application.
- Ensuring exceptional service uptime. The average availability of IDFC's ICT infrastructure was 98,33% during the review period. This meant that operations within the organisation facilitated by information technology are reliable and available when required. The off-site back-up storage facility is operational and we successfully migrated more servers from the Hyper-V environment to the VMWare environment, which offered improved stability in the Intel server environment; and
- Ensured user satisfaction. An internal Customer Satisfaction Index of 99,48% was achieved, based on the number of satisfaction ratings provided by users after calls were serviced by our ICT support personnel. This indicated that internal customers were generally satisfied with the services provided by the Department. We will continue with endeavours to further improve service delivery to our customers.

The IT Department experienced challenges during the year, where some of the performance targets were not achieved due to delays in the appointment of service providers and the filling of key vacant positions.

The IT Department was unable to implement the intended systems to assist with the increase in the business automation of the organisation.

FUTURE OUTLOOK

We are committed to improving the automation of the business process to enable the business to achieve efficiencies. Our plan for the upcoming years is to implement the following systems:

- Real Estate Management System;
- Smart Meter Integrated System;
- Commercial Lending System; and
- Customer Relationship Management System.

The intended system implementation projects for Business Finance and Properties will improve the automation level of the organisation appreciably.

We continue to deliver reliable, secure, cost-effective ICT services to support business operations. The strengthening of the skills, competencies and abilities of our people within the ICT Division is of utmost importance. This entails the recruitment, appointment and development of new staff, as well as exiting staff to build organisational capacity. Our plan for the upcoming years is to continuously assess our skills requirements and ensure that we on-board the required skills in order to support the business.

HEALTH, SAFETY AND ENVIRONMENT

The ongoing development and implementation of health, safety and environmental interventions is regarded as being crucial to IDFC's continued business success.

Health, safety and the environment are areas of great concern to IDFC and, consequently, are accorded the priority status they deserve. We give effect to a number of activities designed to ensure continuous business sustainability. These activities include, but are not limited to, the promotion of health, safety and environmental awareness across the organisation, thus ensuring compliance and giving effect to heightened levels of confidence amongst both members of staff and our various other stakeholder groups.

Our health, safety and environment strategy centers around a combination of risk management, policy setting, employee awareness and a culture which seeks to promote the desired health, safety and environmental behaviours, the implementation of management systems and the promotion of staff health and well-being, along with compliance.

IDFC is committed to meeting and exceeding all legal and related health, safety and environment requirements, guided by a set of health, safety and environment policies, to which all our business operations are required to adhere. Key features of these policies include:

- An overriding commitment to comply with legislation;
- A commitment to identify, control, eliminate or reduce both health and safety risks and significant environmental impacts;
- A commitment to prevent pollution and accidents, or ill-health and to deliver continuous improvement;
- Training and informing all members of staff, so as to ensure they are best equipped with adequate knowledge regarding health, safety and environmental activities, and to inculcate across the organisation a positive health, safety and environment culture; and
- Making appropriate resources available, thus ensuring effective compliance with our health, safety and environment policies and procedures.

On a periodic basis, we assess our levels of compliance, inclusive of assurance processes. Such checks are undertaken as a means to providing assurance to the relevant authorities that our operations and business units do, in fact, comply with policies and all legislative requirements. In this regard, we have made good progress towards the development and implementation of improvement plans, as follows:

Health:
IDFC remains wholly-committed to ensuring the health of members of staff, achieved through the implementation of continuous monitoring programmes. This is not only undertaken through the occupational health and safety business unit, but also in collaboration with the Wellness Department, so ensuring a holistic approach to the health of staff members.

The health of our staff is also managed and assessed by way of annual medical surveillance. As per Occupational Health and Safety Act requirements, medical surveillance is carried out at our industrial sites as part of ensuring that conducted activities have not - and do not - adversely affect members of staff.

Safety:
There were no reportable safety-related incidents during the 2018/19 financial year. This is an improvement from two incidents which were reported during the previous reporting period, 2017/18. Occupational health, safety and environment training, awareness campaigns, inspections and audits are regularly undertaken as a means of maintaining the health and safety of our members of staff in the workplace.

Occupational Health and Safety Committee meetings are held on a quarterly basis, being the minimum requirement contained in the Occupational Health and Safety Act. There were no reportable incidents during the period under review.

Environment:
IDFC recognises and understands the importance of the environment and that non-compliance does not only impact the environment alone, but the business as well. We continue to strive to ensure that the environment is not adversely affected by any of our business activities,

so as to create a sustainable and profitable business, together with the provision of professional and reliable service to our tenants;

During the 2018/19 financial year, only one reportable environmental incident - in one of our industrial estates - was noted and we continue working with the relevant authorities towards ensuring a harm-free environment.

We have in place valid permits, issued for waste management at our industrial estates, and we vigilantly continue monitoring the performance of landfill sites, in line with prevailing legal requirements. The single reportable environmental incident took place at Ezakheni Industrial Estate, outside Ladysmith. The matter was fully investigated and closed with no further outstanding concerns by the authorities.

IDFC had no environmental non-conformance issues during the 2018/19 financial year and continues working closely with environmental authorities towards ensuring that the organisation remains both compliant and proactive in terms of managing environmental issues.

Monthly awareness broadcasts are disseminated to enhance staff awareness of their roles and responsibilities regarding matters of health and safety. Additionally, health, safety and environment sessions are staged organisation-wide to assist with health, safety and environment requirements for business clients. This further step assists in ensuring that our clients, too, observe safe and healthy practices.

GOVERNANCE

INTRODUCTION

IDFC's Board of Directors subscribes to the highest standards of corporate governance and expects the implementation of such standards across all the organisation's business operations.

The Board undertook a detailed King IV Report on Corporate Governance (King Report) gap analysis in order to measure its level of compliance. Consequently, an implementation plan was put in place for all areas which were found not to have been applied or only partially applied, to the extent that is permissible by the existing legislative framework. For instance, in terms of the Ithala Act, the Group Chief Executive is the only member of the management team who is an ex-officio member of the Board. Therefore, the balance between non-executive and executive directors is not at the level recommended by the King Report. This is mitigated by the appointment of executives to certain Board Committees.

The Board is ultimately accountable for putting corporate governance structures and policies in place so as to ensure that all internal stakeholders take responsibility for ethical behaviour and adhere to the IDFC Code of Conduct. The Board comprehends and values long-term and ethical client relationships and has well-established governance processes in place to safeguard the balance between achieving business growth and meeting the reasonable expectations of stakeholders. The Board has expressed a position of zero tolerance to any form of fraud, theft or corruption.

BOARD COMPOSITION

The Board is appointed by the responsible Member of the Executive Council of the Province of KwaZulu-Natal.

In terms of Section 6 (1) (a) of the Ithala Act, the Board must comprise at least seven, but not more than 13 members. The current Board was first appointed on 01 June 2017 for a term of one year, ended 31 May 2018. It comprised eight non-executive directors and the Group Chief Executive, who is an ex-officio member of the Board. The term of office of the Board was subsequently renewed for a further three years ending 31 May 2021. The Group Chief Executive was appointed for a period of five years, with effect from 01 November 2018.

BOARD EFFECTIVENESS

A skills gap analysis is undertaken annually against the minimum skills as stipulated in the Ithala Act, as well as those skills the Board considers essential for the achievement of the strategic goals of IDFC.

Board Skills Matrix

	Mr Roshan Morar	Mr Siphesihle Mkhize	Mr Chris Gina	Inkosi Sbonelo Mkhize	Ms Precious N Sibiya	Mr Njabulo B Nzuza	Mr Sihle Ndlovu	Ms Khulekelwe Mbonambi
Legal skills		•						
Financial skills	•	•		•	•	•	•	•
Investment experience or qualifications	•			•	•		•	•
Marketing experience or qualifications	•		•					
Human resources or labour experience or qualifications		•	•	•	•			•
Planning or development skills and experience	•			•		•	•	
Social and ethics	•	•	•	•	•	•	•	•
Information, communication and technology		•			•			•
Banking	•			•	•			
Project finance	•	•		•	•			•
Development finance	•			•	•	•	•	
Risk management	•	•		•	•		•	•
Corporate governance	•	•	•	•	•	•	•	•
Strategy formulation and management	•	•	•	•	•	•	•	•

The results of the skills gap analysis indicated that the Board needed to bolster its Information Technology and Legal skills. Information Technology and Legal specialists were co-opted onto the ICT Governance Committee and Audit and Risk Committee respectively, with effect from 01 January 2018, in terms of Section 16 (1) of the Ithala Act.

In terms of the Board performance evaluation framework, the Board is required to evaluate its performance on a three-year cycle basis, as follows:
Year 1: The Board as a collective, individual members' self-evaluation and peer evaluation;
Year 2: Board Committees as a collective, Chairpersons and peer evaluation;
Year 3: An independent service provider will evaluate the performance of the whole Board and its Committees.

The Board collective, individual members' self-evaluation and peer evaluation was conducted at the end of 2018/19 financial year.

The results of such evaluation would be considered by the Board at its first sitting of the 2019/20 financial year. The Board will, thereafter, consider a training plan based on the results of such evaluation.

GOVERNANCE (CONTINUED)

BOARD COMMITTEES

The Board constituted and approved the Terms of Reference and delegations for the following Committees, in terms of Section 15 (1) of the Ithala Act:

- Audit and Risk Committee ('ARC');
- Banking Licence Committee ('BLC');
- Credit and Investment Committee ('BCIC');
- Human Resources, Social and Ethics Committee ('HRSEC');
- Information Communications and Technology Governance Committee ('ITGC'); and
- Nominations, Governance and Remuneration Committee ('NG&REMCO').

The membership of the Board and Board Committees is detailed below:

BOARD AND COMMITTEE MEMBERSHIP - 2018/19

Board of Directors	Audit and Risk Committee (ARC)	Credit & Investment Committee (BCIC)	Info, Tech Governance Committee (ICTG Co)	Human Resources, Social & Ethics Committee (HRSEC)	Nomination, Governance & Remuneration Committee (NGREMCO)	Banking Licence Committee (BLC)
Mr R Morar (Chairman)	Ms P Sibiya (Chairman)	Inkosi S Mkhize (Chairman)	Ms K Mbonambi (Chairman)	Mr S Ndlovu (Chairman)	Mr R Morar (Chairman)	Mr R Morar (Chairman)
Mr S Mkhize	Ms K Mbonambi	Mr S Mkhize	Mr N Nzuza	Mr C Gina	Ms P Sibiya	Mr S Mkhize
Mr C Gina	Mr S Mkhize	Mr S Ndlovu	Ms P Sibiya	Ms K Mbonambi	Inkosi S Mkhize	Inkosi S Mkhize
Ms K Mbonambi	Mr S Ndlovu	Ms P Sibiya	Mr K Cele (Co-opted)	Mr N Nzuza	Ms K Mbonambi	Ms P Sibiya
Inkosi S Mkhize	Mr E Zaca (Co-opted)	Ms P Bengu (GCE)		Ms P Bengu (GCE)	Mr S Ndlovu	
Mr S Ndlovu		Mr S Mnguni (GCFO)		Ms B Mokgatle (GCRO)	Mr S Mkhize	
Mr N Nzuza (Resigned 31/05/2019)						
Ms P Sibiya						

Board and Committees' meeting attendance: 2018/19 financial year - 01 April 2018 to 31 March 2019

Director		Board of Directors		Audit and Risk Committee (ARC)		Banking Licence Committee (BLC)		Credit and Investment Committee (BCIC)		Nominations and Governance Committee (NGREMCO)		Human Resources, Social and Ethics Committee (HRSEC)		Info, Tech & Coms Governance Committee (ITCGC)	
Name	Date of Appointment	Scheduled Meetings	Attended Meetings	Scheduled Meetings	Attended Meetings	Scheduled Meetings	Attended Meetings	Scheduled Meetings	Attended Meetings	Scheduled Meetings	Attended Meetings	Scheduled Meetings	Attended Meetings	Scheduled Meetings	Attended Meetings
Mr R Morar (Chairman)	01/06/2017	9	9	n/a	n/a	4	2	n/a	n/a	6	5	n/a	n/a	n/a	n/a
Mr S Mkhize (Deputy Chairman)	01/06/2017	9	9	8	8	4	4	8	8	6	5	n/a	n/a	n/a	n/a
Ms P Sibiya	01/06/2017	9	8	8	8	4	4	8	7	6	5	n/a	n/a	4	4
Inkosi S Mkhize	01/06/2017	9	9	n/a	n/a	4	4	8	8	6	6	n/a	n/a	n/a	n/a
Ms K Mbonambi	01/06/2017	9	9	8	4	n/a	n/a	n/a	n/a	6	5	5	5	4	4
Mr S Ndlovu	01/06/2017	9	9	8	8	n/a	n/a	8	8	6	6	5	5	n/a	n/a
Mr N Nzuza*	01/06/2017	9	8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5	3	4	3
Mr C Gina	01/06/2017	9	9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5	5	n/a	n/a
Mr K Cele#	01/01/2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4	3
Mr E Zaca!	01/10/2018	n/a	n/a	8	2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mr T Mathe Acting GCE ^	01/07/2017	7	4	5	5	2	1	5	3	2	1	3	3	2	1
Ms PS Bengu GCE $	01/11/2018	2	2	3	3	2	2	3	3	4	4	2	2	2	1

n/a means director is not a member of the Committee or Board in the case of co-opted members. Co-opted members are appointed for a one-year term.

* Mr N Nzuza resigned with effect from 31 May 2019.

Mr K Cele's term as a co-opted member of the ICT Governance Committee was extended for a further year.

! Mr E Zaca was co-opted to the Audit and Risk Committee on 01 October 2018.

^ Mr T Mathe was the Acting GCE from 01 July 2017 to 31 October 2018.

$ Ms P Bengu was appointed GCE with effect from 01 November 2018.

GOVERNANCE (CONTINUED)

AUDIT AND RISK COMMITTEE

The primary purpose of the Audit and Risk Committee is to ensure the integrity of the financial statements and to oversee the effectiveness of the internal financial controls and the external and internal audit functions.

The Committee also reviews significant risks and related mitigations and reports back to the Board after each meeting. Each business area is responsible for identifying, assessing and managing the risks in their respective areas. Annual risk workshops are held and identified risks are documented in a risk register and assessed on the basis of likelihood of occurrence and potential impact on IDFC (risk exposure). Quarterly updates regarding the identified risks, related mitigations and emerging risks are provided to the Committee for consideration.

The Committee also focused on occupational health, safety and environmental risk. Efficient health and safety at the workplace not only ensures that employees are happy and productive, but can also assist in reducing both human and business costs and unnecessary lawsuits.

IDFC continuously seeks to improve and enhance its risk management processes, whilst simultaneously maintaining a practical and business-minded approach.

The organisation has adopted a regulatory universe applicable to its operations and constantly monitors compliance with applicable laws and regulations, with quarterly reports being submitted to the Committee in this regard.

During the year under review, the Audit and Risk Committee focused on the group's financial performance and performance against the Annual Performance Plan, as agreed upon with the Department of Economic Development, Tourism and Environmental Affairs and the Provincial Treasury in March 2018.

The areas of attention paid by the Audit and Risk Committee include:

- The internal and external audit findings, to which management continuously attends. The resolution of the audit findings is monitored and reported to the Committee by Internal Audit;
- Non-adherence to the supply chain management processes, resulting in instances of irregular and/or fruitless and wasteful expenditure continues to be a key focus of the Committee. The Committee has taken a position that there must be consequence management for all those responsible for irregular and wasteful expenditure;
- A decrease in the collection of rentals, due to vacancies at various sites, given - amongst other reasons - the prevailing economic conditions saw a number of businesses forced into closure; and
- The impact of non-performing loans on the loan book and business.

During the 2018/19 reporting period, the Audit and Risk Committee reviewed and recommended the following to the Board for approval:

- The Committee's Terms of Reference;
- The Delegated Powers of Authority;
- The Corporate Plan 2019/20;
- The budget 2019/20;
- The Enterprise Risk Management Framework;
- The Whistle-blowing Policy; and
- The FICA Risk Management and Compliance Programme.

The Committee also continued monitoring fraud and corruption trends within the organisation. In this regard, management has developed a fraud and ethics awareness programme, including educating employees about the purpose and importance of adherence to internal controls.

BANKING LICENCE COMMITTEE

The Banking Licence Committee continued focusing attention on the regularisation of Ithala SOC Limited's banking activities, with special emphasis on the shareholding structure for the proposed bank and the capital requirements for a fully-fledged bank.

The Committee also monitored the implementation of a digital banking system, which is geared towards modern-day banking.

CREDIT AND INVESTMENT COMMITTEE

The Credit and Investment Committee continued its focus on the performance of the loan book and, particularly, high-value matters which have a material impact on the levels of non-performing loans in spite of being in the minority. Given the deterioration in the performance of the loan book, due to, among others, the state of the South African economy, management was requested to present a plan for reducing non-performing loans.

The Committee also paid close attention to the turn-around plan for Port Shepstone Quarries (Pty) Ltd., to the extent that the Board appointed Mr N Nzuza to the Board of Port Shepstone Quarries, in the position of Chairman, in order to lead the turn-around initiative.

During this reporting period, the Committee reviewed and recommended the Properties Management Policy to the Board.

Reducing the levels of non-performing loans and the monitoring of the deployment of a system (assisted by the ICT Governance Committee) which will enable the improvement of the turn-around times for loan applications are set to be focus areas for the Committee during the 2019/20 financial year.

HUMAN RESOURCES, SOCIAL AND ETHICS COMMITTEE

In August 2018 the Committee approved a human resources strategy to assist the Human Resources Department fulfil the core human resources purpose within IDFC.

During the year under review, the Committee continued monitoring the implementation of the strategy, wherein - amongst other things - the Integrated Talent Management Framework was articulated.

In practice, the critical success factors associated with the development and management of talent lies in ensuring the implementation of skills audit findings, leadership assessment and development, talent profiling, a robust and effective performance management system (identification of star performers) and the efficient and correct organisational design (structure for identification of critical positions to match the business requirements that will inform succession planning).

In September 2018, the Board resolved to have an Organisation Review initiated and implemented. The scope of this review involved analysing the existing organisation design (structure) and conducting an analysis of the required competencies and skill-sets necessary for the organisation.

In practice, the development of succession plans and the identification of critical skills and positions for retention require a definite organisation structure.

Accordingly, certain aspects of talent identification and succession planning were placed on hold and will be completed once the Organisation Review has been completed and a new organogram(s) approved, along with the development of required competencies for various jobs.

The Committee also approved the Employee Value Proposition Framework (EVP Enhancement Programmes).

A further achievement for IDFC was the development of an automated recognition and reward platform, which was successfully finalised during the last quarter of the financial year under review, ahead of preparation for implementation at the beginning of the upcoming 2019/20 financial year.

In addition to the executive health risk assessment programme, which commenced during the previous financial year, an employee wellness strategy was approved by the Board in February 2019.

Implementation of said strategy is underway, with the aim of achieving the following goals and objectives:

- Reducing the absenteeism rate to 4%, in line with the Top Employers Institute's benchmark;
- Increasing employee engagement and retention;
- Improving productivity and performance; and

GOVERNANCE (CONTINUED)

- Minimising medical aid costs.

ICT GOVERNANCE COMMITTEE

In line with the King Code guidelines, the Board takes responsibility for Information Technology governance and has delegated the oversight role of IT risk and governance to the ICT Governance Committee by way of:

- Delegated powers of authority, as set out in the approved Terms of Reference of the ICT Governance Committee, which terms specifically include responsibilities for Information Technology, communication and IT governance;
- The appointment of a co-opted IT specialist member, who is included in the composition of the ICT Governance Committee, to fulfil the main purpose of ensuring the effectiveness of and providing assurance for the Information Technology function;
- Ensuring that the Group Chief Executive has appointed a suitably-qualified and experienced Group Chief Information Officer, responsible for the management of Information Technology; and
- Ensuring that Information Technology governance is integrated into the IDFC Group's operations and governance practices and frameworks, which are reviewed as part of the annual internal audit plan.

The ICT Governance Committee reports to the Board on a quarterly basis with regard to its oversight responsibilities, inclusive of Information Technology governance. In terms of Information Technology governance, key deliberations of the Committee focused on the Information Technology Strategy, Disaster Recovery Planning and Testing, as well as business continuity.

NOMINATIONS, GOVERNANCE AND REMUNERATION COMMITTEE

The Committee utilised a skills matrix to review the range and relevance of the Directors' skills and interests in terms of the business of the organisation in order to determine whether the current mix enables it to bring independent judgement to Board deliberations and decision-making. The exercise confirmed the Board was lacking in legal expertise, resulting in the appointment of a legal specialist, as a co-opted member, to the Audit and Risk Committee. The Board believes that establishing and implementing good governance practices is one of the most useful activities to create a higher-functioning Board, whilst building the correct foundation for achieving IDFC's Vision and Mission. The Board has mandated the Nominations, Governance and Remuneration Committee with responsibility for ensuring that the organisation follows good governance practices.

With regard to remuneration practices, IDFC offers its employees a performance-based remuneration package, a system which drives a culture of performance and accountability within the organisation.

GROUP EXECUTIVE COMMITTEE

The Group Executive Committee is appointed under the leadership of the Group Chief Executive in order to provide for the day-to-day leadership of the activities of IDFC.

It enjoys overall responsibility for developing and delivering against IDFC's corporate and business plans. The Committee is the highest management operational committee and functions to assist the Group Chief Executive in carrying out her executive duties, as delegated by the Board.

The Committee comprises the Group Chief Executive, as Chairperson, the entire executive team and the Group Company Secretary. The Chief Audit Executive and the Programme Manager: Group Chief Executive's Office are standing invitees to meetings of the Group Executive Committee.

Committee members are prescribed officers, as defined in the Companies Act and are obliged to act in terms of the roles and responsibilities, as required of a prescribed officer. The Committee holds sufficient scheduled meetings to effectively discharge its duties, as set out in its Terms of Reference, with a minimum of one meeting per month.

ANNUAL FINANCIALSTATEMENTS

CONTENTS

The Annual Financial Statements are audited by the Auditor-General, as an independent auditor, in terms of the Public Finance Management Act (Act No. 1 of 1999).

The Annual Financial Statement preparation has been supervised by Mr Sandile Mnguni, the Group Chief Financial Officer of Ithala Development Finance Corporation.

REPORT OF THE AUDIT AND RISK COMMITTEE

Report of the Audit and Risk Committee of the Board in terms of regulation 27.1.10(b) and (c) of the Treasury regulations [in terms of sections 51(1)(a)(ii) and 76(4)(d) of the Public Finance Management Act of 1999 as amended] and the requirements of the King IV code of governance.

BACKGROUND

The Board's Audit and Risk Committee, in addition to having specific statutory responsibilities in terms of the Companies Act, assists the Board in fulfilling its oversight responsibilities with regard to the evaluation of the adequacy and effectiveness of accounting policies, internal controls, risk management and financial reporting processes of the Corporation and Group.

In addition, the Audit and Risk Committee assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors.

TERMS OF REFERENCE

The Audit and Risk Committee has adopted formal Terms of Reference that have been approved by the Board and has executed its duties during the past financial year in accordance with such Terms of Reference.

COMPOSITION

The Audit and Risk Committee comprises four Independent Non-Executive Directors and at 31 March 2019 the Audit and Risk Committee comprised:

- Ms P Sibiya, (Chairperson), Chartered Accountant (SA);
- Ms K Mbonambi, B. Com Honours;
- Mr S Mkhize, Chartered Accountant (SA);
- Mr S Ndlovu, MBA; and
- Mr E Zaca, B. Proc, LLB (appointed 01/10/2018).

For detailed qualifications of the afore-mentioned Audit and Risk Committee members, please refer to pages 14 to 17 of the Integrated Annual Report.

The Group Chief Executive, the Group Chief Financial Officer, Group Chief Risk Officer, Chief Audit Executive, other executives and representatives from external audit attend Committee meetings by invitation only.

The internal and external auditors have unrestricted access to the Audit and Risk Committee.

MEETINGS

The Audit and Risk Committee held eight meetings during the period under review.

Meeting Attendance	08/05/18	29/05/18	31/07/18	20/08/18	10/10/18	06/11/18	12/02/19	19/03/19
Ms P Sibiya	√	√	√	√	√	√	√	√
Mr S Ndlovu	√	√	√	√	√	√	√	√
Mr S Mkhize	√	√	√	√	√	√	√	√
Ms K Mbonambi	A	√	A	√	A	√	√	A
Mr E Zaca (Appointed 01/10/18)	N/A	N/A	N/A	N/A	A	A	√	√

√ = Present
A = Apologies

STATUTORY DUTIES

In the execution of its statutory duties during the past financial year, the Audit and Risk Committee:

- Understood that the appointment of the Auditor-General (South Africa), as an auditor, complies with the relevant provisions of the Companies Act and Public Finance Management Act;
- Determined the fees to be paid to the Auditor-General (SA), as disclosed in Note 21.1 of the Annual Financial Statements;
- Determined the terms of engagement of the Auditor-General (SA);
- Reviewed the annual report and financial statements;
- Oversaw the implementation of an effective policy and plan for risk management;
- Considered the internal and external audit process and the accounting principles and policies;
- Strengthened the independence of the internal and external audit functions to ensure their effectiveness;
- Ensured compliance and adherence to applicable legal, regulatory and accounting requirements; and
- Contributed to a climate of discipline and control to mitigate against fraud.

INTERNAL CONTROLS

The Audit and Risk Committee has:

- Reviewed the effectiveness of IDFC's system of internal controls, including receiving assurance from management, internal audit and external audit;
- Reviewed matters raised by internal and external audit process;
- Reviewed policies and procedures for preventing and detecting fraud; and
- Reviewed significant cases of misconduct, or fraud, or any other unethical activity by employees of IDFC.

Based on the processes and assurances obtained, we believe that significant internal controls are generally adequate.

REGULATORY COMPLIANCE

The Audit and Risk Committee:

- Reviewed the effectiveness of the system for monitoring compliance with laws and regulations; and
- Is satisfied with the expertise and adequacy of resources within the compliance function.

Based on the processes and assurances obtained, we believe that IDFC generally complies with regulatory requirements.

EXTERNAL AUDIT

The Audit and Risk Committee has:

- Reviewed the external audit scope to ensure that the critical areas of the business are being addressed; and
- Reviewed the external auditor's report, including issues arising out of the external audit report.

Based on processes followed and assurances received, nothing has come to our attention with regard to the external auditor's independence. Details of the external auditor's fees are set out in Note 21.1 of the Annual Financial Statements.

INTERNAL AUDIT

The Audit and Risk Committee has:

- Reviewed and approved the internal audit charter;
- Evaluated the independence, effectiveness and performance of the internal audit function and compliance with its mandate;
- Reviewed internal audit reports, including the response of management to issues raised therein;
- Satisfied itself that the internal audit function has the necessary resources, budget and standing authority within the Corporation to enable it to discharge its functions;
- Approved the three-year rolling internal audit plan; and
- Encouraged co-operation between external and internal audit.

Based on processes followed and assurances received, nothing has come to our attention with regard to the internal auditor's independence and objectivity.

FINANCE FUNCTION

The Audit and Risk Committee:

- Believes that the Group Chief Financial Officer, Mr Sandile Mnguni, possesses the appropriate expertise and experience to meet his responsibilities in this position;
- Is satisfied with the expertise and adequacy of resources within the finance function; and

- Is satisfied with the quality of the quarterly management reporting to both the Board and the Shareholder, the Department of Economic Development, Tourism and Environmental Affairs.

Based on the processes and assurances obtained, we believe that the accounting practices are adequate.

RISK AND MANAGEMENT FUNCTION

The Audit and Risk Committee:

- Believes that the Group Chief Risk Officer possesses the appropriate expertise and experience to meet her responsibilities in this position;
- Has adopted the Enterprise Risk Management Framework; and
- Considered the risk maturity assessment which indicate that the organisational risk management is adequate and implemented in most projects.

Based on the processes and assurances obtained, we believe that risk management practices are generally adequate.

COMBINED ASSURANCE MODEL

In compliance with King IV on Corporate Governance, the Audit and Risk Committee has adopted a combined assurance model to provide a co-ordinated approach to all assurance activities and to address significant risks facing the company.
Reporting on combined assurance principles continued during the financial year under review, providing the Audit and Risk Committee an overall assurance on the adequacy and effectiveness of controls on strategic risks for the organisation. Amongst others, combined assurance provides assurance to the Audit and Risk Committee that significant risks, including strategic risks and controls to mitigate the risks are assessed by different assurance providers. With the changes in King IV, assurance providers review organisational external reports to provide assurance on the accuracy, validity and completeness of the reports.

With combined assurance, the Audit and Risk Committee is able to fulfil its oversight function much more effectively and efficiently.

This Integrated Report was recommended by the Audit and Risk Committee to the Board for approval.

On behalf of the Audit and Risk Committee:

Ms Precious Sibiya
Chairperson: Audit and Risk Committee

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The financial statements have been prepared in accordance with International Finance Reporting Standards.

In preparing the Annual Financial Statements, the following have been adhered to:
- The KwaZulu-Natal Ithala Development Finance Corporation Act, Act No. 5 of 2013;
- The Public Finance Management Act (PFMA), Act No. 1 of 1999; and
- The International Finance Reporting Standards (IFRS).

The Directors are responsible for establishing and implementing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the Annual Financial Statements.

Nothing has come to the attention of the Directors from management or the internal and external auditors to indicate any breakdown in the functions of these controls during the year under review, which resulted in any material loss to the Corporation and Group.

All employees are required to maintain the highest ethical standards in ensuring that the Corporation and the Group's business practices are concluded in a manner which, in all reasonable circumstances, is above reproach.

The IDFC and Group Annual Financial Statements have been prepared on the going concern basis. This basis of accounting has been adopted by the Board after having made enquiries of management and given due consideration to information presented to the Board. Accordingly, the Directors have no reason to believe that IDFC and Group will not continue as a going concern in the year ahead.

The Auditor-General was appointed, as independent auditor, in terms of the Public Audit Act, Act No. 25 of 2004, and the Public Finance Management Act, Act No. 1 of 1999, and has audited the Corporation Annual Financial Statements and the Group Annual Financial Statements.

Their report is presented on pages 88 to 92.

The Annual Financial Statements which appear on pages 96 to 200 were approved by the Board of Directors on 16 March 2020 and are signed on its behalf by:

Mr R Morar
Chairman

Ms Pearl Bengu
Group Chief Executive

GROUP COMPANY SECRETARY'S CERTIFICATION

The Group Company Secretary certifies that Ithala Development Finance Corporation Limited has lodged with the appropriate regulatory authority all returns, as are required, in terms of the KwaZulu-Natal Ithala Development Finance Corporation Act, Act No. 5 of 2013. All such returns are correct and up-to-date.

Ms LS Mahamba
Group Company Secretary

REPORT OF THE AUDITOR-GENERAL

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

1. I have audited the consolidated and separate financial statements of the Ithala Development Finance Corporation Limited and its subsidiaries (the group) set out on pages 96 to 200, which comprise the consolidated and separate statement of financial position as at 31 March 2019, the consolidated and separate statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Ithala Development Finance Corporation Limited as at 31 March 2019, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act no.1 of 1999) (PFMA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
4. I am independent of the entity in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of Ethics for professional accountants, and parts 1 and 3 of the International Ethics Standards Board for Accountants' International Code of Ethics for professional accountants (including International Independence Standards) (IESBA codes), as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses

7. As disclosed in note 2 to the consolidated and separate financial statements, material losses of R61,32 million (2018: R41,44 million) was reported by the group as a result of writing-off previously impaired loans and advances.

First time adoption of IFRS

8. As disclosed in note 1 to the consolidated and separate financial statements, the group adopted the IFRS reporting framework for the first time. The principal adjustments and effect on the previous year's restatements are disclosed in note 1.

Subsequent event

9. With reference to note 32, the Financial Matters Amendment Act, 2019 (Act no. 18 of 2019) amended section 12 of the Banks Act, 1990 (Act no. 94 of 1990) to allow only a nationally state-owned company to apply to establish a bank, thereby removing this function from a provincially state-owned entity.

Responsibilities of the accounting authority for the consolidated and separate financial statements

10. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
11. In preparing the consolidated and separate financial statements, the accounting authority is responsible

for assessing the Ithala Development Finance Corporation Limited's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor-General's responsibilities for the audit of the consolidated and separate financial statements

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

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

14. In accordance with the Public Audit Act of South Africa, 2004 (Act no. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
15. My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the entity for the year ended 31 March 2019:

PROGRAMMES	PAGES IN THE ANNUAL PERFORMANCE REPORT
Strategic goal 1 – To drive SMME and co-operative development	55-56
Strategic goal 2 – To recapitalise and grow the property portfolio	56
Strategic goal 3 – To improve financial sustainability	57

17. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and

REPORT OF THE AUDITOR-GENERAL (CONTINUED)

assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

18. I did not raise any material findings on the usefulness and reliability of the reported performance information for the programmes above.

Other matter

19. I draw attention to the matter below.

Achievement of planned targets

20. The annual performance report on pages 55 to 59 includes information on the achievement of planned targets for the year and explanations for the underachievement or overachievement of a significant number of targets.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

21. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
22. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

23. The consolidated and separate financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(a) of the PFMA.

    Material misstatements of non-current liabilities and assets, current liabilities and assets and disclosure notes identified by the auditors in the submitted consolidated and separate financial statements were corrected, resulting in the consolidated and separate financial statements receiving an unqualified audit opinion.

Expenditure management

24. Effective and appropriate steps were not taken to prevent irregular expenditure of R23,22 million (2018: R14,16 million) disclosed in note 33 to the consolidated and separate financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by the procurement process not being properly followed in terms of the PFMA and the supply chain management policy.

Procurement and contract management

25. Sufficient appropriate audit evidence could not be obtained that goods, works and services were procured through a procurement process that is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

OTHER INFORMATION

26. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.
27. My opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
28. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
29. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material

misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

30. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
31. The executives did not implement adequate internal controls to ensure that overall processes were implemented timely and accurately to comply with the IFRS accounting framework.
32. Management did not take effective steps to ensure that staff fully understand the requirements of the IFRS financial reporting framework due to the complexities of the IFRS 9 models implemented in the financial year.
33. Management did not implement adequate controls to ensure that all extensions or modifications to contracts are done in accordance with the supply chain management policy.

OTHER REPORTS

34. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the consolidated and separate financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

35. The group's internal audit and risk assurance services conducted a number of investigations during the period 1 April 2018 to 31 March 2019.The investigations were initiated based on allegations of irregularities arising from deviations from internal controls on supply chain management and human resource processes, the outcomes of which were communicated and are currently being attended to by management.

Auditor-General

Pietermaritzburg
28 February 2020

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected programmes and on the entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement

REPORT OF THE AUDITOR-GENERAL (CONTINUED)

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 entity's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors, which constitutes the accounting authority;
- Conclude on the appropriateness of the Board of Directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ithala Development Finance Corporation Limited's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause the entity to cease continuing as a going concern; and
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2019

The Directors have pleasure in presenting this report as part of the Annual Financial Statements (AFS) of Ithala Development Finance Corporation Limited (The Corporation) and the consolidated financial statements of the Corporation and its subsidiaries (referred to as The Group) for the financial year ended 31 March 2019.

A. Legal Form and Domicile

The Corporation is a provincial development finance institution, wholly-owned by the KwaZulu-Natal Government Department of Economic Development, Tourism and Environmental Affairs (EDTEA) and operating in terms of the Ithala Development Finance Corporation Act No.5 of 2013.

The Corporation operates within the legal framework of the Public Finance Management Act, No.1 of 1999 (PFMA), as a listed public entity under Schedule 3: Part D.

The Corporation is domiciled in South Africa. The address of its registered office and principal place of business is number 29 Canal Quay Road, Point Waterfront, Durban, 4001.

B. Nature of Operations

Ithala Development Finance Corporation manages fully-integrated business activities that provide a range of financial and property services throughout KwaZulu-Natal.

The Corporation makes equity investments in various subsidiaries and associated companies located in the KwaZulu-Natal province in keeping with its legislated development mandate. These are outlined in Notes 7, 8 and 30 in the AFS.

C. Financial Results

The results of the Corporation and the Group for the year ended 31 March 2019 are disclosed in the annual financial statements set out on pages 96 to 200.

For more details on the financial results of the Subsidiaries and Associated Companies refer to the separate annual financial statements of these companies and see Note 7, 8 and 30 of the Group Financial Statements for summary financial information between the Corporation and these companies.

D. Policy Directives

No policy directives were received from the MEC for Economic Development, Tourism and Environmental Affairs during the financial year ended 31 March 2019.

E. Events Subsequent to the Date of Statement of Financial Position

There were no events identified subsequent to year end that may have a significant impact on the annual financial statements.

Fair value of investments

The fair value of listed investment as disclosed in Note 3 is R2,9 billion at year end (2018: R2,7 billion).

F. Ordinary Share Capital

The Share Capital of the Corporation has remained unchanged during the financial year under review. The authorised and issued share capital of the company is R1 billion (2018: R1 billion).

G. Dividends

No dividends were declared or payable to the shareholder (EDTEA) as retained income attributable to the ordinary shareholder is reinvested in projects that promote economic development.

H. Interests in Contracts

There were no contracts entered into in which Directors and Officers of the Corporation had an interest. Refer to note 30 for details on related party disclosure.

I. Sources of Funding

The Corporation did not raise any new long-term borrowings from lenders during the year under review (2018: Rnil) - refer to note 15 of the AFS for more details on existing Borrowings.

During the year under review, the Corporation received government grants of R145.7 million (2018: R143.8 million) from EDTEA. Refer to note 23.3 for details of grants received.

J. Going Concern Basis of Accounting

- **Corporation**
  The Corporation's business activities, together with the factors likely to affect its future development, performance and position as at 31

DIRECTORS' REPORT (CONTINUED)

March 2019, have been assessed by the Directors. The financial position of the Corporation, its cash flows, liquidity position and borrowing facilities are described in the relevant sections of the financial statements.

In addition, note 35 to the financial statements includes the company's policies, processes for managing its capital, details of its financial instruments and its exposures to credit and liquidity risk.

As highlighted in notes 9 and 35 to the financial statements, the Corporation meets its day-to-day working capital requirements from its own cash resources and has open unutilised lines of credit of R100 million from major financial banking institutions.

The Group posted a profit of R235,1 million for the year ended 31 March 2019 (2018: R288.8 million) as disclosed in the annual financial statements.

The Group is solvent and liquid - refer to the CFO report on page 11 for details.

The directors have a reasonable expectation that the Corporation and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the annual financial statements have been prepared on a going concern basis.

- **Subsidiaries**
  The going concern ability of the Corporation's subsidiary companies has been assessed by the Directors at year-end.

  All subsidiaries have adopted the going concern basis in preparing their financial statements for the year under review, with the exception of KwaZulu-Natal Property Development Holding SOC Ltd and Sibaya Conservation Project (Pty) Ltd which are under voluntary liquidation and its annual financial statements have been prepared on this basis.

Banking Licence exemption of Ithala SOC Limited
The Minister of Finance extended the Ithala SOC Limited exemption to the end of December 2021 subject to the entity fulfilling certain conditions.

K. Board of Directors
Information pertaining to Board Members and Committees is covered from page 14 to 19. The following changes were made to the Board of Directors during the period under review:

Corporation
The following movements occurred in the Board of Directors during the period under review:

Ms Pearl Bengu was appointed as the Group Chief Executive Officer on 4 November 2018.

Ithala SOC Limited
The following movements occurred in the Board of Directors during the period under review:

Appointments
M Ngcobo - 17 January 2019.

Resignations
M Madali - 28 February 2019.

L. Company Secretariat
The Group Company Secretary is Ms. LS Mahamba, B Comm, Post-Graduate Diploma in Business Management, whose address is the Corporation's registered office (see section A above).

M. Information disclosed in terms of Section 55(2)(b) of the PFMA

- Particulars of irregular expenditure and fruitless and wasteful expenditure incurred are disclosed in Note 31 and 33 of the AFS.

- In the ordinary course of business and in accordance with prevailing business rules, the Group wrote-off bad loans of R61,3 million (2018: R41,4 million), comprising a capital portion of R50.6 million (2018: R31,5 million and non-realisable revenue (NRR) of

R10,7 million (2018: R9,9 million).

- Despite the write-off of these bad debts, the company continues to pursue these defaulters and no effort is spared in trying to recover monies owed to the Group. During the year under review a total of R11,2 million (2018: R10,5 million) was recovered from bad debts previously written-off.

STATEMENTS OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	Group 2019	Group 2018 Restated	Group As at 1 April 2017 Restated	Corporation 2019	Corporation 2018 Restated	Corporation As at 1 April 2017 Restated
ASSETS		R'000	R'000	R'000	R'000	R'000	R'000
Non-current assets		**5 183 714**	4 846 351	4 500 579	**3 736 795**	3 495 783	3 291 437
Loans and advances	2.1	**1 856 557**	1 717 102	1 685 192	**269 718**	307 325	437 740
Properties in possession	2.5	**3 610**	6 997	9 052	**-**	-	-
Investment properties	3	**2 860 142**	2 646 480	2 356 336	**2 616 593**	2 421 792	2 158 808
Property, plant and equipment	4	**305 183**	320 250	308 194	**263 273**	270 226	268 739
Intangible assets	5	**33 597**	38 802	55 752	**20 581**	25 109	35 575
Straightlining of operating leases income	6	**62 354**	58 109	45 018	**54 467**	49 624	35 913
Deferred tax asset	6.1	**3 503**	2 991	-			
Subsidiaries	7.2	**-**	-	-	**455 384**	368 885	313 627
Prepayment - land	10.2	**8 166**	8 166	-	**8 166**	8 166	-
Goodwill	7.3	**312**	305	300	**312**	305	300
Joint ventures	8.2	**2 796**	2 796	2 796	**2 796**	2 796	2 796
Finance lease receivable	10.1	**1 989**	2 798	-			
Investments	11	**13 601**	18 234	20 550	**13 601**	18 234	20 550
Investment in cell captive	11.1	**31 873**	23 290	17 358	**31 873**	23 290	17 358
Associated companies	8.1	**31**	31	31	**31**	31	31
Current assets		**2 182 272**	2 271 718	2 101 509	**1 006 237**	970 070	766 005
Loans and advances	2.1	**530 268**	463 881	395 244	**383 618**	297 548	243 822
Straightlining of operating lease income	6	**1 521**	-	344	**398**	-	344
Straightlining of operating lease expenditure	27.2	**956**	1 141	-	**-**	-	-
Cash and cash equivalents	9.1	**1 351 977**	1 465 075	1 411 221	**475 777**	527 314	419 305
Statutory liquid assets	9.2	**188 389**	187 714	177 769	**-**	-	-
Trade and other receivables	10	**103 021**	147 184	111 016	**142 406**	140 523	98 052
Finance lease receivable	10.1	**752**	607	-	**-**	-	-
Inventory	12	**5 388**	6 116	5 915	**4 038**	4 685	4 482
Non-current assets held for sale	2.6	**37**	31		**37**	31	
Total assets		**7 366 023**	7 118 100	6 602 088	**4 743 069**	4 465 883	4 057 442
EQUITY AND LIABILITIES							
Capital and reserves		**4 177 220**	3 942 134	3 653 343	**4 074 605**	3 822 770	3 562 375
Ordinary share capital	13	**1 008 582**	1 008 582	1 008 582	**1 008 582**	1 008 582	1 008 582
Retained income		**3 167 302**	2 939 904	2 664 209	**3 068 542**	2 820 237	2 568 784
Actuarial gains/(losses)		**1 336**	(6 352)	(19 448)	**(2 519)**	(6 049)	(14 991)
Non-Controlling Interest	14	**(154)**	(166)	(166)	**-**	-	-
Total equity		**4 177 066**	3 941 968	3 653 177	**4 074 605**	3 822 770	3 562 375
Non-current liabilities		**2 747 060**	2 665 543	2 601 886	**344 090**	222 215	238 289
Borrowings	15	**40 518**	49 008	66 998	**38 458**	46 938	64 923
Deposits due to customers	16	**2 292 158**	2 309 560	2 285 509	**-**	-	-
Post-retirement obligation	17.1	**105 787**	106 408	113 744	**68 634**	69 333	75 782
Long service obligation	17.3	**29 171**	28 787	26 438	**15 040**	14 922	13 443
Government grants	18.1	**212 920**	109 079	65 147	**201 032**	71 093	65 147
Straightlining of operating leases expense	27.2	**14 611**	13 015	2 187	**2 039**	2 113	2 187
Deferred tax	29	**31 399**	30 322	25 056	**-**	-	-
Provision for rehabilitation	20	**20 496**	19 364	16 807	**18 887**	17 816	16 807
Current liabilities		**441 897**	510 589	347 026	**324 376**	420 898	256 778
Straightlining of operating leases income	6	**-**	1 255	-	**-**	1 729	-
Borrowings	15	**13 841**	18 613	19 045	**13 841**	18 167	19 045
Post-retirement obligation	17.1	**6 519**	5 954	4 641	**5 058**	4 646	3 478
Long service obligation	17.3	**3 683**	2 145	3 799	**2 430**	1 126	2 036
Trade and other payables	19	**408 354**	474 884	311 274	**298 287**	391 722	229 144
Provisions	20	**9 500**	7 736	7 510	**4 686**	3 434	2 999
Straightlining of operating lease expense	27.2	**-**	-	756	**74**	74	75
Total liabilities		**3 188 957**	3 176 131	2 948 911	**668 466**	643 113	495 067
Total equity and liabilities		**7 366 023**	7 118 100	6 602 088	**4 743 071**	4 465 883	4 057 442

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

		Group		Corporation	
	Notes	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Interest income	22.1	337 220	343 987	74 642	83 319
Interest expenditure	22.2	103 045	120 410	14 484	17 600
Net interest income before credit impairment charges		234 175	223 577	60 158	65 719
Credit impairment charges		7 079	(5 681)	(850)	30 554
Net losses on derecognition of loans and advances	2.4	(61 319)	(41 444)	(48 950)	(16 682)
Expected credit loss - loans and advances	2.4	57 661	51 743	39 988	59 990
Net losses on derecognition of trade and other receivables	10	(6 226)	(9 211)	(6 024)	(7 489)
Expected credit loss - trade and other receivables	10	16 963	(6 769)	14 136	(5 265)
Net interest income after credit impairment charges		227 096	229 258	61 008	35 165
Other operating income	23	1 187 702	1 153 767	993 001	994 986
Operating income		1 414 798	1 383 025	1 054 009	1 030 151
Operating expenditure	24	1 181 378	1 098 819	805 704	778 698
Operating expenses		1 132 917	1 026 423	760 557	683 258
Depreciation and amortisation		39 826	53 018	27 475	28 059
Impairment of non-current assets held for sale	24.4	(568)	(676)	(568)	(676)
Impairments of plant and subsidiaries	24.4	9 128	19 264	-	1 705
Impairment of investments	24.4	-	-	18 084	65 677
Straightlining of operating lease income	6	75	790	156	676
Operating profit before taxation		233 420	284 206	248 305	251 453
Taxation expense	25	6 010	8 511	-	-
Total profit for the year		227 410	275 695	248 305	251 453
Other comprehensive income					
Actuarial gains/(losses)		7 688	13 096	3 530	8 942
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		235 098	288 791	251 835	260 395
Attributable to:					
Equity holder		235 086	288 791	251 835	260 395
Non-controlling interest		12	-	-	-
		235 098	288 791	251 835	260 395

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2019

	Ordinary Share Capital	Retained Income	Other Comprehensive Income	Attributable to equity holders of Parent	Non-controlling Interest	Total
2019	R'000	R'000	R'000	R'000	R'000	R'000
Group						
Balance at 31 March 2018	1 008 582	2 939 904	(6 352)	3 942 134	(166)	3 941 968
Total comprehensive income		227 398	7 688	235 086	12	235 098
Balance at 31 March 2019	1 008 582	3 167 302	1 336	4 177 220	(154)	4 177 066
Corporation						
Balance at 31 March 2018	1 008 582	2 820 237	(6 049)	3 822 770	-	3 822 770
Income attributable to the shareholder		248 305	3 530	251 835		251 835
Balance at 31 March 2019	1 008 582	3 068 542	(2 519)	4 074 605	-	4 074 605
2018						
Group						
Balance at 31 March 2017	1 008 582	2 664 209	(19 448)	3 653 343	(166)	3 653 177
Income attributable to the shareholder	-	275 695	13 096	288 791	-	288 791
Balance at 31 March 2018	1 008 582	2 939 904	(6 352)	3 942 134	(166)	3 941 968
Corporation						
Balance at 31 March 2017	1 008 582	2 568 784	(14 991)	3 562 375	-	3 562 375
Income attributable to the shareholder	-	251 453	8 942	260 395	-	260 395
Balance at 31 March 2018	1 008 582	2 820 237	(6 049)	3 822 770	-	3 822 770

Refer to Note 1 for a reconciliation between the opening balance of retained income in the prior years and the restated opening balance.

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 MARCH 2019

		Group		Corporation	
	Notes	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Cash flow from operating activities					
Cash generated from operating activities	26.1	58 392	82 706	48 766	84 963
Decrease/(Increase) in working capital	26.2	(30 542)	139 815	(101 857)	132 658
Taxation paid	26.3	(5 652)	(4 660)	-	-
Interest paid		(5 253)	-	(5 224)	-
Net cash generated from operating activities		16 945	217 861	(58 315)	217 621
Cash flow from investing activities					
Investments to promote economic development in KwaZulu-Natal:					
Loans and advances					
- granted		(813 671)	(616 912)	(380 278)	(211 042)
- repaid		569 516	462 875	285 897	195 680
- other loan movements		29 360	(2 959)	44 889	31 879
Additions to and transfers from investment properties		(99 387)	(144 582)	(86 098)	(115 677)
Additions to property, plant and equipment		(30 763)	(57 519)	(14 429)	(24 697)
Additions to intangible assets		(2 335)	9 395	(1 566)	5 616
Additions to properties in possession/non-current assets held for sale		5	1 427	(562)	31
Proceeds on disposal of investment properties and property, plant and equipment		270	270	120	45
Proceeds on disposal of properties in possession		592	10 360	-	7 316
Dividends received from investments		1 322		1 322	
Increase in goodwill		(7)	(5)	(7)	(5)
Increase in liquid assets		(675)	(9 945)	-	-
Increase in subsidiaries, associated companies and joint ventures		-	-	(104 583)	(120 935)
Net cash generated/(utilised) by investing activities		(345 773)	(347 594)	(255 294)	(231 790)
Cash flow from financing activities					
Borrowings repaid		(8 009)	(18 422)	(7 582)	(18 863)
Increase in fixed, short-term deposits and savings accounts		(17 402)	24 051	-	-
Post-retirement medical paid		(6 210)	(5 870)	(4 846)	(4 624)
Long service obligations paid		(2 211)	(3 914)	(1 159)	(2 092)
Net Government grants received		249 561	187 742	275 659	147 756
Net cash generated by financing activities		215 730	183 587	262 073	122 177
Net increase in cash and cash equivalents		(113 098)	53 854	(51 537)	108 009
Cash and cash equivalents at beginning of year		1 465 075	1 411 221	527 314	419 305
Cash and cash equivalents at end of year	9.1	1 351 977	1 465 075	475 777	527 314

SUMMARY OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2019

1. REPORTING ENTITY

Ithala Development Finance Corporation (Ithala) is a company domiciled in the Republic of South Africa. The address of its registered offices and principal place of business is 29 Canal Quay Road, Point Waterfront, Durban. The Group is a public entity that provides property, banking and other financial services The consolidated financial statements of Ithala as at and for the year ended 31 March 2019 comprise Ithala and its subsidiaries, together referred to as the Group and individually, referred to as the Holding. The words "Group" and "Ithala" are used interchangeably throughout the Annual Financial Statements.

2. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements issued by the South African Financial Reporting Standards Council and the South African Companies Act, 2008.

For all periods up to and including the year ended 31 March 2018, the Group prepared its financial statements in accordance with the South African Statements of Generally Accepted Accounting Practice (Statements of GAAP), as prescribed by the Accounting Standards Board.

The adoption of IFRS is in compliance with Directive 12 of the Accounting Standards Board which requires entities that conclude that IFRS is the appropriate reporting framework to prepare financial statements in accordance with IFRS for periods commencing on or after 1 April 2018.

Refer to Note 1 First-time Adoption of IFRS for information on how the Group adopted IFRS.

3. BASIS OF PREPARATION

3.1 Basis of measurement

The financial statements have been prepared on a going concern basis utilising the historical cost concept except for the following:

- Post-retirement medical and defined benefit obligations are measured at actuarial values;
- Listed equity investments are measured at closing bid prices;
- Investment properties are measured at fair value;
- Properties in possession are measured at the lower of fair value less costs to sell and carrying value; and
- Cell captives are measured at fair value through profit and loss.

3.2 Functional and presentation currency

The consolidated financial statements are presented in South African Rands, which is the Group's functional currency. All financial information presented has been rounded to the nearest thousand, unless otherwise stated.

3.3 Use of estimates and judgements

The preparation of financial statements, in conformity with IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

These also concern the future and will thus affect the reported amounts of assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods affected by the revisions.

3.4 Critical accounting estimates and assumptions
The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year relate to the following:

Going concern
Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Measurement of the expected credit loss allowance
The measurements of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit losses (ECL) is further detailed in Note 35, which also sets out key sensitivities of the ECL to changes in these elements. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Measurement of post-retirement obligations and long service awards
The cost of the defined benefit and defined contribution pension plans are determined using actuarial valuations. The actuarial valuations involve assumptions on discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Refer to Note 17 for the assumptions used.

Fair value measurements
Fair values for investment properties and properties in possession are determined by independent valuators. The valuations are performed using various methods including:

- The comparable sales method which entails comparing the subject property's value-forming attributes with those of the comparable properties that have recently exchanged hands in similar transactions. The process uses one of several techniques to adjust the prices of the comparable transactions according to the presence, absence or similarity degree of characteristics influencing value; and
- The capitalisation method which takes into account net rental income which is then capitalised using an appropriate capitalisation rate.

Refer to Note 34 for the assumptions used.

Asset lives and residual values
Property, plant and equipment, as well as intangible assets, are depreciated or amortised over their estimated useful lives taking into account residual values, where appropriate. The remaining useful lives of assets and residual values are assessed annually. The effect of the change in estimate during the current year is disclosed in Note 1.

3.5 Comparative figures
IFRS 1 requires an entity's first IFRS financial statements to present at least three statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information for

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

all statements presented. For the first IFRS financial statements the Group has presented three statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information.

3.6 Significant accounting policies
Except as described otherwise, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

3.6.1 Basis of consolidation
The consolidated financial statements include assets, liabilities and results of operations of the company, its subsidiaries, associates and joint ventures. The financial statements of the subsidiaries, associates and joint ventures are prepared for the same reporting year as the company, using consistent accounting policies.

(a) Subsidiaries
Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group. All inter-Group transactions, balances, income and expenses are eliminated in full on consolidation. Goodwill arising from the excess of the purchase consideration paid over the fair value of the net identifiable assets on acquisition is not amortised and is tested for impairment annually. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interest consists of the amount of those interests at the date of original business combination and the non-controlling interest's share of changes in equity since the date of the business combination. Losses applicable to the non-controlling interest, in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and the financial ability to cover such losses.

Investments in subsidiaries are recognised at cost, in the holding accounts, and are reviewed annually and written down for impairment where considered necessary.

(b) Cell captives
The cell captives do not meet the criteria to be classified as a separate entity. As a result, the Group has not consolidated the cell captives and has accounted for its interest as investments at fair value through profit or loss in terms of IFRS 9 Financial Instruments.

Information about the Group's cell captive activities is set out in Note 11.1 to the AFS.

(c) Associates and joint arrangements
Associates are those entities in which the Group has significant influence, but not control over financial and operating policies of an entity, generally comprising a shareholding of at least 20% of the voting rights. Where the Group holds less than 20% of an entity's issued share capital and is able to exert significant influence and it can be clearly demonstrated that significant influence exists, the Group classifies such entities as associates. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investments, after adjustments to align the accounting policies with those of the Group where applicable, from the date that significant influence commences until that significant influence ceases.

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Joint ventures are accounted for in the same manner as Associates using the Equity method after initially being recognised at cost. The Group has a joint venture.

3.6.2 Intangible assets

Intangible assets, are recognised if it is probable that future economic benefits will flow to the entity from the intangible assets and the costs of the intangible assets can be reliably measured. Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition.

Intangible assets with a definite useful life are amortised using the straightline method over their useful economic life, generally not exceeding 20 years. At each date of the consolidated statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

a) Computer software and licences

Acquired computer software and licences are capitalised as assets on the basis of the costs incurred to acquire and bring the specific software into use. Capitalised computer software is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straightline method to write-down the cost of intangible assets to their residual values over their estimated useful lives from the date it is available. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

Costs associated with maintaining computer software programmes are recognised as an expense, as and when incurred.

Direct software development costs that enhance the benefits of computer software programmes and are clearly associated with an identifiable and unique software system, which will be controlled by the Group and has a probable benefit exceeding one year, are recognised as intangible assets.

These costs are initially capitalised as work-in-progress up to the date of completion of projects after which the asset is transferred to computer software and accounted for as per the computer software and licences policy.

Management reviews the carrying value of capitalised work-in-progress on an annual basis, irrespective of whether there is an indication of impairment.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

(b) System development costs

Development costs are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Retirement and disposals
An intangible asset shall be derecognised on disposal, or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, It shall be recognised in profit or loss when the asset is derecognised. Gains shall not be reclassified as revenue

3.6.3 Financial instruments
a) Initial recognition and measurement
Financial instruments are recognised when the Group becomes a party to the contractual provisions of the financial instrument. All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the Group commits to purchase (sell) the instruments (trade date accounting).

b) Financial assets classification and subsequent measurement
From 1 April 2018, the Group classifies its financial assets into the following measurement categories based on the Group assessment of the business model:
Amortised cost consists of the following classes
- Cash and cash equivalents;
- Loans and advances to customers;
- Investment and deposits with banks;
- Trade and lease receivables; and
- Statutory investment.

Fair value through profit or loss (FVTPL), or Fair value through Other Comprehensive Income (OCI)

Business model
The business model reflects how the Group managed the asset in order to generate cash flows. That is whether the Group's objective is solely to collect the contractual cash flow from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these are applicable (e.g. financial assets are held for trading purposes), the financial assets are classified as part of "other" business and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets are collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows, the group assesses whether the financial assets cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration of time value of money, credit risk, other basic lending risks and a profit margin consistent with a basic lending arrangement. Based on these factors, the Group classifies its debt into the amortised cost category.

The Group reclassifies debt instruments when, and only when, its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments (**)
Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets e.g. basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate any equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit and loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair value. Dividends, which are a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

c) Amortised cost
Assets that are held for collection of contractual cash flows where those cash flows represented Solely Payments of Principal and Interest ("SPPI") and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured in terms of the Group's expected credit loss policy. A gain or loss from a financial asset that is subsequently measured at amortised cost is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in interest income in profit or loss using the effective interest rate method.

d) Effective interest rate method
The effective interest rate is the rate that discounts estimated future cash receipts or payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial instrument. The effective interest rate method considers all contractual terms of the financial instrument and includes any fees or incremental costs which are directly attributable to the instrument and is an integral part of the effective interest rate, but not future credit losses.

In calculating interest income on Stage 1 and Stage 2 financial assets, the effective interest rate is applied to the gross carrying amount of the asset. However for Stage 3 financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial asset. If the financial asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. The carrying amount of the financial instrument is adjusted if the Group revises its estimate of receipts or payments. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

For purchased or originated credit-impaired financial assets, the Group applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. (**)

In applying the effective interest method, the Group identifies fees that are an integral part of the effective interest rate of loans granted. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. These include origination fees received by the Group relating to the creation or acquisition of loans, such as compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction.

e) Impairment of financial assets
The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with financial assets carried at amortised cost and FVOCI (**) and with the exposures arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:
- An unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group recognises a loss allowance at an amount

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

equal to the lifetime ECL, except for financial assets on which credit risk has not increased significantly since their initial recognition. The loss allowance on financial assets on which credit risk has not increased significantly since their initial recognition are at an amount equal to the 12-month ECL.

The loss allowance on trade receivables and other receivables are always measured at an amount equal to the lifetime ECL. (**)

f) Significant increase in credit risk
The Group assesses at each reporting date, whether the credit risk of a financial instrument has increased significantly since initial recognition. This is based on the comparison of the risk of default occurring on the financial instrument as at each reporting date to initial recognition over the expected life of the financial instrument. It considers available reasonable and supportable forward-looking information.

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days due on its contractual payments.

g) Impairment of financial assets: Definition of default
The Group defines a default consistent to the internal risk internal credit risk management purposes for the relevant financial instruments and considers qualitative factors when appropriate.

The Group's criteria in the determination of impairment of a financial asset or group of assets include observable data that comes to the attention of the holder of the asset about the following loss events:

- Significant financial difficulty of the customer or borrower;
- A breach of contract, such as default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the lender is over indebted; and
- Observable data indicates that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets that may have arisen from global economic conditions that correlate with defaults on the assets because of adverse changes in the financial services sector, which has impacted on borrowers.

A backstop is applied and the financial instrument is considered to be in default if the borrower is more than 90-day due on its contractual payments.

h) Financial assets subject to renegotiated terms.
The Group sometimes renegotiates or otherwise modifies the contractual cash flow of loans to customers. When this happens, the Group assesses whether the new terms are substantially different to the original term. Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. These loans are not considered to be past due. These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. Restructuring activities include extended payment arrangements, and deferral of payments, amongst others.

Following restructuring, a previously overdue advance is managed together with other similar accounts once the customer demonstrates the ability to make contractual payments for a specific period. Restructuring policies and procedures are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue.

If the terms are substantially different, the group derecognises the original asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the financial asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially when the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

i) Write-off of financial assets

The Group writes-off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

j) Loan commitments

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The initial fair value is amortised over the life of the loan commitment.

Loan commitments are subsequently measured at the lower of the following:
(a) The amount of the loss allowance; and
(b) The amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.
The difference between the carrying amount of a financial liability and the consideration paid, including any non-cash transferred or liabilities assumed, shall be recognised in profit or loss.

k) Derecognition of financial assets

When the Group transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset:

- If the Group transfers substantially all the risks and rewards of ownership of the financial asset, the financial asset is derecognised and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer;
- If the Group retains substantially all the risks and rewards of ownership of the financial asset, the financial asset continues to be recognised; and
- If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset:

i) If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer;
ii) If the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset; and
iii) If the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (measured at the date of derecognition) and any consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

If the transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognise a financial liability for the consideration received. In subsequent periods, the Group recognises any income on the transferred asset and any expense incurred on the financial liability.

l) Financial liabilities
Classification and measurement

Financial liabilities are initially measured at fair value including transaction costs and subsequently classified and measured at amortised cost.

The Group's financial liabilities at amortised costs included customer deposits, trade and other payables and loan accounts with the Development Bank of Southern Africa, Nedbank and Khula Enterprise Finance Ltd.

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities
Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

m) Offsetting
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set-off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.6.4 Property, plant and equipment
Recognition and measurement
An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably. Property, plant and equipment and capital work-in-progress is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge-accounting, where appropriate.

Subsequent measurement
Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation
Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write-off the asset's carrying amount over its estimated useful life to its estimated residual value, using the straightline method. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Where buildings are erected on leasehold land or land held under a permission to occupy certificate with a finite life, the buildings are depreciated over the duration of the lease or permission to occupy certificate. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The residual value, useful life and depreciation method of each asset is reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss.

Assets are depreciated over the following periods:
- Infrastructure and buildings - 50 years;
- Plant and equipment - 5 - 25 years; and
- Vehicles - 4 years.

Landfill site restoration and dismantling cost
The Holding holds a landfill site, close to its industrial estate, that it uses to dispose of garbage. The Holding has an obligation to restore the landfill site land in terms of the Group's policy as well as the applicable legislation requirements. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of land includes the initial estimate of the costs of restoring the site on which the waste is being dumped.

The changes in the liability are added to, or deducted from, the cost of the land in the current period limited to the carrying amount of the land if there are changes to the future estimate of the liability. Where a decrease in the liability exceeds the carrying amount of the land, the excess is recognised immediately in profit or loss. If the adjustment results in an addition to the cost of land, the entity considers whether this is an indication that the new carrying amount of the land may not be fully recoverable and is therefore tested for impairment by estimating its recoverable amount. Any impairment loss is recognised in profit or loss.

3.6.5 Investment property
Investment property is initially recognised at cost including transaction costs and subsequently measured at fair value.

A gain or loss arising from a change in fair value is included in net profit or loss for the period in which it arises.

Property interests held under operating leases are accounted for as investment property when the property is sub-leased.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Gains and losses arising from retirement or disposal of investment property be recognised in profit or loss in the period of the retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up will be recognised in profit or loss when the compensation becomes receivable.

Measurement of property interest
The property interest held by the Group under an operating lease is classified and accounted for as investment property. On initial recognition of the property interest it is measured at the lower of the fair value of the property interest and the present value of the minimum lease payments. The lease is treated as a finance lease, hence a lease liability will be accounted for on initial recognition for the property interest at an amount equivalent to the property interest cost determined above. Subsequent to initial measurement, the property interest is measured as part of investment property measured at fair value and finance costs are accounted for on the lease liability with a reduction in the lease liability when lease payments are made.

3.6.6 Impairment of non-financial assets
The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro-rata basis.
An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for cash-generating units/assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those cash-generating unit's assets are estimated.

The increased carrying amount of an asset/cash-generating unit other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

A reversal of an impairment loss of assets carried at cost or cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss.

3.6.7 Inventories
Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned using the weighted average cost formula.

3.6.8 Employee benefits
a) Short-term employee benefits
The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as wages and salaries, annual leave, sick leave, bonuses, contributions to retirement funds, car allowances, housing subsidies, cell phone allowances and medical aid), are recognised in the period in which the service is rendered and are not discounted. The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

b) Defined contribution plans
When an employee has rendered service to the Group during a period, the Group recognises the contribution payable to a defined contribution plan in exchange for that service:

- As a liability, after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund; and
- As an expense.

c) Post-retirement medical aid benefit
The Group operates a post-retirement medical aid benefit. The scheme is unfunded. For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for the post-retirement medical aid fund. Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date as the valuations are normally performed just before year end.

Current service costs, past service costs, any gain or loss on settlement and interest on the defined benefit liability are recognised immediately in profit or loss to the extent that the benefits are already vested, and are otherwise amortised on a straightline basis over the average period until the amended benefits become vested.

For the post-retirement medical aid benefits, actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income. The interest expense is determined on the defined benefit liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period taking into consideration any changes that were made due to contributions and benefit payments made. Interest expense is recognised in profit or loss.

d) Pension and provident fund
The Group previously had a defined benefit provident fund and a defined benefit pension fund which was funded. The defined benefit plans were closed off and employees were transferred to the Old Mutual defined contribution plans. However, the defined benefit plans still have pensioners who have not yet been transferred to Old Mutual as the Group is still waiting for the trustees and FSB to give the go-ahead to transfer the

pensioners. Plan assets pertaining to the pensioners are therefore still currently held as at year end.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date as the valuations are normally performed just before year end.

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for the liability that is outstanding as at year end for the pensioners as well as the plan assets.

When the projected unit credit method calculation results in a potential asset being recognised, the net defined benefit asset shall be measured at the fair value of the plan assets less the present value of the defined benefit obligation limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

As at year end the potential asset has not been recognised as the plan assets have not been allocated to the Group by the FSB as yet for use in the reduction of future contributions or as a refund.

For the post-retirement medical aid benefits, actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income. The net interest expense is determined on the net defined benefit liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period taking into consideration any changes that were made due to contributions and benefit payments made. Net interest expense is recognised in profit or loss.

e) Long service award

For the long service award the Group pays out the employee a certain percentage of the total cost to Group in the year the payment is made based on the number of years the employee has rendered service to the Group, which should be a minimum of 10 years. The payment of the award is the cost of providing the benefits which is determined using the projected unit credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for the long service award.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date as the valuations are normally performed just before year end.

Current service costs, past service costs, any gain or loss on settlement and interest on the defined benefit liability are recognised immediately in profit or loss to the extent that the benefits are already vested, and are otherwise amortised on a straightline basis over the average period until the amended benefits become vested.

For the long service award actuarial gains and losses are recognised in the year in which they arise in profit or loss. The interest expense is determined on the defined benefit liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period taking into consideration any changes that were made due to contributions and benefit payments made. Interest expense is recognised in profit or loss.

f) Termination benefits

If the termination benefits include post-employment benefits, these shall be accounted for as detailed above under post-employment benefits, otherwise termination benefits payable within 12 months after the end of the reporting period are measured in accordance with the requirements of short-term benefits.

If termination benefits are payable beyond 12 months after the end of the reporting period, they are measured in accordance with the requirements of other long-term benefits. The Group is demonstrably committed to curtailment or settlement.

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

3.6.9 Government grants
Government grants are recognised when there is reasonable assurance that the Group has complied with the conditions attached to the grant and that the grant has been received.

Government grants whose primary condition is that the Group should purchase, construct or acquire non-current assets are deducted in arriving at the carrying amount of the assets.

The grants are recognised as income over the periods necessary to match the grant with the costs for which they are intended to compensate, on a systematic basis.

Government grants that are receivable as compensation for expenses or losses already incurred with no future related cost are recognised in profit or loss in the period in which they are received. Government grants received for specific loans and advances programmes are recognised as income when all the conditions of the grant have been fulfilled and there is reasonable assurance that the grant will be received.

3.6.10 Taxation
Ithala Development Finance Corporation is exempt from normal tax in terms of Section 10(1) (cA) (i) of the Income Tax Act. Consequently, all wholly-owned subsidiaries of the Corporation are exempt from normal tax in terms of Section 10(1) (cA)(ii) of the Income Tax Act. Subsidiaries that are not wholly-owned are subject to normal taxation.

Tax expense for subsidiaries that are not wholly-owned comprise current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. 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 they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.6.11 Provisions and contingent liabilities
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

The provision is measured as the best estimate of the expenditure expected to be required to settle the obligation at the end of the reporting period. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Gains from the expected disposal of assets shall not be taken into account in measuring a provision. Provisions are not recognised for future operating losses.

Contingent liabilities, which include certain guarantees other than financial guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events, not wholly within the Group's control. Contingent liabilities are not recognised in the financial statements, but are disclosed in the notes to the financial statements unless they are remote.

3.6.12 Revenue from contracts with customers
Revenue is recognised when the performance obligation with the customer has been satisfied by transferring the goods or services to the customers. The amount of the consideration that is expected to be transferred in exchange for the services rendered is the transaction price per the contract. Specifically, it is recognised in the following manner for different types of revenue:

- For sale of electricity revenue is recognised over time based on usage; and
- Services fee income earned from contracts with customers is recognised when the performance obligation has been satisfied by transferring control of the services to the customer. Where there are uncertainties with regard to the revenue to be transferred due to the probability of collectability of the transaction revenue to be received, then revenue is recognised when payment is received.

3.6.13 Leased assets
Operating leases - lessor
Operating lease income is recognised as an income on a straightline basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. Income for leases is disclosed under revenue in profit or loss.

Operating leases - lessee
Operating lease payments are recognised as an expense on a straightline basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

This liability or the asset is not discounted.
Any contingent rents are expensed in the period they are incurred

3.6.14 Non-current assets held for sale
Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal groups) held for sale are measured at the lower of their carrying amount and fair value less costs to sell or distribute.

An impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less cost to sell shall be recognised in profit or loss. A gain shall be recognised resulting from the subsequent increase in fair value less cost to sell of an asset, not in excess of the cumulative impairment loss that has been recognised.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as such.

3.7 New standards and interpretations not yet adopted
Overleaf are new standards, amendments to standards and interpretations to International Financial Reporting Standards not yet effective for the year ended 31 March 2019, these have not been applied in preparing these consolidated financial statements.

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

STANDARD	DESCRIPTION	ANNUAL PERIODS BEGINNING ON OR AFTER
IFRS 3	*Business Combinations* • Annual Improvements 2015-2017 Cycle: Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business.	1 January 2019
IFRS 9	*Prepayment Features with Negative Compensation.* • The narrow-scope amendment allows companies to measure particular prepayable financial assets with negative compensation at amortised costs or at fair value through other comprehensive income if a specified condition is met. This amendment is not expected to have a material impact on the Group as the Group has no prepayable financial assets with negative compensation.	1 January 2019
IFRS 11	*Annual Improvement 2015-2017 Cycle:* Clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.	1 January 2019
IFRS 16	*Leases* • A new standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows; • IFRS 16 contains expanded disclosure requirements for lessees; • IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently; • IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk; and • IFRS 16 supersedes the following Standards and Interpretations: (a) IAS 17 Leases; (b) IFRIC 4 Determining whether an Arrangement contains a Lease; (c) SIC-15 Operating Leases - Incentives; and (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. Given the nature of the Group's operations, this standard is expected not to have a significant impact on the Group's annual financial statements when applied.	1 January 2019

STANDARD	DESCRIPTION	ANNUAL PERIODS BEGINNING ON OR AFTER
IAS 12	*Income Taxes* • *Annual Improvements 2015-2017 Cycle:* Clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless of how the tax arises. This clarification is not expected to have a material impact on the Group given that the principal entities are exempt from taxation.	1 January 2019
IAS 19	*Employee Benefits* • Amendments to Defined Benefit Plans: Employee Contributions whereby the requirements in IAS 19 for contributions from employees or third parties that are linked to service have been amended; and • Plan Amendment, Curtailment or Settlement: The amendments require an entity to use the updated assumptions from a remeasurement net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.	1 January 2019
IAS 28	*Investments in Associates and Joint Ventures* • Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28): Narrow scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture; and • Long-term interest in Associates and Joint Ventures: Clarification provided that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	The effective date of this amendment has been deferred indefinitely until further notice 1 January 2019
IFRIC 23	*Uncertainty over Income Tax Treatments* • IFRIC 23 specifies how any entity should reflect the effects of uncertainties in accounting for income taxes.	1 January 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

1. First-time adoption of IFRS

Explanation of transition to IFRS
The group has prepared financial statements that comply with IFRS applicable as at 31 March 2019, together with the comparative period data for the year ended 31 March 2018, as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 April 2017, the group's date of transition to IFRS.

1.1 Exemptions applied
IFRS 1 allows first-time adopters to apply certain exceptions and exemptions in applications of other standards in its first set of IFRS-compliant financial statements. The Group has elected to apply the following exceptions and exemptions:

1.1.1 Exemption on derecognition of Financial Assets
As part of the company's foreclosure process, certain loans were derecognised as the company moved to take possession of the underlying security. This is not in line with IFRS 9 which allows derecognition of financial assets only when the contractual rights to the cash flows of the loan expire or when the company transfers the loan and the transfer qualifies for derecognition. IFRS 1 states that where a company has derecognised financial assets in accordance with a previous GAAP, it need not go back and recognise those financial assets again before transition date, the derecognition requirements of IFRS 9 will therefore be applied to all financial assets derecognised on or after transition date. The company has applied the exception from retrospective restatement and as such only transactions occurring after the date of transition to IFRS have been restated.

1.1.2 Fair Value Measurement of Financial Assets and Financial Liabilities
IFRS 9 requires an entity to determine the difference between the fair value at initial recognition of a financial instrument and it's transaction price. This difference is accounted for as a Day 1 gain or loss. The Group originates certain loans that bear off-market interest rates that would result in Day 1 losses. IFRS 1 exempts the Group from retrospective application of the recognition of these Day 1 losses and the Group has chosen to apply this exemption and therefore such losses will not be recognised.

1.1.3 Exemption from the requirement to restate comparative information for IFRS 7
For a first-time adopter whose first IFRS reporting period is before 1 January 2019 that applies the completed version of IFRS 9, IFRS 1 provides an exemption that allows the first-time adopter of IFRS not to comply with IFRS 7 disclosures for comparative information. The company has elected to apply the SA GAAP disclosure requirements for the 2018 comparative and disclosed the impairment on an incurred loss model rather than the expected credit loss model as required by IFRS 9.

Comparative information for the 2017 year end for the expected credit loss was impracticable to determine due to undue cost and effort that would be required to determine the amount. As a result the exemption to restate 2017 comparative amounts was elected. The impairment amounts for the 2017 comparatives were therefore determined as per IAS 39 requirements using the incurred loss model.

1.1.4 Classification and measurement of financial instruments
IFRS 9 and IAS 39 (SA GAAP) Application Guidance states that origination fees should be part of the effective interest rate rather than being recognised in full upfront on receipt. Origination fees "may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction". IFRS 1 paragraph B8C states that where it is impracticable for an entity to apply retrospectively the effective interest method in IFRS 9, the fair value of the financial asset at the date of transition shall be the new gross carrying amount of that financial asset at the date of transition to IFRS. The group has decided to adopt this exemption and not remeasure the effective interest for the loans that were issued before the transition date.

1.1.5 Impairment of financial assets
IFRS 9 requires that for all financial assets measured at amortised costs an entity should recognise a loss allowance for expected credit losses. In determining the expected credit losses an entity should assess if there is a significant increase in credit risk and where there is no significant increase in credit risk the loss allowance is equal to a twelve-month expected credit loss. If there is a significant increase in credit risk, the loss allowance is equal to lifetime expected credit losses. IFRS 1 states that where it is impracticable for an entity to determine as to whether there is a significant increase in credit risk from the date of initial recognition of the financial asset to the date of transition then an entity is allowed to determine the loss allowance as being equal to lifetime expected credit losses for all its financial assets. The Group has selected to apply this exemption and determined the loss allowance at a lifetime expected credit losses amount.

1.1.6 Business combinations
IFRS 1 allows a first-time adopter to elect not to apply IFRS 3 retrospectively to past business combinations that occurred before the date of transition to IFRS. The Group has selected not to apply IFRS 3 business combinations retrospectively and recognised the assets and liabilities at the date of transition to IFRS in accordance with the requirements of IFRS 1.

The tables opposite explain the principal adjustments made by the company in restating SA GAAP financial statements, including the statement of financial position as at 1 April 2017 and the financial statements for the year ended 31 March 2018.

Group	Notes	1 April 2017 (Transition date) SA GAAP	Effects of transition to IFRS prior period errors	Effects of transition to IFRS change in accounting policy	1 April 2017 (Transition date) IFRS
		R'000	R'000	R'000	R'000
1.2 Reconciliation of equity as at 1 April 2017 (Transition date)					
ASSETS					
Non-current assets		4 522 599	(45 314)	23 294	4 500 579
Loans and advances		1 685 192	-	-	1 685 192
Properties in possession		8 703	349	-	9 052
Investment properties		2 401 688	(45 352)	-	2 356 336
Property, plant and equipment		302 579	5 615	-	308 194
Intangible assets		55 752	-	-	55 752
Straightlining of operating leases income		45 008	10	-	45 018
Subsidiaries		-	-	-	-
Goodwill		300	-	-	300
Joint ventures		2 796	-	-	2 796
Investments		20 550	-	-	20 550
Investment in cell captives		-	(5 936)	23 294	17 358
Associated companies		31	-	-	31
Current assets		2 138 599	-	(37 090)	2 101 509
Loans and advances		395 244	-	-	395 244
Straightlining of operating lease income		344	-	-	344
Straightlining of operating lease expenditure		-	-	-	-
Cash and cash equivalents		1 447 705	-	(36 484)	1 411 221
Statutory liquid assets		177 769	-	-	177 769
Trade and other receivables		111 622	-	(606)	111 016
Inventory and contracts in progress		5 915	-	-	5 915
Non-current assets held for sale					
Total assets		6 661 198	(45 314)	(13 796)	6 602 088
EQUITY AND LIABILITIES					
Capital and reserves		3 715 459	(43 228)	(18 888)	3 653 343
Ordinary share capital		1 008 582	-	-	1 008 582
Retained income		2 706 877	(43 228)	560	2 664 209
Actuarial gains/(losses)		-	-	(19 448)	(19 448)
Non-controlling interest		(166)	-	-	(166)
Total equity		3 715 293	(43 228)	(18 888)	3 653 177
Non-current liabilities		2 590 150	(2 086)	13 822	2 601 886
Borrowings		66 998	-	-	66 998
Deposits due to customers		2 285 509	-	-	2 285 509
Post-retirement obligation		95 973	-	17 771	113 744
Long service obligation		26 438	-	-	26 438
Government grants		65 147	-	-	65 147
Straightlining of operating leases expense		2 187	-	-	2 187
Finance lease liability		-	-	-	-
Deferred tax		27 142	(2 086)	-	25 056
Provision for landfill restoration		16 807	-	-	16 807
Cell captive insurance fund		3 949	-	(3 949)	-
Current liabilities		355 754	1	(8 730)	347 026
Straightlining of operating leases income		-	-	-	-
Borrowings		19 045	-	-	19 045
Post-retirement obligation		4 641	-	-	4 641
Long service obligation		3 799	-	-	3 799
Trade and other payables		327 514	(7 510)	(8 730)	311 274
Provision		-	7 510	-	7 510
Finance lease liability		-	-	-	-
Straightlining of operating lease expense		756	-	-	756
Total liabilities		2 945 905	(2 085)	5 092	2 948 911
Total equity and liabilities		6 661 198	(45 313)	(13 796)	6 602 088

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Corporation	Notes	1 April 2017 (Transition date) SA GAAP R'000	Effects of transition to IFRS prior period errors R'000	Effects of transition to IFRS change in accounting policy R'000	1 April 2017 (Transition date) IFRS R'000
ASSETS					
Non-current assets		3 453 542	(185 399)	23 294	3 291 437
Loans and advances		437 740	-	-	437 740
Properties in possession		-	-	-	-
Investment properties		2 195 065	(36 257)	-	2 158 808
Property, plant and equipment		268 739	-	-	268 739
Intangible assets		35 575	-	-	35 575
Straightlining of operating leases income		35 913	-	-	35 913
Subsidiaries		456 833	(143 206)	-	313 627
Goodwill		300	-	-	300
Joint ventures		2 796	-	-	2 796
Investments		20 550	-	-	20 550
Investment in cell captive		-	(5 936)	23 294	17 358
Associated companies		31	-	-	31
Current assets		766 005	-	-	766 005
Loans and advances		243 822	-	-	243 822
Straightlining of operating lease income		344	-	-	344
Straightlining of operating lease expenditure		-	-	-	-
Cash and cash equivalents		419 305	-	-	419 305
Statutory liquid assets		-	-	-	-
Trade and other receivables		98 052	-	-	98 052
Inventory and contracts in progress		4 482	-	-	4 482
Total assets		4 219 547	(185 399)	23 294	4 057 442
EQUITY AND LIABILITIES					
Capital and reserves		3 738 015	(185 399)	9 759	3 562 375
Ordinary share capital		1 008 582	-	-	1 008 582
Retained income		2 729 433	(185 399)	24 750	2 568 784
Actuarial gains/(losses)		-	-	(14 991)	(14 991)
Non-controlling interest		-	-	-	-
Total equity		3 738 015	(185 399)	9 759	3 562 375
Non-current liabilities		224 754	-	13 535	238 289
Borrowings		64 923	-	-	64 923
Deposits due to customers		-	-	-	-
Post-retirement obligation		62 247	-	13 535	75 782
Long service obligation		13 443	-	-	13 443
Government grants		65 147	-	-	65 147
Straightlining of operating leases expense		2 187	-	-	2 187
Finance lease liability		-	-	-	-
Deferred tax		-	-	-	-
Provision for landfill restoration		16 807	-	-	16 807
Cell captive insurance fund		-	-	-	-
Current liabilities		256 778	-	-	256 778
Straightlining of operating leases income		-	-	-	-
Borrowings		19 045	-	-	19 045
Post-retirement obligation		3 478	-	-	3 478
Long service obligation		2 036	-	-	2 036
Trade and other payables		232 143	(500)	-	231 643
Provision		-	500	-	500
Finance lease liability		-	-	-	-
Straightlining of operating lease expense		75	-	-	75
Total liabilities		481 562	-	13 535	495 067
Total equity and liabilities		4 219 547	(185 399)	23 294	4 057 442

Group	Notes	SA GAAP	Effects of transition to IFRS prior period errors	Effects of transition to IFRS change in accounting policy	IFRS
		R'000	R'000	R'000	R'000
1.3 Reconciliation of equity as at 31 March 2018					
ASSETS					
Non-current assets		4 850 678	(45 844)	41 517	4 846 351
Loans and advances	2.1	1 704 811	-	12 291	1 717 102
Properties in possession	2.5	7 027	(30)	-	6 997
Investment properties	3	2 703 247	(56 767)	-	2 646 480
Property, plant and equipment	4	312 705	7 545	-	320 250
Intangible assets	5	43 415	(4 613)	-	38 802
Straightlining of operating leases income	6	58 107	2	-	58 109
Deferred tax asset	6.1	-	2 991	-	2 991
Subsidiaries	7.2	-	-	-	-
Prepayment - Land	10.2	-	8 166	-	8 166
Goodwill	7.3	305	-	-	305
Joint ventures	8.2	2 796	-	-	2 796
Finance lease receivable	10.1	-	2 798	-	2 798
Investments	11	18 234	-	-	18 234
Investment in cell captive	11.1	-	(5 936)	29 226	23 290
Associated companies	8.1	31	-	-	31
Current assets		2 246 607	46 022	(20 911)	2 271 718
Loans and advances	2.1	469 146	-	(5 265)	463 881
Straightlining of operating lease income	6	-	-	-	-
Straightlining of operating lease expenditure	27.2	-	1 141	-	1 141
Cash and cash equivalents	9.1	1 494 861	-	(29 786)	1 465 075
Statutory liquid assets	9.2	187 714	-	-	187 714
Trade and other receivables	10	88 770	44 274	14 140	147 184
Finance lease receivable	10.1	-	607	-	607
Inventory	12	6 116	-	-	6 116
Non-current assets held for sale	2.6	-	-	31	31
Total assets		7 097 285	178	20 637	7 118 100
EQUITY AND LIABILITIES					
Capital and reserves		3 997 913	(76 932)	21 153	3 942 134
Ordinary share capital	13	1 008 582	-	-	1 008 582
Retained income		2 989 331	(76 932)	27 505	2 939 904
Actuarial gains/(losses)		-	-	(6 352)	(6 352)
Non-controlling interest	14	(166)	-	-	(166)
Total equity		3 997 747	(76 932)	21 153	3 941 968
Non-current liabilities		2 649 065	17 105	(627)	2 665 543
Borrowings	15	49 008	-	-	49 008
Deposits due to customers	16	2 309 560	-	-	2 309 560
Post-retirement obligation	17.1	102 714	-	3 694	106 408
Long service obligation	17.3	28 787	-	-	28 787
Government grants	18.1	109 079	-	-	109 079
Straightlining of operating leases expense	27.2	2 113	10 902	-	13 015
Deferred tax	29	25 667	4 655	-	30 322
Provisions rehabilitation	20	17 816	1 548	-	19 364
Cell captive insurance fund		4 321	-	(4 321)	-
Current liabilities		450 474	60 007	108	510 588
Straightlining of operating leases income	6	1 255	-	-	1 255
Borrowings	15	18 613	-	-	18 613
Post-retirement obligation	17.1	5 954	-	-	5 954
Long service obligation	17.3	2 145	-	-	2 145
Trade and other payables	19	421 883	52 893	108	474 884
Provision	20		7 736	-	7 736
Straightlining of operating lease expense	27.2	623	(623)	-	-
Total liabilities		3 099 538	77 110	(519)	3 176 131
Total equity and liabilities		7 097 285	178	20 636	7 118 100

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Corporation	Notes	SA GAAP	Effects of transition to IFRS prior period errors	Effects of transition to IFRS change in accounting policy	IFRS
		R'000	R'000	R'000	R'000
ASSETS					
Non-current assets		3 730 288	(254 579)	23 048	3 495 783
Loans and advances	2.1	316 477	-	(6 178)	307 325
Properties in possession	2.5	31	(31)	-	-
Investment properties	3	2 469 687	(47 895)	-	2 421 792
Property, plant and equipment	4	270 226	-	-	270 226
Intangible assets	5	25 109	-	-	25 109
Straightlining of operating leases income	6	49 624	-	-	49 624
Subsidiaries	7.2	577 768	(208 783)	(100)	368 885
Prepayment - Land	10.2		8 166		8 166
Goodwill	7.3	305	-	-	305
Joint ventures	8.2	2 796	-	-	2 796
Investments	11	18 234	-	-	18 234
Investment in cell captive	21	-	(6 036)	29 326	23 290
Associated companies	8.1	31	-	-	31
Current assets		914 330	45 742	9 999	970 070
Loans and advances	2.1	302 813	-	(5 265)	297 548
Straightlining of operating lease income	6	-	-	-	-
Straightlining of operating lease expenditure	27.2	-	-	-	-
Cash and cash equivalents	9.1	527 314	-	-	527 314
Trade and other receivables	10	79 518	45 742	15 264	140 523
Inventory	12	4 685	-	-	4 685
Non-current assets held for sale	2.6	-	31	-	31
Total assets		4 644 618	(208 806)	33 047	4 465 883
EQUITY AND LIABILITIES					
Capital and reserves		4 059 658	(263 318)	26 429	3 822 770
Ordinary share capital	13	1 008 582	-	-	1 008 582
Retained income		3 051 076	(263 318)	32 478	2 820 237
Actuarial gains/(losses)		-	-	(6 049)	(6 049)

Group

1.3 Reconciliation of equity as at 31 March 2018

	Notes	SA GAAP	Effects of transition to IFRS prior period errors	Effects of transition to IFRS change in accounting policy	IFRS
		R'000	R'000	R'000	R'000
Total equity		**4 059 658**	(263 318)	**26 429**	3 822 770
Non-current liabilities		**218 573**	-	**3 642**	222 215
Borrowings	15	**46 938**	-	-	46 938
Deposits due to customers	16	-	-	-	-
Post-retirement obligation	17.1	**65 691**	-	**3 642**	69 333
Long service obligation	17.3	**14 922**	-	-	14 922
Government grants	18.1	**71 093**	-	-	71 093
Straightlining of operating leases expense	27.2	**2 113**	-	-	2 113
Provision for landfill restoration	20	**17 816**	-	-	17 816
Current liabilities		**366 387**	54 511	-	420 898
Straightlining of operating leases income	6	**1 729**	-	-	1 729
Borrowings	15	**18 167**	-	-	18 167
Post-retirement obligation	17.1	**4 646**	-	-	4 646
Long service obligation	17.3	**1 126**	-	-	1 126
Trade and other payables	19	**340 645**	51 077	-	391 722
Provision	20	-	3 434	-	3 434
Straightlining of operating lease expense	27.2	**74**	-	-	74
Total liabilities		**584 960**	54 511	**3 642**	643 113
Total equity and liabilities		**4 644 618**	(208 807)	**30 072**	4 465 883

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.4 Reconciliation of total comprehensive income as at 31 March 2018

Group	Notes	SA GAAP	Effects of transition to IFRS prior period errors	Effects of transition to IFRS change in accounting policy	IFRS
		R'000	R'000	R'000	R'000
Interest income	22.1	343 987	-	-	343 987
Interest expenditure	22.2	105 573	-	14 837	120 410
Net interest income before credit impairment		238 414	-	(14 837)	223 577
Credit impairment charges		69 791	-	(75 472)	(5 681)
Net losses on the derecognition of loans and advances	2.4	-	-	(41 444)	(41 444)
Expected credit loss: Loans and advances	2.4	58 766	-	(7 022)	51 743
Net losses on the derecognition of trade and other receivables	10	-	-	(9 211)	(9 211)
Expected credit loss: trade and other receivables	10	11 025	-	(17 794)	(6 769)
Net interest income after credit impairment charges		168 623	-	60 634	229 258
Other operating income	23	1 182 309	(15 208)	(13 334)	1 153 767
Operating income before operating expenditure		1 350 932	(15 208)	47 300	1 383 025
Operating expenditure	24	1 061 542	16 578	20 700	1 098 819
Operating expenses		999 878	5 170	21 376	1 026 423
Depreciation and amortisation		42 718	10 300	-	53 018
Impairment of properties in possession	24.4	(367)	367	-	-
Impairment of non-current assets held for sale	24.4			(676)	(676)
Impairments of tangible and intangible assets	24.4	18 523	741	-	19 264
Straightlining of operating lease expense	6	790		-	790
Equity accounting loss		-	-	-	-
Operating profit before taxation		289 390	(31 785)	26 601	284 206
Taxation expense	25	6 936	1 919	(344)	8 511
Total profit for the year		282 454	(33 705)	26 945	275 694
Other comprehensive income		-	-	-	-
Actuarial gains/(losses)		-	-	13 096	13 096
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		282 454	(33 705)	40 041	288 791
Attributable to:					
Equity holders of the parent		282 454	(33 705)	40 041	288 791
Non-controlling interest		-	-		-
		282 454	(33 705)	40 041	288 791

Corporation	Notes	SA GAAP	Effects of transition to IFRS prior period errors	Effects of transition to IFRS change in accounting policy	IFRS
		R'000	R'000	R'000	R'000
Interest income	22.1	83 319	-	-	83 319
Interest expenditure	22.2	7 882	-	9 718	17 600
Net interest income before credit impairment charges		75 437	-	(9 718)	65 719
Credit impairment charges		55 571	-	(25 016)	30 554
Net losses on the derecognition of loans and advances	2.4	-	-	(16 682)	(16 682)
Expected credit loss: Loans and advances	2.4	45 573	-	14 418	59 990
Net losses on the derecognition of trade and other receivables	10		-	(7 489)	(7 489)
Expected credit loss: trade and other receivables	10	9 998	-	(15 263)	(5 265)
Net interest income after credit impairment charges		19 866	-	15 298	35 165
Other operating income	23	1 001 297	(12 243)	5 932	994 986
Operating income before operating expenditure		1 021 163	(12 243)	21 230	1 030 151
Operating expenditure	24	699 520	65 677	13 502	778 698
Operating expenses		669 756	-	13 502	683 258
Depreciation and amortisation		28 059	-	-	28 059
Impairment of non-current assets	24.4	(676)	-	-	(676)
Impairment of plant and subsidiaries held for sale	24.4	1 705	-	-	1 705
Impairments of investments	24.4	-	65 677	-	65 677
Straightlining of operating lease expense	6	676	-	-	676
Equity accounting loss		-	-	-	-
Operating profit before taxation		321 643	(77 920)	7 728	251 453
Taxation expense		-	-	-	-
Total profit for the year		321 643	(77 920)	7 728	251 453
Other comprehensive income		-	-	-	-
Actuarial gains/(losses)		-	-	8 942	8 942
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		321 643	(77 920)	16 670	260 395

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FOR THE YEAR ENDED 31 MARCH 2019

1.5. Explanatory notes on the conversion from SA GAAP to IFRS to the reconciliation of equity as at 1 April 2017 and 31 March 2018 and total comprehensive income for the year ended 31 March 2018:

Change in accounting policies due to conversion from SA GAAP to IFRS

1.5.1. Employee benefits
Under SA GAAP the surplus on the defined benefits that is the difference between the plan assets and the plan liability was recognised to the extent that any actuarial gains recognised do not exceed 10% of the greater of the medical aid benefit or the fair value of plan assets. Under IFRS the surplus recognised is limited to the amount that meets the definition of the asset.

For the pension fund and provident fund that has been closed off, the surplus has already been recognised to the extent that the trustees have allocated the amount to the Group, hence no adjusting journals were posted as the surplus allocated to the Group is an amount that the Group can use for purposes of reducing future contribution to the new defined pension contribution funds. For any actuarial gains and losses that were not recognised previously on the post-employment medical aid benefit, an adjustment was made to recognise these on adoption of IFRS as IAS 19 requires that all actuarial gains and losses be recognised whereas SA GAAP required that a limit be placed on the recognition of actuarial gains.

Under SA GAAP all movements in the liability in employee expenses were required to be presented in the other employee costs line item whereas IFRS requires only service costs be presented with other employee costs and interest is to be presented in the finance costs line item. The interest portion for the defined benefit plans has been reclassified from operating expenditure to interest from non-trading activities.

Under SA GAAP actuarial gains and losses for the post-retirement medical aid are presented in profit or loss and IFRS requires that actuarial gains and losses for all post-employment benefits be presented in other comprehensive income. Actuarial losses have been reclassified from profit and loss to other comprehensive income.

Under SA GAAP disclosures for each actuarial gain/loss arising from changes in demographic assumptions, actuarial gain/loss arising from changes in financial assumptions, changes in the effect of limiting the net defined benefit asset if applicable, past service costs/ gains arising from settlement, contributions to the plan showing those by the employer separately from those by the employee and payments from the plan with respect to settlements were not required to be made. IFRS now requires these disclosures to be made.

1.5.2. Financial instruments
Classification of financial instruments
IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and its contractual cash flow characteristics. IAS 39 did not require classification based on a business model but based on the definitions for different categories as defined in IAS 39.

	SA GAAP	IFRS 9
Financial Assets	**Measurement Category**	**Measurement Category**
Cash and cash equivalents	Loan and receivables at amortised cost	Amortised Cost
Statutory liquid assets	Held to maturity at amortised cost	Amortised Cost
Investments	Held to maturity at amortised cost	Amortised Cost
Loans and advances	Loans and receivables at amortised cost	Amortised Cost
Trade and other receivables	Loans and receivables at amortised cost	Amortised Cost
Loans to joint venture	Loans and receivables at amortised cost	Amortised Cost
Financial Liabilities		
Deposits due to customers	Non-trading financial liabilities and are measured at amortised cost	Amortised Cost
Trade and other payables	Non-trading financial liabilities and are measured at amortised cost	Amortised Cost
Borrowings	Non-trading financial liabilities and are measured at amortised cost	Amortised Cost

Measurement of financial instruments
Expected credit loss (ECL) model
SA GAAP required the financial assets to be impaired based on the incurred loss approach and IFRS 9 impairs based on expected credit loss model (ECL). The expected credit loss model requires entities to recognise impairment losses in advance of having objective evidence of impairment. The ECL model applies to financial assets measured at either amortised cost or at fair value through OCI, as well as loan commitments when there is present commitment to extend credit (unless these are measured at fair value through profit or loss).

The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 April 2017, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The company did not early adopt IFRS 9 in previous periods. As permitted by the transitional provisions of IFRS 9 and the short-term exemptions of IFRS 1, the Company elected only to restate 2018 comparative figures and not restate the amounts as at the transition date as this could not be done without undue cost or effort. Refer to Note 2 for further information in this regard.

Disclosure of financial instruments
IAS 1(82)(ba) requires separate disclosure on the face of the statement of comprehensive income, the impairment losses determined in accordance with IFRS 9, including reversals of impairment losses or impairment gains.

IFRS 7:25 states that except as set out in paragraph 29, for each class of financial assets and financial liabilities, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

1.5.3. Revenue
IFRS 1 allows first-time adopters to apply the transitional provision in IFRS 15, which deals with completed or modification in contracts which are not applicable to Ithala SOC Limited and therefore application thereof was not necessary.

Service fees included services rendered to clients like refuse removal, water, sewage, waste removal. For some of these services IDFC pays on behalf of clients and recovers what has been paid from it's clients, these recoveries were included as revenue in the past. However due to the fact that IDFC was not rendering it's ordinary activities in this instance, but acted as an agent, this cash flow is excluded from revenue from a contract with a customer.

The annual renewal of insurance cover relates to a cover that is for the year and therefore Ithala SOC Limited currently accounts for this upfront. This therefore means that when there are claw-backs due to lapses then revenue is overstated. IFRS 15 requires that revenue be recognised when performance obligations have been met.

1.5.4. Loan commitments
Under SA GAAP, loan commitments were accounted for as provisions only where there was indication that losses could arise. As such, it was uncommon for any losses to be raised on loan commitments and there were none raised by the Group. With the adoption of IFRS 9, the Group assesses on a forward-looking basis, the expected credit losses ('ECL') associated with the exposure arising from loan commitments. The Group recognises a loss allowance for such losses at each reporting date. The Group has applied a loss factor of 5% in its estimation of expected credit losses for loan commitments without customer profiles.

1.5.5. Cell captives
Prior to these first IFRS financial statements, cell captives were consolidated into the Group in terms of SIC 12 (AC 412) Consolidations - Special purpose entities. The requirements of IFRS 10 Consolidated Financial Statements replace replaced SIC 12 (AC 412) for annual periods commencing on or after 1 January 2013. In terms of IFRS 10, an investor controls (and therefore should consolidate) an investee when the investor has power over the investee, is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. An investee can either be a separate legal entity or a deemed separate entity. The cell captives do not meet the criteria to be classified as a separate entity. As a result, the Group has not consolidated the cell captives and has accounted for its interest as investments at fair value through profit or loss in terms of IFRS 9 Financial Instruments.

Prior period errors identified during conversion from SA GAAP to IFRS
1.5.5. Operating leases
IAS 17 (AC 105) requires that lease income from operating leases to be recognised in the income statement on a straightline basis over the lease term. Previously the company did not straight line some of its operating leases. The adjustments relate to amounts that had to be processed to straightline the leases from the lease inception date.

1.5.6. Investment property
The movements relating to investment properties were as a result of the following changes in accounting policies:
Under AC135, the operating lease smoothing asset should have been deducted from the fair value of the investment property. The company did not deduct the lease smoothing asset from the fair value of the investment property, despite it been recognised separately. This resulted in double counting of the asset lease smoothing asset and the overstatement of the fair value adjustment. The adjustment is therefore correcting the error by decreasing the fair value adjustment to the correct amount due to the double counting of the assets for 2017.

1.5.7. Provisions
IAS 37 requires that any liabilities of uncertain timing or amount should be recognised as provisions. The company had incorrectly classified provisions as accruals. The adjustment was made to reclassify the amount from accruals to provisions.

1.5.8. Measurement of financial instruments
Day one gains and losses
IFRS 9 states that an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset

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or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The same principles applied under IAS 39.

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has elected to apply the following exemption:
IFRS 9 requires an entity to determine the difference between the fair value at initial recognition of a financial instrument and its transaction price. This difference is accounted for as a Day 1 gain or loss. The Group originates certain loans that bear off-market interest rates that would result in Day 1 losses. IFRS 1 exempts the Group from retrospective application of the recognition of these Day 1 losses and the Group has chosen to apply this exemption and therefore such losses will be recognised prospectively to transactions entered into on or after the date of transition to IFRS, 1 April 2017. Refer to Note 2.2 for the disclosures of the Day 1 loss.

Initiation fees
The requirements of IFRS 9 are similar to those of IAS 39 as per Application Guidance B5. In applying the effective interest method, an entity identifies fees that are an integral part of the effective interest rate of a financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, the fees are recognised as revenue or expense when the instrument is initially recognised.

Fees that are an integral part of the effective interest rate of a financial instrument include origination fees received by the entity relating to the creation or acquisition of a financial asset. IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has elected to apply the following exemption:

If it is impracticable for an entity to apply retrospectively the effective interest method in IFRS 9, the fair value of the financial asset or the financial liability at the date of transition to IFRSs shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to IFRSs.

1.5.9. Measurement of properties in possession
The requirements of IFRS 9 are similar to those of IAS 39 for the initial recognition of collateral. The properties in possession should have been measured on initial recognition at fair value as required by SA GAAP. The fair value of the PIPs was therefore determined at transition date.

1.5.10. Impairment of subsidiary
IAS 36 requires that an asset should be assessed for impairment when there are indicators of impairment. The investment in Port Shepstone Quaries and Ithala SOC Limited had indicators of impairment, management has accordingly impaired these investments.

1.5.11. Disclosure of Prepayment for Land
IAS 1 requires an entity to present current and non-current assets as separate classifications in its statement of financial position. The prepayment of land should have been classified as a non-current asset as it is of a lon-term nature, hence the reclassification adjustment.

1.5.12. Offsetting of Assets and Liabilities
IAS 32 Financial Instruments Presentation states that a financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity currently has a legally enforceable right to set off the recognised amounts and intends on either to settle on a net basis or to realise the asset and settle the liability simultaneously. The deposits held should not have been offset against deposits invested since the above requirements of offsetting have not been met.

1.5.13. Finance Lease Asset
IFRS16 requires a lessor to disclose a maturity analysis of the lease payment receivable showing the undiscounted lease payment to be received on an annual basis for a minimum of each of the first five years and a total of amount for the remaining years. The finance lease assets should have been separately disclosed on the statement of financial position and the related maturity analysis on the notes.

1.5.14. Cash and Cash Equivalents
Cash and cash equivalents included an amount that related to the cell captive as the cell captive was previously consolidated under SA GAAP. With the adoption of IFRS, the cell captive will be treated as an investment that is not consolidated, as a result any amounts previously consolidated for the cell captive have been eliminated. There were no other significant adjustments in the cash fow statement.

1.5.15. Deferred Tax
Paragraph 51 of IAS 12 states that measurement of deferred tax liabilities and differed tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of related assets and liabilities.

Consequently, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and tax base that are consistent with the expected manner of recovery and settlement.

It is a rebuttable presumption that the carrying amount of investment property will be recovered through sale, as such the deferred tax liability or deferred tax asset should reflect the tax consequences of recovering the carrying amount of the Investment property through sale.

In calculating the deferred tax, the entity determinined an inaccurate base costs resulting in an incorrect tax base. The adjustment is therefore correcting the error.

	Group		Corporation	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000

2. LOANS AND ADVANCES

2.1. Sectoral analysis

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Housing and commercial property	**1 553 461**	1 550 897	**-**	-
Micro finance - secured	**240 312**	74 408	**-**	-
Micro finance - unsecured	**21 815**	24 287	**17 426**	16 734
Agri finance	**302 910**	267 308	**302 910**	267 308
Franchise finance	**40 446**	25 526	**40 446**	25 526
Procurement finance	**79 951**	54 943	**79 952**	54 943
Commercial property finance	**154 749**	160 036	**154 749**	160 036
Asset finance	**150 429**	168 398	**150 429**	168 398
Structured finance	**143 556**	147 031	**143 556**	147 030
Gross carrying amount	**2 687 629**	2 472 834	**889 468**	839 975
Less: Interest recognised on net basis	**(12 610)**	-	**(9 991)**	
Less: Credit impairment balance	**(288 193)**	(291 852)	**(226 141)**	(235 103)
Credit impairment for loans and advances	**(279 186)**	(298 877)	**(217 134)**	(220 686)
Expected credit loss (Impact of adoption of IFRS 9)	**-**	7 025	**-**	(9 152)
Expected credit loss (Loan commitments)	**(9 007)**	-	**(9 007)**	(5 265)
Net loans and advances including current portion	**2 386 825**	2 180 982	**653 336**	604 872
Less: Current portion included under current assets	**(530 268)**	(463 881)	**(383 618)**	(297 548)
***Net loans and advances**	**1 856 557**	1 717 102	**269 718**	307 325
Non-performing loans	**266 696**	330 060	**266 696**	229 042
Impaired portion of the non-performing loan	**(124 429)**	(244 904)	**(151 063)**	(189 881)
Unimpaired portion of non-performing loans	**142 267**	85 156	**115 633**	39 161

* Included in loans and advances above are Day 1 losses of R55,8 million (R46,4 million)

2.2. Day 1 losses

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Opening balance	**46 417**	-	**46 417**	-
Day 1 loss recognised	**15 511**	46 417	**15 511**	46 417
Amortised	**(6 096)**	-	**(6 096)**	-
Closing balance	**55 832**	46 417	**55 832**	46 417

2.3. Maturity analysis

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Maturing:				
Up to 1 month	**260 448**	228 498	**204 375**	162 142
From 1 month to 6 months	**155 955**	120 252	**105 253**	69 412
From 6 months to 1 year	**125 190**	120 396	**73 990**	71 259
From 1 year to 5 years	**670 712**	623 629	**297 480**	283 043
After 5 years	**1 475 324**	1 380 059	**208 370**	254 119
	2 687 629	2 472 834	**889 468**	839 975

The maturity analysis is based on the remaining period to contractual maturity date as determined at the end of the year.

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Incurred loss credit impairment

The information disclosed below relating to the impairment losses for the comparative year has been prepared in terms of SA GAAP using the incurred credit loss model. The company applied the exemption provided to first-time adopters in relation to IFRS 7 disclosure requirements and IFRS 9 to the extent that the disclosures required by IFRS 7 related to items within the scope of IFRS 9. The impairment loss notes information for 2018 as set out below has therefore not been restated to be in compliance with those disclosures relating to expected credit loss model. Refer to Note 6 for detailed explanation on the exemption adopted.

	Group		Corporation	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
2.4. Expected credit loss for loans and advances				
Balance at beginning of the year	291 852	281 553	235 103	191 795
Charge to income statement	(3 658)	10 299	(8 962)	43 308
Bad debt write-off**	(61 319)	(41 444)	(48 950)	(16 682)
Expected credit loss (Impact of adoption of IFRS 9)	-	(7 025)		14 417
Expected credit loss	57 661	58 768	39 988	45 573
Restated charge to income statement	-	51 743	-	59 990
Balance at end of the year	288 194	291 852	226 141	235 103

**Bad debt written-off represents losses made on the derecognition of loans and advances measured at armotised cost. Refer to Note 35 for details

	Group	Corporation
2019		
Comprising:		
Impairment for performing loans Stage 1 and 2	87 556	52 657
Impairment for non-performing loans - Stage 3	191 631	164 477
Expected credit loss (Loan commitments)	9 007	9 007
Impairment for loans and advances	288 194	226 141
2018		
Comprising:		
Impairment for performing loans (IBNR)*	(53 972)	(30 805)
Impairment for non-performing loans	(244 905)	(189 881)
Expected credit loss (Impact of adoption of IFRS 9)	7 025	(14 417)
Impairment for loans and advances	(291 852)	(235 103)

The information disclosed below relating to the impairment losses for 2019 has been prepared in terms of IFRS 7 using the expected credit loss model in terms of IFRS 9.

Expected credit Loss Allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 (refer to Note 35 for description of the different stages) due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent 'step up' (or 'step down') between 12 months and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written-of during the period.

ITHALA SOC LTD

Housing and commercial property	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	R'000	R'000	R'000	R'000

a. Housing and commercial property
The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Loss allowance as at 1 April 2018	2 449	21 962	23 456	47 867
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(499)	2 767	-	2 267
Transfer from Stage 1 to Stage 3	(27)	-	7	(20)
Transfer from Stage 2 to Stage 3	-	(2 246)	570	(1 676)
Transfer from Stage 2 to Stage 1	2 651	(5 528)	-	(2 877)
Transfer from Stage 3 to Stage 1	617	-	(625)	(8)
Transfer from Stage 3 to Stage 2	-	1 506	(1 506)	-
New financial assets originated or purchased	1 290	5 259	-	6 549
Change in PDs/LGDs/EADs	(5 635)	7 958	2 487	4 810
Changes to model assumptions and methodolgies	2 892	(2 201)	1 682	2 373
Modification of contractual cash flows of financial assets	-	-	-	-
Unwind of discounts (a)	21	186	166	372
Financial assets derecognised during the period	(88)	(601)	(4 260)	(4 949)
Total net P&L charge during the period	**1 223**	**7 099**	**(1 479)**	**6 843**
Loss allowance as at 31 March 2019	**3 672**	**29 061**	**21 977**	**54 710**
Write-offs	-	-	8 602	8 602

The following table further explains changes in the gross carrying amount of the housing and commercial property portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

Housing and commercial property				
Gross carrying amount as at 1 April 2018	912 210	418 662	95 735	1 426 607
Transfers:				
Transfer from Stage 1 to Stage 2	(171 453)	171 453	-	-
Transfer from Stage 1 to Stage 3	(5 424)	-	5 424	-
Transfer from Stage 2 to Stage 3	-	(18 750)	18 750	-
Transfer from Stage 3 to Stage 2	4 663	-	(4 663)	-
Transfer from Stage 2 to Stage 1	-	9 079	(9 079)	-
Financial assets derecognised during the period other than write-offs	113 231	(113 231)	-	-
New financial assets originated or purchased	(43 857)	(17 367)	(13 196)	(74 420)
Modification of contractual cash flows of financial assets	171 969	81 577	-	253 547
Modification of contractual cash flows of financial assets	-	-	-	-
Change in interest accrual	(34 018)	(16 556)	(1 699)	(52 273)
Gross carrying amount as at 31 March 2019	**947 322**	**514 867**	**91 272**	**1 553 461**
Write-offs	**-**	**-**	**9 800**	**9 800**

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Micro finance - secured	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	R'000	R'000	R'000	R'000

b. Micro finance - secured

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 April 2018	462	1 332	2 368	4 161
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(52)	121	-	69
Transfer from Stage 1 to Stage 3	(5)	-	1	(4)
Transfer from Stage 2 to Stage 3	-	(79)	20	(59)
Transfer from Stage 2 to Stage 1	443	(679)	-	(236)
Transfer from Stage 2 to Stage 1	113	-	(114)	(1)
Transfer from Stage 3 to Stage 1	-	76	(76)	-
New financial assets originated or purchased	454	496	3	953
Change in PDs/LGDs/EADs	(873)	(31)	711	(193)
Changes to model assumptions and methodologies	239	(66)	62	235
Modification of contractual cash flows of financial assets	-	-	-	-
Unwind of discounts (a)	4	11	17	32
Financial assets derecognised during the period	(26)	(168)	(401)	(595)
Total net P&L charge during the period	**296**	**(319)**	**224**	**201**
Loss allowance as at 31 March 2019	**758**	**1 013**	**2 591**	**4 363**
Write-offs	-	-	213	213

The following table further explains changes in the gross carrying amount of the housing and commercial property portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

Micro finance - secured

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 April 2018	156 024	36 027	4 304	196 355
Transfers:				
Transfer from Stage 1 to Stage 2	(15 402)	15 402	-	-
Transfer from Stage 1 to Stage 3	(487)	-	487	-
Transfer from Stage 2 to Stage 3	-	(1 051)	1 051	-
Transfer from Stage 3 to Stage 1	489	-	(489)	-
Transfer from Stage 3 to Stage 2	-	284	(284)	-
Transfer from Stage 2 to Stage 1	11 954	(11 954)	-	-
Financial assets derecognised during the period other than write-offs	(27 354)	(5 285)	(756)	(33 395)
New financial assets originated or purchased	77 475	9 452	54	86 981
Modification of contractual cash flows of financial assets	-	-	-	-
Modification of contractual cash flows of financial assets	-	-	-	-
Change in interest accrual	(7 048)	(2 457)	(125)	(9 629)
Gross carrying amount as at 31 March 2019	**195 653**	**40 417**	**4 242**	**240 312**
Write-offs			**420**	**420**

Micro finance - unsecured	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	R'000	R'000	R'000	R'000

c. Micro finance - unsecured

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Loss allowance as at 1 April 2018	72	642	3 917	4 631
Movements with P&L impact				
Financial assets derecognised during the period	(13)	(34)	(1 472)	(1 519)
Transfers:				
Transfer from Stage 1 to Stage 2	(7)	10	-	3
Transfer from Stage 2 to Stage 3	-	(203)	51	(152)
Transfer from Stage 2 to Stage 1	60	(98)	-	(38)
Transfer from Stage 3 to Stage 1	83	-	(86)	(3)
Transfer from Stage 3 to Stage 2	-	106	(106)	-
New financial assets originated or purchased	-	-	-	-
Change in PDs/LGDs/EADs	(164)	(103)	87	(180)
Changes to model assumptions and methodologies	41	(3)	161	199
Modification of contractual cash flows of financial assets	-	-	-	-
Unwind of discounts (a)	1	9	32	42
Total net P&L charge during the period	**1**	**(316)**	**(1 333)**	**(1 648)**
Loss allowance as at 31 March 2019	**73**	**326**	**2 584**	**2 983**
Write-offs	-	-	3 050	3 050

The following table further explains changes in the gross carrying amount of the housing and commercial property portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

Micro finance - unsecured

Gross carrying amount as at 1 April 2018	1 062	1 457	5 033	7 552
Transfers:				
Transfer from Stage 1 to Stage 2	(55)	55	-	-
Transfer from Stage 1 to Stage 3	(15)	-	15	-
Transfer from Stage 2 to Stage 3	-	(409)	409	-
Transfer from Stage 3 to Stage 1	108	-	(108)	-
Transfer from Stage 3 to Stage 2	-	136	(136)	-
Transfer from Stage 2 to Stage 1	160	(160)	-	-
Financial assets derecognised during the period other than write-offs	(597)	(179)	(1 897)	(2 673)
New financial assets originated or purchased	32	3	1	36
Modification of contractual cash flows of financial assets	-	-	-	-
Change in interest accrual	(306)	(222)	2	(526)
Write-offs	**-**	**-**	-	**-**
Gross carrying amount as at 31 March 2019	**389**	**681**	**3 319**	**4 389**

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CORPORATION	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	R'000	R'000	R'000	R'000
d. Micro finance - unsecured				
The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:				
Loss allowance as at 1 April 2018	179	274	1 833	2 286
Movements with P&L impact				
Financial assets derecognised during the period				
Write-offs				
Transfers:				
Transfer from Stage 1 to Stage 2	(1)	1	-	-
Transfer from Stage 1 to Stage 3	(6)	-	6	-
Transfer from Stage 2 to Stage 1	33	(33)	-	-
Transfer from Stage 3 to Stage 1	8	-	(8)	-
New financial assets originated or purchased	90	85	958	1 133
Change in PDs/LGDs/EADs	-	-	-	-
Changes to model assumptions and methodologies	-	-	-	-
Modification of contractual cash flows of financial assets	-	-	-	-
Unwind of discounts (a)	(76)	15	1 048	987
Total net P&L charge during the period	**227**	**342**	**3 837**	**4 406**
Other movements with no P&L impact				
Transfers:				
Transfer from Stage 2 to Stage 3	-	(84)	84	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Financial assets derecognised during the period	(109)	(154)	(7)	(270)
Write-offs	-	-	(386)	(386)
Loss allowance as at 31 March 2019	**118**	**104**	**3 528**	**3 750**

The following table further explains changes in the gross carrying amount of the housing and commercial property portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

Micro finance - unsecured	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	R'000	R'000	R'000	R'000
Gross carrying amount as at 1 April 2018	10 710	4 058	1 966	16 734
Transfers:				
Transfer from Stage 1 to Stage 2	(196)	196	-	-
Transfer from Stage 1 to Stage 3	(566)	-	566	-
Transfer from Stage 2 to Stage3	-	(566)	566	-
Transfer from Stage 2 to Stage 1	438	(438)	-	-
Transfer from Stage 3 to Stage 1	9	-	(9)	-
Financial assets derecognised during the period other than write-offs	(7 591)	(3 018)	-	(10 609)
New financial assets originated or purchased	8 166	2 899	1 359	12 424
Modification of contractual cash flows of financial assets	(830)	(63)	(213)	(1 106)
Change in interest accrual	-	-	-	-
Write-offs	-	-	(414)	(414)
Gross carrying amount as at 31 March 2019	**10 140**	**3 068**	**3 821**	**17 029**

The following table further explains changes in the gross carrying amount of the housing and commercial property portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

e. Agri-finance

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors: Agri-finance

Loss allowance as at 1 April 2018	6 030	13 859	30 836	50 725
Movements with P&L impact				
Write-offs				
Transfers:				
Transfer from Stage 1 to Stage 2	(1 938)	1 938	-	-
Transfer from Stage 1 to Stage 3	(670)	-	670	-
Transfer from Stage 2 to Stage 1	68	(68)	-	-
Transfer from Stage 3 to Stage 1	157	-	(157)	-
New financial assets originated or purchased	1 638	1 668	-	3 306
Change in PDs/LGDs/EADs	-	-	-	-
Changes to model assumptions and methodologies	-	-	-	-
Modification of contractual cash flows of financial asset	(1 262)	11 214	20 264	30 216
Unwind of discounts (a)	-	-	-	-
Total net P&L charge during the period	**4 023**	**28 611**	**51 613**	**84 247**
Other movements with no P&L impact				
Transfers:				
Transfer from Stage 2 to Stage 3	-	(7 091)	7 091	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Financial assets derecognised during the period	(52)	-	-	(52)
Write-offs	-	-	(863)	(863)
Loss allowance as at 31 March 2019	**3 971**	**21 520**	**57 841**	**83 332**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Agri-finance	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	R'000	R'000	R'000	R'000
Gross carrying amount as at 1 April 2018	149 647	51 483	66 179	267 309
Transfers:				
Transfer from Stage 1 to Stage 2	(34 355)	34 355	-	-
Transfer from Stage 1 to Stage 3	(13 284)	-	13 284	-
Transfer from Stage 2 to Stage 3	-	(19 187)	19 187	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 1	2 861	(2 861)	-	-
Transfer from Stage 3 to Stage 1	693	-	(693)	-
Financial assets derecognised during the period other than write-offs	(7 464)	-	(7)	(7 471)
New financial assets originated or purchased	36 597	8 354	-	44 951
Modification of contractual cash flows of financial assets	(7 801)	13	6 764	(1 024)
Change in interest accrual	-	-	-	-
Write-offs	-	-	(855)	(855)
Gross carrying amount as at 31 March 2019	**126 894**	**72 157**	**103 859**	**302 910**

f. Franchise finance

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Loss allowance as at 1 April 2018	1 119	5	5 972	7 096
Movements with P&L impact	-	-	-	-
Financial assets derecognised during the period	-			-
Write-offs	-	-	-	-
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated or purchased	1 520	-	-	1 520
Change in PDs/LGDs/EADs	-	-	-	-
Changes to model assumptions and methodologies	-	-	-	-
Modification of contractual cash flows of financial asset	-	-	-	-
Unwind of discounts (a)	(588)		1 066	478
Total net P&L charge during the period	**2 051**	**5**	**7 038**	**9 094**
Other movements with no P&L impact				
Transfers:				
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Financial assets derecognised during the period	-	(5)	-	(5)
Write-offs	-	-	(494)	(494)
Loss allowance as at 31 March 2019	**2 051**	**-**	**6 544**	**8 595**

Franchise finance	**Stage 1** 12-month ECL	Stage 2 Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	R'000	**R'000**	**R'000**	**R'000**

The following table further explains changes in the gross carrying amount of the housing and commercial property portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

Gross carrying amount as at 1 April 2018	18 814	127	6 584	25 525
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Financial assets derecognised during the period other than write-offs	-	(127)	71	(56)
New financial assets originated or purchased	17 753	-	-	17 753
Modification of contractual cash flows of financial assets	(3 113)	-	906	(2 207)
Change in interest accrual	-	-	-	-
Write-offs	-	-	(569)	(569)
Gross carrying amount as at 31 March 2019	**33 454**	**-**	**6 992**	**40 446**

g. Procurement finance

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Loss allowance as at 1 April 2018	1 668	679	25 593	27 940
Movements with P&L impact	-	-	-	-
Financial assets derecognised during the period				
Write-offs	-	-	-	-
Transfers:				
Transfer from Stage 2 to Stage 3	-	(41)	41	-
Transfer from Stage 1 to Stage 3	(30)	-	30	-
Transfer from Stage 2 to Stage 1	324	(324)	-	-
Transfer from Stage 3 to Stage 1		-	-	-
New financial assets originated or purchased	3 610	752	329	4 691
Change in PDs/LGDs/EADs	-	-	-	-
Changes to model assumptions and methodologies	-	-	-	-
Modification of contractual cash flows of financial assets	-	-	-	-
Unwind of discounts (a)	(200)		1 839	1 639
Total net P&L charge during the period	**5 372**	**1 066**	**27 832**	**34 270**
Other movements with no P&L impact				
Transfers:				
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Financial assets derecognised during the period	(1 638)	(312)	(90)	(2 040)
Write-offs		(2)	(12 675)	(12 677)
Loss allowance as at 31 March 2019	**3 734**	**752**	**15 067**	**19 553**

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FOR THE YEAR ENDED 31 MARCH 2019

Procurement finance	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000

The following table further explains changes in the gross carrying amount of the housing and commercial property portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
Gross carrying amount as at 1 April 2018	21 226	4 065	29 652	54 943
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	(349)	-	349	-
Transfer from Stage 2 to Stage 3	-	(222)	222	-
Transfer from Stage 3 to Stage 2	-	-	-	
Transfer from Stage 2 to Stage 1	629	(629)	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Financial assets derecognised during the period other than write-offs	(20 877)	(3 146)	707	(23 316)
New financial assets originated or purchased	54 370	6 469	360	61 199
Modification of contractual cash flows of financial assets	(41)	-	1 120	1 079
Change in interest accrual	-	-	-	-
Write-offs	-	(68)	(13 487)	(13 555)
Gross carrying amount as at 31 March 2019	**54 958**	**6 469**	**18 923**	**80 350**

h. Commercial property finance

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
Loss allowance as at 1 April 2018	377	162	29 287	29 826
Movements with P&L impact				
Financial assets derecognised during the period				
Transfers:				
Transfer from Stage 1 to Stage 2	(50)	50	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	162	(162)	-	-
Transfer from Stage 3 to Stage 1	497		(497)	-
New financial assets originated or purchased	7	2 474	-	2 481
Change in PDs/LGDs/EADs	-	-	-	-
Changes to model assumptions and methodologies	-	-	-	-
Modification of contractual cash flows of financial assets	-	-	-	-
Unwind of discounts (a)	(629)	514	(14 211)	(14 326)
Total net P&L charge during the period	**364**	**3 038**	**14 579**	**17 981**
Other movements with no P&L impact				
Transfers:				
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Financial assets derecognised during the period	(36)	(1)	-	(37)
Write-offs	-	-	-	-
Loss allowance as at 31 March 2019	**328**	**3 037**	**14 579**	**17 944**

Commercial property finance	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	R'000	R'000	R'000	R'000

The following table further explains changes in the gross carrying amount of the housing and commercial property portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

Gross carrying amount as at 1 April 2018	97 895	4 715	57 426	160 036
Transfers:				
Transfer from Stage 1 to Stage 2	(7 908)	7 908	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 1	3 128	(3 128)	-	-
Transfer from Stage 3 to Stage 1	2 654	-	(2 654)	-
Financial assets derecognised during the period other than write-offs	(16 085)	(1 588)	-	(17 673)
New financial assets originated or purchased	15 624	24 297	-	39 921
Modification of contractual cash flows of financial assets	(11 101)	(2 737)	(13 697)	(27 535)
Change in interest accrual	-	-	-	-
Write-offs	-	-	-	-
Gross carrying amount as at 31 March 2019	**84 207**	**29 467**	**41 075**	**154 749**

i. Asset finance

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Loss allowance as at 1 April 2018	5 660	13 995	58 213	77 868
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(1 791)	1 791	-	-
Transfer from Stage 1 to Stage 3	(869)	-	869	-
Transfer from Stage 2 to Stage 1	10 827	(10 827)	-	-
Transfer from Stage 2 to Stage 3	-	(3 107)	3 107	-
New financial assets originated or purchased	3 156	392	-	3 548
Change in PDs/LGDs/EADs	-	-	-	-
Changes to model assumptions and methodologies	-	-	-	-
Modification of contractual cash flows of financial assets	(9 866)	2 929	9 707	2 770
Unwind of discounts (a)	-	-	-	-
Total net P&L charge during the period	**7 117**	**5 173**	**71 896**	**84 186**
Other movements with no P&L impact				
Transfers:				
Transfer from Stage 2 to Stage 3	-	(3 168)	3 168	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Financial assets derecognised during the period	(866)	-	-	(866)
Write-offs	-	-	(32 166)	(32 166)
Loss allowance as at 31 March 2019	**6 251**	**2 005**	**42 898**	**51 154**

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Asset finance	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000

The following table further explains changes in the gross carrying amount of the asset finance portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 April 2018	65 865	37 964	64 569	168 398
Transfers:				
Transfer from Stage 1 to Stage 2	(18 492)	18 492	-	-
Transfer from Stage 1 to Stage 3	(7 679)	-	7 679	-
Transfer from Stage 2 to Stage 3	-	(7 582)	7 582	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 1	29 028	(29 028)	-	-
Financial assets derecognised during the period other than write-offs	(11 217)	(1 355)	894	(11 678)
New financial assets originated or purchased	43 668	1 587	-	45 255
Modification of contractual cash flows of financial assets	(18 367)	(2 909)	3 284	(17 992)
Change in interest accrual	-	-	-	-
Write-offs	-	-	(33 555)	(33 555)
Gross carrying amount as at 31 March 2019	**82 807**	**17 169**	**50 453**	**150 429**

j. Structured finance

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 April 2018	10 196	-	23 902	34 098
Movements with P&L impact				
Financial assets derecognised during the period	-	-	-	-
				-
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated or purchased	1 323	-	-	1 323
Change in PDs/LGDs/EADs	-	-	-	-
Changes to model assumptions and methodologies	-	-	-	-
Modification of contractual cash flows of financial asset	-	-	-	-
Unwind of discounts (a)	(1 312)	-	118	(1 194)
Total net P&L charge during the period	**10 207**	**-**	**24 020**	**34 227**
Other movements with no P&L impact				
Transfers:				
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Financial assets derecognised during the period	(1 421)		-	(1 421)
Write-offs	-	-	-	-
Loss allowance as at 31 March 2019	**8 786**	**-**	**24 020**	**32 806**

Structured finance	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	R'000	R'000	R'000	R'000

The following table further explains changes in the gross carrying amount of the housing and commercial property portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

Gross carrying amount as at 1 April 2018	105 576	-	41 456	147 032
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 1	3 793	-	-	3 793
Financial assets derecognised during the period other than write-offs	-	-	-	-
New financial assets originated or purchased	18 512	-	-	18 512
Modification of contractual cash flows of financial assets	(25 899)	-	118	(25 781)
Change in interest accrual	-	-	-	-
Write-offs	-	-	-	-
Gross carrying amount as at 31 March 2019	**101 982**	**-**	**41 574**	**143 556**
Grand total gross carrying amout	**1637 806**	**684 295**	**365 531**	**2 687 631**
Grand total ECL	**29 742**	**57 817**	**191 630**	**279 190**

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FOR THE YEAR ENDED 31 MARCH 2019

GROUP 2019	Stage 1 & 2 Gross amortised cost before the modification	Stage 1 & 2 Net modification gain or loss	Stage 3 Gross amortised cost before the modification	Stage 3 Net modification gain or loss
	R'000	R'000	R'000	R'000
Modifications of loans and advances measured at amortised cost that did not result in derecognition:				
Housing and commercial property	10 973	-	219	-
Micro finance	207	-	204	-
Micro finance - unsecured	79	-	-	-
Agri finance	294	-	13 252	-
Procurement finance	1 939	-	180	-
Commercial property	1 425	-	4 259	-
Total	**14 917**	**-**	**18 114**	**-**

CORPORATION 2019

Modifications of loans and advances measured at amortised cost that did not result in derecognition:

Micro finance - unsecured	79	-	-	-
Agri finance	294	-	13 252	-
Procurement finance	1 305	-	180	-
Commercial property	1 426	-	4 259	-
Total	**3 104**	**-**	**17 691**	**-**

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
2.5. Properties in possession				
Balance at beginning of the year	**12 631**	14 027	-	-
Acquisitions	**918**	2 697	-	-
Disposals	**(1 485)**	(4 093)	-	-
Write-offs	**(6 925)**	-	-	-
Carrying amount before impairment	**5 139**	**12 631**	-	-
Fair value decrease	**(1 529)**	(5 634)	-	-
Net carrying amount	**3 610**	**6 997**	-	-
Accumulated impairment loss				
Balance at beginning of the year	**5 634**	5 325	-	-
Decrease/(increase) of impairment to income statement	**(4 105)**	309	-	-
Balance at end of the year	**1 529**	5 634	-	-

Properties in possession relate to immovable properties that have been repossessed by the Group. These assets are expected to be sold within the next 12 months.

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
2.6. Non-current assets held for sale				
Balance at beginning of the year	**2 225**	2 871	**2 225**	2 871
Acquisitions	**50**	6 814	**50**	6 814
Disposals	**(611)**	(7 460)	**(611)**	(7 460)
Carrying amount before impairment	**1 663**	2 225	**1 663**	2 225
Accumulated impairment loss	**(1 626)**	(2 194)	**(1 626)**	(2 194)
Net carrying amount	**37**	31	**37**	31
Accumulated impairment loss				
Balance at beginning of the year	**2 194**	2 871	**2 194**	2 871
(Reversal of)/impairment to income statement	**(568)**	(676)	**(568)**	(676)
Balance at end of the year	**1 626**	2 194	**1 626**	2 194

The non-currentt asseta held for sale relate to repossessed collateral on defaulted loans. These assets are expected to be sold within the next 12 months.

3. INVESTMENT PROPERTIES

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Land and buildings net book value	**2 860 142**	2 646 480	**2 616 593**	2 421 792
Straightline lease asset	**63 875**	56 854	**54 865**	**47 895**
Fair value	**2 924 017**	**2 703 334**	**2 671 458**	2 469 687

The fair values of investment properties were determined by external, independent property valuers, with recognised professional qualifications and recent experience in the location and category of property being valued. The independent valuers provide the fair values of the investment property portfolio annually.

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
3.1. Amounts recognised in profit or loss for:				
- Rental income from investment properties	**362 119**	345 241	**324 508**	332 272
- Direct operating expenses arising from investment property that generated rental income	**320 438**	304 917	**299 760**	269 821
- Direct operating expenses arising from investment property that did not generate rental income	**30**	37	**30**	37

3.2. A register containing information regarding land and buildings is available for inspection at the registered offices.

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FOR THE YEAR ENDED 31 MARCH 2019

3.3. Movement in investment properties	Land & Buildings R'000	Total R'000
2019		
Group		
Net book value at beginning of year	2 646 480	2 646 480
Additions	99 387	99 387
Disposals	-	-
Fair value movements	114 275	114 275
Net book value at end of year	2 860 142	2 860 142
Straightline lease asset	63 875	63 875
TOTAL	**2 924 017**	**2 924 017**
Corporation		
Net book value at beginning of year	2 421 792	2 421 792
Additions	86 098	86 098
Disposals	-	-
Fair value movements	108 703	108 703
Net book value at end of year	2 616 593	2 616 593
Straightline lease asset	54 865	54 865
TOTAL	**2 671 458**	**2 671 458**
2018		
Group		
Net book value at beginning of year	2 356 336	2 356 336
Additions	144 582	144 582
Disposals	-	-
Fair value movements	145 563	145 563
Net book value at end of year	2 646 480	2 646 480
Straightline lease asset	56 854	56 854
TOTAL	**2 703 334**	**2 703 334**
Corporation		
Net book value at beginning of year	2 158 808	2 158 808
Additions	115 677	115 677
Disposals	-	-
Fair value movements	147 307	147 307
Net book value at end of year	2 421 792	2 421 792
Straightline lease asset	47 895	47 895
TOTAL	**2 469 687**	**2 469 687**

4. PROPERTY, PLANT AND EQUIPMENT	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Cost	631 261	600 714	438 013	423 838
Land, infrastructure and buildings	276 748	274 139	276 640	274 139
Buildings on leasehold land	63 069	12 665	12 665	12 665
Plant, equipment and vehicles	291 443	313 910	148 708	137 033
Accumulated depreciation	303 134	271 057	165 334	144 205
Infrastructure and buildings	76 604	69 653	76 604	69 653
Buildings on leasehold land	46 502	3 259	3 258	3 258
Plant, equipment and vehicles	180 028	198 144	85 471	71 293
Accumulated impairment	22 943	9 407	9 407	
Land, infrastructure and buildings	9 407	9 407	9 407	9 407
Plant, equipment and vehicles	13 536	-	-	-
Buildings on leasehold land	-	-	-	-
Net book value	305 183	320 250	263 273	270 226

4.1 A register containing information regarding land and buildings is available for inspection at the registered offices.

4.2 Property plant and equipment with nil book values

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Original cost	33 696	68 894	32 826	26 784

This represents property, plant and equipment that is still in use and have a nil book value and relates mainly to assets with a cost of R2 000 or below that have been fully depreciated in line with the Group's policy.

The reassessment of useful life is performed at each balance sheet date.

4.3 Movements in property, plant and equipment	Land, infra-structure & Buildings R'000	Plant, equipment and vehicles R'000	Total R'000
2019			
Group			
Net book value at beginning of year	204 952	115 298	320 250
Additions	3 456	23 964	27 420
WIP additions	1 183	3 532	4 715
Depreciation charge	(8 955)	(23 339)	(32 294)
* Impairment charge	-	(13 536)	(13 536)
Disposals	-	(281)	(281)
Transfers	(448)	(643)	(1 091)
Net book value at end of year	200 188	104 995	305 183

*** Impairment charge**
The impairment charge relates to the impairment of property plant and equipment for Port Shepstone Quarries, where operations have ceased from December 2018. The value in use of these assets is zero as there is no production taking place.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

	Land, infra-structure & Buildings R'000	Plant, equipment and vehicles R'000	Total R'000
Corporation			
Net book value at beginning of year	204 486	65 740	270 226
Additions	1 993	9 042	11 035
WIP additions	1 183	3 531	4 714
Depreciation charge	(7 179)	(14 203)	(21 382)
Disposals	-	(55)	(55)
Transfers	(448)	(818)	(1 266)
Net book value at end of year	**200 035**	**63 238**	**263 273**
2018			
Group			
Net book value at beginning of year	189 408	118 786	308 194
Additions	3 303	6 313	9 616
WIP additions	4 025	821	4 846
Depreciation charge	(7 023)	(38 440)	(45 463)
Disposals	-	(1 084)	(1 084)
Transfers	15 239	28 902	44 141
Net book value at end of year	**204 952**	**115 298**	**320 250**
Corporation			
Net book value at beginning of year	189 408	79 331	268 739
Additions	3 303	2 095	5 398
WIP additions	4 025	821	4 846
Depreciation charge	(7 021)	(16 189)	(23 210)
Disposals	-	(844)	(844)
Transfers	14 771	526	15 297
Net book value at end of year	**204 486**	**65 740**	**270 226**

	Group		Corporation	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
5. INTANGIBLE ASSETS				
Cost	**110 458**	108 124	**50 581**	49 015
Software	**61 367**	105 084	**44 186**	45 614
Other	**44 296**	1 238	**1 600**	1 600
Licences and warranties	**4 794**	1 801	**4 794**	1 801
Accumulated amortisation	**44 457**	36 917	**30 000**	23 906
Software	**38 342**	33 620	**23 885**	20 609
Other	**1 327**	1 150	**1 327**	1 150
Licences and warranties	**4 787**	2 147	**4 787**	2 147
Accumulated impairments				
Software	**32 404**	32 404	**-**	-
	33 597	38 802	**20 581**	25 109

The remaining useful lives for intangible assets of the Group at 31 March 2019 is:

Software	1-8 years
Licences and Warranties	1-3 years

	Group 2019	Group 2018	Corporation 2019	Corporation 2018
5.1. Intangible aasets with nil book values	**20 437**	-	**20 437**	-

This represents intangible assets that are still in use but have been fully amortised in line with the Group's policy.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

5.2. Movement in intangible assets	Software	Licenses and Warranties	Total
2019	R'000	R'000	R'000
Group			
Net book value at beginning of year	28 375	10 428	38 802
Additions	2 350	199	2 549
Amortisation	(4 720)	(2 819)	(7 539)
Disposals	-	-	-
Transfers	(2 979)	2 764	(215)
Net book value at end of year	23 026	10 572	33 597
Corporation			
Net book value at beginning of year	25 005	105	25 109
Additions	1 781	-	1 781
Amortisation	(3 276)	(2 818)	(6 094)
Disposals	-	-	-
Transfers	(3 209)	2 994	(215)
Net book value at end of year	20 301	281	20 581
2018			
Group			
Net book value at beginning of year	54 972	780	55 752
Additions	1 894	-	1 894
Amortisation	(6 880)	(675)	(7 555)
Disposals	-	-	-
Transfers	(11 289)	-	(11 289)
Net book value at end of year	38 697	105	38 802
Corporation			
Net book value at beginning of year	34 795	780	35 575
Additions	1 060	-	1 060
Amortisation	(4 175)	(675)	(4 850)
Disposals	-	-	-
Transfers	(6 676)	-	(6 676)
Net book value at end of year	25 004	105	25 109

5.3 The long-term strategy of the Company includes the possible implementation of a bespoke banking system, and as such certain intrinsic value may exist within the capitalised amount from the previous project which may be realised on the implementation of the new system. The recoverable amount from the asset will be reassessed during the development and final implementation of the new banking system. Should the assessment of the intangible asset prove that there is no value in the asset, the Company will follow the policy based on the delegated powers of authority for the asset to be written-off against the impairment provision.

The new banking system project for implementation of an integrated enterprise-wide digital core banking platform designed for digital banking with a customer-centric paradigm is expected to modernise the Company's technology as well as close several audit, risk and compliance exceptions. The project has concluded the first two phases and is currently in the System Configuration phase. It is anticipated that implementation of the core system shall be during the 2020/21 financial year. The banking platform year-end work-in-progress carrying value of R26 million is funded by the grant received from the KwaZulu-Natal Government for the purpose of funding the project.

	Group		Corporation	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
6. STRAIGHTLINING OF OPERATING LEASE				
Opening balance	**56 854**	45 352	**47 895**	36 257
Straightline accrual during the year	**7 096**	12 292	**7 126**	12 314
Adjustment for expected lease payments	**(75)**	(790)	**(156)**	(676)
Closing balance	**63 875**	56 854	**54 865**	47 895
Current portion of long-term debtor	**(1 521)**	1 255	**(398)**	1 729
Non-current portion of long-term debtor	**62 354**	58 109	**54 467**	49 624

Minimum future rental receivable under non-cancellable operating leases are as follows:

Next 12 months	**1 521**	(1 255)	**398**	(1 729)
From 2 to 5 years	**35 970**	29 478	**28 668**	22 805
Later than 5 years	**28 682**	30 854	**27 819**	28 683
	66 173	59 077	**56 885**	49 759
Adjustment for expected lease payments	**(2 298)**	(2 223)	**(2 020)**	(1 864)
	63 875	56 854	**54 865**	47 895
Analysis of provisions				
Balance at the beginning of the year	**2 223**	1 433	**1 864**	1 188
Reversal/(charge) to income statement	**75**	790	**156**	676
Balance at end of the year	**2 298**	2 223	**2 020**	1 864

Operating leases relate to investment property owned by the Group with lease terms of between 3 and 10 years at an average escalation rate of 7%. Some operating lease contracts contain an option to renew for a further 3 to 10 years at market-related rates. The lessees do not have an option to purchase the property at the expiry of the lease period.

6.1 Deffered tax asset
Deferred taxation asset comprises

- Provision for mining site rehabilitation	**450**	433	**-**	-
- Straightline rental creditor - PSQ	**3 053**	2 558	**-**	-
Balance at end of the year	**3 053**	2 991	**-**	-

The movement is reconciled as follows:				
Balance at beginning of year				
Movement during the year:	**2 991**	-	**-**	-
- Straightline rental creditor - PSQ	**495**	-	**-**	-
- Provision for mining Site rehabilitation	**17**	-	**-**	-
	3 503	-	**-**	-

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FOR THE YEAR ENDED 31 MARCH 2019

	Group		Corporation	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
7. SUBSIDIARIES (ANNEXURE 2)				
7.1 Cowslip Investments (Pty) Ltd				
Shares at cost	**-**	-	**3**	3
Share premium	**-**	-	**2 778 928**	2 778 928
Grant applied	**-**	-	**(2 778 931)**	(2 778 931)
7.2 Subsidiaries	**-**	-	**314 807**	247 535
Shares at cost	**-**	-	**509 749**	434 961
Less impairment of investments**	**-**	-	**(194 942)**	(187 426)
Net loans	**-**	-	**140 577**	121 350
Loans to subsidiaries	**-**	-	**272 032**	242 235
*Less impairment of loans	**-**	-	**(131 455)**	(120 885)
Total investment in subsidiaries	**-**	-	**455 384**	368 885

* The impairment charge relates to impairment of loans issued to subsidiary where the recovery of these loans is not probable.
** The impairment charge relates to the impairment of investment held in Ithala SOC Limited recognised at the reporting date

	Group		Corporation	
7.3 Goodwill	**312**	305	**312**	305
Opening balance	**305**	300	**305**	300
Share acquisition in Nongoma Plaza	**4**	-	**4**	
Share acquisition Sundumbili Plaza	**3**	5	**3**	5
Closing Balance	**312**	305	**312**	305

Goodwill relates to the purchase of minority shares in Sundumbili Plaza Limited and Nongoma Plaza Limited.

8. ASSOCIATED COMPANIES (ANNEXURE 3)

8.1 Unlisted investments	Group 2019	Group 2018	Corporation 2019	Corporation 2018
Shares at cost	**2**	3	**2**	**3**
Less: provisions	**(2)**	(2)	**(2)**	**(2)**
Group carrying value	**-**	1	**-**	**1**
Net loans	**31**	30	**31**	**30**
Loans to associates	**56 048**	56 047	**56 048**	**56 047**
Less: provisions	**(56 017)**	(56 017)	**(56 017)**	**(56 017)**
Total interest in associated companies	**31**	31	**31**	**31**

The impairment charge relates to impairment of loans issued to associates where the recovery of these loans is not probable.

	Group		Corporation	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
Significant financial information of associated companies				
Total assets	**11 455**	41 043	**11 455**	41 043
Total non-current assets	**6 133**	34 645	**6 133**	34 645
Total current assets	**5 322**	6 398	**5 322**	6 398
Total liabilities	**177 951**	250 588	**177 951**	250 588
Total non-current liabilities	**169 319**	220 517	**169 319**	220 517
Total current liabilities	**8 632**	30 071	**8 632**	30 071
Net liabilities	**(166 496)**	(209 545)	**(166 496)**	(209 545)
Group's share of net liabilities of associates	**(61 188)**	(80 342)	**(61 188)**	(80 342)
Total revenue	**318**	11 056	**318**	11 056
Total losses	**(6 952)**	(9 296)	**(6 952)**	(9 296)
Unrecognised share of losses:				
- Current period	**(195)**	(3 130)	**(195)**	(3 130)
- Cumulative	**(60 993)**	(63 200)	**(60 993)**	(63 200)

Although the Group holds less than 20% of the equity shares of Mabibi Development Company (Pty) Ltd and it has less than 20% of the voting power at shareholder meetings, the Group exercises significant influence by virtue of its contractual right to appoint two directors.

8.2 Joint ventures (Annexure 4)

Loans to joint venture	2 796	2 796	2 796	2 796
	2 796	**2 796**	**2 796**	**2 796**

Joint ventures				
Loans to joint ventures	2 796	2 796	2 796	2 796
Less: Expected credit losses	-	-	-	-
Loans to joint venture net of loss allowance	**2 796**	**2 796**	**2 796**	**2 796**

9. CASH AND LIQUID ASSETS

9.1 Cash and cash equivalents

Coin and bank notes	**67 328**	34 477	**101**	**32**
Investments and balance with banks	**1 284 649**	1 430 598	**475 676**	**527 283**
	1 351 977	1 465 075	**475 777**	**527 314**

Included in cash is an amount of R16,3 million (2018: R12,1 million) relating to cash in transit at year-end to be delivered by security company to branches. Cash also included an amount of R113 million relating to ring-fenced collections derived from advances made from the EDTEA Fund.

The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings ranging from AA- to AAA+ excluding those with Ithala SOC Limited which is not independently rated but has been approved as an authorised intermediary by the Directors. Due to investments being held in institutions that are highly-rated, these instruments are neither past due nor impaired. The carrying amount of the cash and cash equivalents approximates its fair value.

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FOR THE YEAR ENDED 31 MARCH 2019

	Group		Corporation	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
9.2. Statutory liquid assets				
Treasury bill	188 389	187 714	-	-
	188 389	187 714	-	-
Undrawn facilities available are as follows:				
ABSA Bank				
Overdraft facility	77 663	77 663	77 663	77 663
Financial guarantees	22 337	22 337	22 337	22 337
	100 000	100 000	100 000	100 000

10. TRADE AND OTHER RECEIVABLES

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Trade receivables	86 641	61 765	77 498	59 785
Other receivables	68 652	126 952	112 029	119 747
Gross trade and other receivables	155 293	188 718	189 527	179 532
Provisions	(52 271)	(41 534)	(47 121)	(39 009)
Trade receivables	(31 787)	(21 844)	(27 429)	(19 317)
Other receivables	(20 484)	(19 690)	(19 692)	(19 692)
Net trade and other receivables	103 021	147 184	142 406	140 523

Aging	Expected credit loss rate	Gross carrying amount	Lifetime expected credit loss
Group			
31 March 2019 Trade receivables days past due			
0 - 30 days	18%	32 706	3 135
31 - 60 days	40%	10 057	3 125
61 - 90 days	51%	5 963	2 668
91 + days	61%	3 971	2 132
120+ days	70%	33 944	22 470
Deposits			(1 744)
Total		86 641	31 787

The closing balance of the trade and other receivables loss allowance as at 31 March 2019 reconciles with the trade and other receivables loss allowance opening balance as follows:

	2019
Opening loss allowance as at 1 April	**41 534**
Loss allowance recognised during the year	16 963
Receivables written-off during the year	(6 226)
Loss allowance as at 31 March	**52 271**
2018	
Opening balance	57 514
Amounts written-off	(9 211)
Charge to income statement	(6 769)
Expected credit loss - trade and other receivables	11 025
Charge to income statement under IAS 39	(17 794)
Closing balance	41 534

The company uses a provision matrix to measure the Expected Credit Losses (ECL) of trade receivables. In accordance with IFRS 9, the simplified approach is used to estimate the loss allowance at an amount equal to the lifetime expected losses. Loss rates are based on actual credit loss experience over the past years.

Aging	Expected credit loss rate	Gross carrying amount	Lifetime expected credit loss
Corporation			
31 March 2019 Trade receivables days past due			
0 - 30 days	18%	30 700	2 798
31 - 60 days	40%	8 687	2 607
61 - 90 days	51%	5 155	2 253
91 - 120 days	61%	3 376	1 769
120+ days	70%	29 580	19 524
Deposit			(1 521)
Total		**77 498**	**27 429**

	2019
Opening loss allowance as at 1 April	**39 009**
Loss allowance recognised during the year	**14 136**
Receivables written-off during the year	**(6 024)**
Loss allowance as at 31 March	**47 121**
2018	
Opening balance	**51 763**
Amounts written-off	**(7 489)**
Expected credit loss - trade and other receivables	**(5 265)**
Charge to income statement under IAS 39	**9 998**
Charge to income statement: Impact of IFRS 9 adoption	**(15 263)**
Closing balance	**39 009**
Loss allowance as at 1 April 2018 calculated under IAS 39	**(15 263)**
Charge to income statement: Impact of IFRS 9 adoption	**(15 263)**
Opening loss allowance as at 1 April 2018	**(30 526)**

The Group uses a provision matrix to measure the Expected Credit Losses (ECL) of trade receivables. In accordance with IFRS 9, the simplified approach is used to estimate the loss allowance at an amount equal to the lifetime expected losses. Loss rates are based on actual credit loss experience over the past years.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

	Group		Corporation	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
10.1 Finance lease receivable				
Gross investments in lease receivable	3 333	4 386	-	-
Unearned finance lincome	(593)	(981)	-	-
Present value of minimum lease payments receivable	2 741	3 405	-	-
Current portion of minimum lease payments receivable	(752)	(607)	-	-
Long-term portion of minimum lease payments receivable	1 989	2 798	-	-

The Group entered into a five-year finance lease agreement for its equipment with ERF 36 Powerville (Pty) Ltd during the year. Ownership shall pass to the lessee at the end of the lease period.

Minimum lease payments receivable under the finance lease receivable are as follows:

Next 12 months	752	607	-	-
From 2 to 5 years	1 989	2 798	-	-
	2 741	3 405	-	-

10.2 Prepayments

Prepaymet of land	8 166	8 166	8 166	8 166

The prepayment relates to the purchase of land from the municipality that has not yet been finalised. It is expected that the acquisition process will be finalised once all requirements are satisfied.

11. INVESTMENTS

Designated at fair value through profit and loss				
Balance at beginning of year	18 234	20 550	18 234	20 550
Additions	-	-	-	-
Fair value movement	(4 633)	(2 317)	(4 633)	(2 317)
Balance at end of year	13 601	18 234	13 601	18 234

Investments comprise 3 736 400, units in SA Corporate Real Estate Fund (2018: 3 736 400). Fair value is determined by reference to stock exchange quoted bid prices.

11.1 Investment in cell captive

Balance at beginning of year	23 290	17 358	23 290	17 358
Movements:				
Fair value gain recognised in profit and loss	8 583	5 932	8 583	5 932
Balance at end of year	31 873	23 290	31 873	23 290

Ithala has an investment in two cell captives that allow Ithala the use of insurance licenses, namely the short-term insurance and the long-term insurance. The fair value of the cell captive is equivalent to its net asset value. The carrying amount of the investment in cell captives approximates its fair value.

	Group		Corporation	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
12. INVENTORY				
Consumables	**2 543**	3 255	**1 193**	1 824
Land	**2 845**	2 861	**2 845**	2 861
	5 388	6 116	**4 038**	4 685

Inventories to the value of R3 191 577 has been expensed during the current year (2018: R3 169 399).

13. ORDINARY SHARE CAPITAL

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Authorised				
1 008 582 361 (2018: 1 008 582 361) ordinary shares of R1 each	**1 008 582**	1 008 582	**1 008 582**	1 008 582
Issued				
1 083 371 (2017: 1 008 582 361) ordinary shares of R1 each	**1 008 582**	1 008 582	**1 008 582**	1 008 582

14. NON-CONTROLLING INTEREST

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Balance at beginning of year	**(166)**	(166)	**-**	-
Movement	**12**	-	**-**	-
Balance at end of year	**(154)**	(166)	**-**	-

Non-controlling interest represents the share of profit and losses attributable to minority shareholders of the subsidiary companies.

15. BORROWINGS

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
At amortised cost				
Total borrowings	**54 359**	67 621	**52 299**	65 105
Portion repayable within 12 months	**(13 841)**	(18 613)	**(13 841)**	(18 167)
Long-term portion	**40 518**	49 008	**38 458**	46 938

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FOR THE YEAR ENDED 31 MARCH 2019

	Instalment	Date of final repayment	Interest rate %	Group 2019	Group 2018	Corporation 2019	Corporation 2018
	R'000			R'000	R'000	R'000	R'000
Development Bank of Southern Africa Ltd							
Repayable in half-yearly instalments	3 648 3 761	2018 2019	- 9,17%	- 3 593	- 10 778	- 3 593	- 10 778
Security-None							
Nedbank							
Repayable in monthly instalments	646	2026	9,5%	39 794	43 645	39 794	43 645
Khula Enterprise Finance Ltd/ Sefa							
Repayable in monthly instalments	194	2025	5,7%	8 912	10 682	8 912	10 682
Sundumbili Plaza Ltd							
No fixed terms of repayment	-	-	11,25%	-	227	-	-
Nongoma Plaza Ltd							
No fixed terms of repayment	-	-	11,25%	-	60	-	-
Sibaya Conservation Projects (Pty) Ltd							-
No fixed terms of repayment	-	-	-	-	1 783	-	-
Port Shepstone Quarries							
No fixed terms of repayment	-	-	-	-	446	-	-
Other loan balances with external shareholders	-	-	-	2 060	-	-	-
No fixed terms of repayment	-	-	-	-	-	-	-
Total borrowings				54 359	67 621	52 299	65 105

The interest rate applicable on the borrowings is variable

	Group		Corporation	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
16. DEPOSITS DUE TO CUSTOMERS				
Call deposit accounts	**64 561**	70 349	**-**	-
Savings accounts	**954 578**	967 944	**-**	-
Term deposits	**1 273 018**	1 271 266	**-**	-
	2 292 158	2 309 560	**-**	-
Maturity analysis repayable:				
On demand	**982 158**	1 131 455	**-**	-
Up to 1 month	**148 542**	46 369	**-**	-
From 1 month to 6 months	**733 108**	717 057	**-**	-
From 6 months to 1 year	**383 213**	373 753	**-**	-
From 1 year to 5 years	**45 137**	40 926	**-**	-
	2 292 158	2 309 560	**-**	-

Savings accounts are further analysed as follows:

Pass book*	**638 748**	649 639	**-**	-
Trust accounts	**56 098**	57 844	**-**	-
Debit card	**237 122**	212 181	**-**	-
Corporate	**22 610**	48 281	**-**	-
Total savings	**954 578**	967 944	**-**	-

Term deposits are further analysed as follows:

Retail accounts	**910 265**	899 035		
Corporate accounts	**362 753**	372 232	**-**	-
Total term deposits	**1 273 018**	1 271 266	**-**	-

*A Pass Book is a paper book used to record bank transactions on a depositor's account and is an alternative means of banking for customers who do not prefer electronic banking.

Savings accounts, as disclosed in the table above, have no fixed terms and are available to customers on demand. Term deposits are available to customers upon maturity.

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FOR THE YEAR ENDED 31 MARCH 2019

	Group		Corporation	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000

17. EMPLOYEE BENEFITS

17.1 Post-retirement medical obligations (Closed Fund)

The Group provides post-retirement medical benefits to substantially all employees who commenced employment prior to 1 August 2000.An actuarial valuation of post-retirement medical obligations at 31 March 2019 quantified the present value of unfunded obligations at R112,3 million (2018:R112,4 million) for Group and R73, 7 million (2018: R73,9 million) for Corporation. These actuarial valuations are conducted annually, at balance sheet date.The principal actuarial assumptions used included a discount rate of 10,40% (2018: 9,60%), and a health-care cost inflation rate of 8,60% (2018: 8,40%).

The movement in the liability recognised in the balance sheet is as follows:

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Movement in the defined benefit obligation, is as follows:				
Balance at beginning of the year	**112 364**	118 386	**73 980**	79 261
Current service costs	**1 396**	1 643	**594**	756
Interest costs	**10 473**	11 299	**6 857**	7 529
Net actuarial (gain)/loss recognised during the year	**(5 714)**	(13 095)	**(2 892)**	(8 942)
Benefit payment	**(6 212)**	(5 869)	**(4 847)**	(4 624)
Balance at end of the year	**112 306**	112 364	**73 692**	73 980
Amounts recognised in the balance sheet are as follows:				
Present value of unfunded obligations	**112 306**	112 364	**73 692**	73 980
Net liability in the statement of financial position	**112 306**	112 364	**73 692**	73 980
Short-term portion	**6 519**	5 954	**5 058**	4 646
Long-term portion	**105 787**	106 408	**68 634**	69 333
Liability at end of year	**112 306**	112 362	**73 692**	73 979
Post-retirement medical benefits				
Actuarial (loss)/gain				
The actuarial gains arose as a result of the following:				
Change in real discount rate	**7 789**	8 726	**3 775**	5 046
Higher than expected healthcare cost inflation including changes in members' benefit options	**(3 951)**	946	**(2 472)**	658
Unexpected changes in membership	**1 876**	3 423	**1 589**	3 237
Total	**5 714**	13 095	**2 892**	8 942

	Assumptions	Change	2019 R'000	2018 R'000
Group				
Actuarial assumptions used and sensitivity analysis				
Sensitivity analysis - unfunded accrued liability				
Assumptions				
Present value of obligation			112 306	112 363
Health-care cost inflation	8,00%	+1%	134 458	127 453
		-1%	100 559	99 885
Discount rate	10,40%	+1%	99 649	100 132
		-1%	124 561	127 356
Expected retirement age	60years	+1 year	109 602	109 507
		-1 year	114 987	115 140
Corporation				
Actuarial assumptions used and sensitivity analysis				
Sensitivity analysis - unfunded accrued liability				
Assumptions				
Present value of obligation			73 962	73 980
Health-care cost inflation	8,00%	+1%	81 782	82 679
		-1%	66 820	66 658
Discount rate	10,40%	+1%	66 970	66 790
		-1%	81 710	82 642
Expected retirement age	60years	+1 year	72 506	72 569
		-1 year	74 787	75 186

17.2. Pension and provident fund schemes

The Group provides retirement benefits substantially to all employees by contributing to pension and provident funds. Membership of either pension or provident fund is compulsory for all Corporation and Ithala SOC Limited permanent employees.

The defined benefit pension fund and the defined benefit provident fund are governed by the Pension Funds Act of 1956, with retirement benefits being determined with reference to both pensionable remuneration and years of service. Both funds are closed to new members. The defined contribution pension fund and defined contribution provident fund are governed by the Pension Funds Act of 1956, and are open to new members and members who have elected to transfer from the defined benefit funds.

Actuarial valuations of the defined benefit pension and provident funds were conducted as at the end of each of the three preceding financial years and the actuary found the funds to be in a sound financial position. An actuarial review conducted as at 31 March 2019 showed that in respect of the Defined Benefit Pension fund and the Defined Benefit Provident fund, the present value of the obligation was adequately covered by the fair value of the scheme assets.

The most recent actuarial valuation of plan assets and present value of defined benefits obligations were carried out for the current and prior annual financial years by Old Mutual Corporate Consultants, fellow of the Institute of Actuaries of South Africa. The present value of the defined benefits obligations and the related current service cost were measured using the Projected Unit Credit Method.

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	Group		Corporation	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
17.2.1 Defined benefit pension fund				
Defined benefit pension fund				
Present value of funded obligations	**529**	1 625	**238**	731
Fair value of plan assets	**(6 558)**	(20 199)	**(2 014)**	(9 051)
Surplus	**(6 029)**	(18 574)	**(1 776)**	(8 320)
Amount allowed as a reduction of future contributions	**2 083**	13 025	**-**	5 823
Asset not recognised due to asset ceiling	**(3 946)**	(5 549)	**(1 776)**	(2 497)
Net asset balance currently recognised				
Amount allowed as a reduction of future contributions	**2 083**	13 025	**-**	5 823
Amount utilised for contributions	**(2 871)**	(5 885)	**-**	(3 701)
Asset as per balance sheet	**(788)**	7 140	**-**	2 122

	Assumptions	Change	2019 R'000	2018 R'000
Group				
Sensitivity analysis - unfunded accrued liability				
Present value of obligation		1%	8,9%	8,10%
Discount rate				
Expected salary rate		-0,2%	6,3%	6,50%
Corporation				
Sensitivity analysis - unfunded accrued liability				
Present value of obligation		(493)	238	731
Discount rate	3%	1%	238	731
		-1%	238	731
Expected salary rate	6%	1%	238	731
		-1%	238	731

It was resolved during the 2012 financial year to close the defined benefit pension fund. All active members of the fund have been transferred to a defined contribution fund of the Company as at 31 December 2011. The trustees have agreed to utilise the surplus in the pension fund to fund the employer contributions towards the Old Mutual Superfund. The Company has utilised the contribution holiday as at 31 March 2019.

	2019 R'000	2018 R'000	2019 R'000	2018 R'000
The movement in the defined benefit obligation over the year is as follows:				
Balance at beginning of the year	1 625	1 469	731	661
Interest cost	86	132	39	59
Actuarial gain	(31)	24	(14)	11
Past service costs	2 349	-	1 057	-
Benefits paid	(3 500)	-	(1 575)	-
Balance	529	1 625	238	731
The movement in the fair value of plan assets over the year, is as follows:				
Balance at beginning of the year	-	-	3 229	3 229
Interest income	4 146	17 301	199	7 785
Actuarial gain	404	1 557	161	701
	(1 221)	1 343	(1 575)	567
Balance at end of the year	3 329	20 201	2 014	9 053
Actuarial (loss)/gain				
The actuarial gains arose as a result of the following:				
Actuarial gain arising from changes in demographic assumptions	354	-	-	-
Actuarial gain arising from changes in financial assumptions	188	-	188	-
Previous unrecognised gains	722	-	722	-

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FOR THE YEAR ENDED 31 MARCH 2019

	Group		Corporation	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000

17.2.2 Defined benefit provident fund

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Defined benefit provident fund				
Present value of funded obligations	35 634	38 584	14 178	15 352
Fair value of plan assets	(44 513)	(43 919)	(19 293)	(19 035)
Surplus	(8 879)	(5 335)	(5 115)	(3 683)
Amount allocated to employer surplus account	8 879	5 335	5 115	3 683
Asset not recognised due to asset ceiling	-	-	-	-
Defined benefit provident fund				
The movement in the defined benefit obligation over the year is as follows:				
Balance at beginning of the year	36 362	25 912	15 352	9 972
Opening adjustment	-	-	-	2 222
Interest cost	2 996	2 914	1 192	1 263
Current service cost	-	731	-	317
Past service cost	-	19 410	-	9 426
Actuarial loss	(2 672)	(1 154)	(1 063)	(2 885)
Benefits paid	(3 273)	(11 451)	(1 302)	(4 963)
Balance	33 413	36 362	14 179	15 352
The movement in the fair value of plan assets over the year is as follows:				
Balance at beginning of the year	43 920	51 234	19 036	22 206
Interest income	3 427	4 123	1 485	1 787
Contributions received	-	374	-	162
Benefits paid	(3 273)	(11 451)	(1 302)	(4 963)
Actuarial gain	439	(360)	74	(156)
Balance at end of the year	44 514	43 920	19 293	19 036
Actuarial (loss)/gain				
The actuarial gains arose as a result of the following:				
Actuarial gain arising from changes in demographic assumptions	439	-	74	-
Actuarial gain arising from changes in financial assumptions	1 063	-	1 063	-
Previous unrecognised gains	-	-	-	-

	Assumptions	Change	2019 R'000	2018 R'000
Corporation				
Sensitivity analysis - unfunded accrued liability				
Present value of obligation	-	-	-	23 232
Discount rate	3%	1%	-	14 339
		-1%	-	14 339
Expected salary rate	6%	1%	-	14 339
		-1%	-	14 339

The Company expects to make no contribution to the Old Mutual Superfund Defined Benefit Provident Fund during the next financial year due to payment holiday (2018: Nil).

17.3 Long service obligation

		Group		Corporation	
		2019	2018	2019	2018
		R'000	R'000	R'000	R'000

The Company provides long service awards to permanent employees in the form of cash from ten years of continuous service and every five years thereafter. An actuarial evaluation of the provision for long service awards is conducted annually. The principal actuarial assumptions used included a discount rate of 9,2% (2018: 8,7%) and an average salary inflation of 6,9% (2018: 6,7%).

The most recent actuarial valuation of the long service awards was carried out for the current financial year by Alexander Forbes, fellow of the Institute of Actuaries of South Africa. The present value of the liability was measured using the Projected Unit Credit Method.

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Balance at beginning of year	30 932	30 237	16 048	15 479
Expensed during the year	4 770	5 952	3 219	3 084
Contributions paid	(2 210)	(3 915)	(1 159)	(2 091)
Unrecognised actuarial gain	(638)	(1 342)	(638)	(424)
Balance at end of year	32 854	30 932	17 470	16 048
Amounts recognised in the balance sheet are as follows:				
Present value of unfunded obligations	32 854	30 932	17 470	16 048
Unrecognised actuarial gain	-	-	-	-
Liability at end of year	32 854	30 932	17 470	16 048
Short-term portion	3 683	2 145	2 430	1 126
Long-term portion	29 171	28 787	15 040	14 922
Liability at end of year	32 854	30 932	17 470	16 048
Amounts recognised in the income statement are as follows:				
Current service cost	3 493	3 509	1 887	1 845
Interest cost	2 475	2 442	1 332	1 237
Net actuarial loss recognised in the year	(1 759)	(1 342)	(638)	(424)
	4 209	4 609	2 581	2 658
Membership statistics:				
In-service members	698	701	365	339

Sensitivity analysis - unfunded accrued liability assumptions	Change	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Central assumptions:		32 854	30 932	17 470	16 048
CPI Inflation	+1%	35 164	33 216	18 627	16 532
	-1%	30 766	28 874	16 420	14 529
Average retirement age	-2 years	28 808	27 083	15 094	13 318
	+2 years	30 766	34 857	19 817	17 638

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FOR THE YEAR ENDED 31 MARCH 2019

	Group		Corporation	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
18.1 GOVERNMENT GRANTS - DEFERRED INCOME				
BEE Risk Fund	**6 599**	6 599	**6 599**	6 599
Share participation	**7 097**	7 098	**7 097**	7 098
Co-operatives - Business	**-**	-	**-**	-
Co-operatives - Agriculture	**170**	170	**170**	170
DTI grant	**928**	7 089	**928**	7 089
SMME on-lending	**838**	-	**838**	-
Hubs	**40 000**	299	**40 000**	299
Ndumo	**2 648**	2 648	**2648**	2 648
SBGE	**-**	837	**-**	837
KPDH	**-**	-	**-**	-
RASET	**59 150**	40 050	**59 150**	40 050
Thokazi Royal Lodge	**4 825**	4 825	**4 825**	4 825
Ithala SOC Limited	**31 888**	37 986	**20 000**	-
Drakensberg Cable Car	**1 369**	1 369	**1 369**	1 369
Bulk Buying PROJECT	**17 000**	-	**17 000**	-
Operation Vula	**40 298**	-	**40 298**	-
	212 809	108 968	**200 921**	70 983
18.2 Government grants - other				
EDTEA Equity Fund	**111**	111	**111**	111
TOTAL GOVERNMENT GRANTS	**212 920**	109 079	**201 032**	71 093

IDFC receives grants for the purposes of lending to individuals or companies, support BEE projects as well for construction projects. Grant deferred income relates to the Government grants that have not been used for on-lending to individuals or companies or supporting BEE projects for identified construction projects. The grant deferred income is recognised as revenue when the grant conditions are met.

19. TRADE AND OTHER PAYABLES

	Group 2019	Group 2018	Corporation 2019	Corporation 2018
Trade creditors	**19 613**	26 368	**15 021**	19 698
Accruals	**68 627**	40 126	**43 892**	26 628
Deferred revenue - Commission income	**-**	981	**-**	-
South African Revenue Services	**18 333**	25 445	**(376)**	5 368
Sundry creditors	**265 512**	347 441	**220 454**	321 239
Leave pay accrual	**32 564**	31 100	**17 507**	17 219
Bonus pay accrual	**3 705**	3 423	**1 788**	1 570
	408 354	474 884	**298 287**	391 722

The bonuses accrual relates to a "13th cheque" payable to "A – C band" employees only that are employed by the Company at the time of payment being annually in November each year.

Sundry creditors include funds held on behalf of the Department of Human Settlements for the Vulindlela Development Agency and Military Veterans projects.

20. PROVISIONS

	Landfill site	Rehabilitation of mining site	Total rehabilitation provision	Provision for audit fees	Other provisions	Total other provision	Total
2019							
Group							
Opening balance	**17 816**	**1 548**	**19 364**	**7 236**	**500**	**7 736**	**27 100**
Additions				**1 826**		**1 826**	**1 826**
Utilisation					**(62)**	**(62)**	**(62)**
Interest expense	**1 071**	**61**	**1 132**				**1 132**
Closing balance	**18 887**	**1 609**	**20 496**	**9 062**	**438**	**9 500**	**29 996**
Corporation							
Opening balance	**17 816**		**17 816**	**2 934**	**500**	**3 434**	**21 250**
Additions				**1 314**		**1 314**	**1 314**
Utilisation					**(62)**	**(62)**	**(62)**
Interest expense	**1 071**		**1 071**				**1 071**
Closing balance	**18 887**		**18 887**	**4 248**	**438**	**4 686**	**23 573**
2018							
Group							
Opening balance	16 807		16 807	6 560	500	7 060	23 867
Additions		1 548	1 548				1 548
Utilisation							-
Interest expense	1 009		1 009	676		676	1 685
Closing balance	17 816	1 548	19 364	7 236	500	7 736	27 100
Corporation							
Opening balance	16 807		16 807	2 499	500	2 999	19 806
Additions				435		435	435
Utilisation						-	
Interest expense	1 009		1 009			-	1 009
Closing balance	17 816		17 816	2 934	500	3 434	21 250

Provision for landfill site
The Landfill Rehabilitation Provision is created for rehabilitation of the current operational sites at future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital, which is currently 6% (2018: 6%). The entity has an obligation to rehabilitate these landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which the entity incurs as a consequence of having used the property during a particular period for landfill purposes. The entity estimates the useful lives and makes assumptions as to the useful lives of these assets, which influence the provision for future costs. An independent assessment of the useful life and estimated costs of rehabilitating the landfill site is conducted every three years and an internal review is performed in the two intervening years.

Provision for rehabilitation
A provision for the rehabilitation costs arising from the the mining activities has been recognised. The provision will only be settled when the mining operations cease. The entity has an obligation to rehabilitate these landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which the mining is ocurring, the obligation for which the entity incurs as a consequence of having mined during a particular period.

Other provisions
The other provisions relate to legal claims against Ithala. The claims relate to non-installation of a security door as well as a painting claim laid by the body corporate. The provision is for a short-term, hence there was no discounting.

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FOR THE YEAR ENDED 31 MARCH 2019

	Group		Corporation	
	2019	2018	**2019**	2018
22. INTEREST	**R'000**	R'000	**R'000**	R'000
22.1. Interest income				
Balances with banks and short-term funds	**105 721**	107 164	**20 891**	17 790
Advances	**231 111**	236 438	**53 751**	65 529
Finance lease	**389**	384	**-**	-
	337 220	343 987	**74 642**	83 319
Analysis per financial instrument category				
Interest on financial assets at amortised cost	**337 220**	343 986	**74 642**	83 319
22.2 Interest expenditure				
Interest on:				
Savings and deposit accounts	**81 824**	92 323	**-**	-
Borrowings	**5 253**	13 250	**5 224**	7 882
Non-trading interest	**15 969**	14 837	**9 260**	9 718
	103 045	120 410	**14 484**	17 600
23. OTHER OPERATING INCOME	**1 187 702**	1 153 767	**993 001**	994 986
Other operating income is stated after crediting the following items:				
23.1 Surplus/(loss) on sale of investment properties, property, plant and equipment and properties in possession	**679**	(933)	**82**	(99)
23.2 Dividends received	**1 936**	669	**1 936**	669
Listed investments	**1 936**	669	**1 936**	669
Unlisted investments		-	**-**	-
23.3 Grants applied	**145 720**	143 810	**145 720**	141 810
SMME on-lending	**64 771**	77 913	**64 771**	77 913
Projects	**6 161**	1 873	**6 161**	1 873
SBGE operations		2 023	**-**	2 023
KPDH operations	**-**	2 000	**-**	
Share capital Ithala SOC Limited	**74 788**	60 000	**74 788**	60 000
23.4 Rental received	**374 544**	355 719	**336 946**	320 831
23.5 Sale of electricity, water and sewage	**275 462**	260 991	**275 462**	260 991
23.6 Fees, commission and services recovered	**205 211**	184 551	**57 160**	47 251
23.7 Fair value adjustment on investment property	**114 275**	100 487	**108 703**	147 356
23.8 Fair value adjustment of finacial assets	**(4 633)**	(2 317)	**(4 633)**	(2 317)
Fair Value adjustment in cell captive	**8 583**	5 932	**8 583**	5 932
Fair value in investment in corp real estate	**(4 633)**	(2 317)	**(4 633)**	(2 317)

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
24. OPERATING EXPENDITURE	**1 181 378**	1 098 819	**805 704**	778 698
Operating expenditure is stated after charging/(crediting) the following items:				
24.1 Auditor's remuneration				
Audit fees - current year	**10 204**	8 386	**4 772**	3 538
- prior year under provision	**249**	292	**-**	-
	10 453	8 678	**4 772**	3 538
24.2 Depreciation of property, plant and equipment	**32 287**	35 163	**21 382**	23 209
24.3 Amortisation of intangible assets	**7 538**	7 555	**6 094**	4 850
24.4 Non-credit related impairments				
Impairment of plant	**9 128**	-	**-**	-
Amounts due from subsidiaries	**-**	19 264	**-**	1 705
Impairment of properties in possession	**-**	-	**-**	-
Impairment of investments	**-**	-	**18 084**	65 677
Impairment of non-current assets held for sale	**(568)**	(676)	**(568)**	(676)
	8 560	18 588	**17 516**	66 706
24.5 Professional fees	**26 700**	34 294	**17 919**	22 151
24.6 Purchases of electricity, water and sewage	**207 745**	195 314	**207 745**	195 314
24.7 Rent, rates and utilities	**130 567**	145 103	**130 567**	110 036
24.8 Directors' emoluments				
CORPORATION				
Emoluments paid to Executive Directors:				
PS Bengu - Chief Executive Officer (Appointed 01 November 2018)	**-**	-	**1 071**	-
BTT Mathe - Acting Chief Executive Officer (Acting term ended July 2018)	**-**	-	**153**	2 777

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

	Group		Corporation	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
Emoluments paid to Non-Executive Directors:				
R Morar - Chairperson (Appointed June 2017)	**1 011**	911	**1 011**	911
S Mkhize (Appointed June 2017)	**884**	775	**884**	775
Inkosi S Mkhize (Appointed June 2017)	**611**	443	**611**	443
P Sibiya (Appointed June 2017)	**721**	627	**721**	627
C Gina (Appointed June 2017)	**365**	278	**365**	278
N Nzuza (Appointed June 2017)	**643**	327	**643**	327
S Ndlovu (Appointed June 2017)	**692**	581	**692**	581
K Mbonambi (Appointed June 2017)	**514**	510	**514**	510
K Cele (Appointed June 2017)	**53**	37	**53**	37
C Mlaba (Appointed June 2017)	**-**	18	**-**	18
MSV Gantsho - Past Chairperson (Term ended May 2017)	**-**	55	**-**	55
B Bam (Term ended May 2017)	**-**	50	**-**	50
R Ramdew (Term ended May 2017)	**-**	25	**-**	25
D McLean (Term ended May 2017)	**-**	99	**-**	99
GNJ White (Term ended May 2017)	**-**	101	**-**	101
NN Afolayan (Resigned May 2017)	**-**	61	**-**	61
AN Matyumza (Resigned December 2016)	**-**	-	**-**	-
ITHALA SOC LIMITED				
MF Kekana	**1 025**	950	**-**	-
M Mia (Resigned 01 June 2017 and re-appointed on 31 August 2017)	**598**	744	**-**	-
B Ngonyama	**869**	700	**-**	-
SC Ngidi	**339**	304	**-**	-
T Nyoka (Resigned 31 May 2017)		32	**-**	-
P Radebe	**652**	621	**-**	-
G Sibiya (Appointed 01 August 2017)	**506**	318	**-**	-
T Mathe (Appointed 20 October 2017)	**-**	-	**-**	-
M Madali (Appointed 31 January 2018)	**412**	62	**-**	-
Inkosi SN Mkhize (appointed 23 March 2018)	**829**	-	**-**	-
M Ngcobo (Appointed 17 January 2019)	**128**	-	**-**	-

The Non-Executive Directors do not have service contracts.

	Group		Corporation	
	2019	2018	2019	2018
24.9 Executive management remuneration	R'000	R'000	R'000	R'000
Short-term benefits				
CORPORATION				
BTT Mathe (Acting Chief Executive Officer - 2018 remuneration included under Executive Directors)	2 876	-	2 876	-
F Amod (Resigned October 2018)	1 526	2 106	1 526	2 106
MM Matibe	2 183	2 081	2 183	2 081
DS Khwela (Acting term ended December 2018)	89	-	89	-
M Muthusamy (Acting to May 2017)		108		108
B Shangase	1 913	1 439	1 913	1 439
EB Mokgatle	1 937	1 807	1 937	1 807
F Abdool Kader (Acting term ended March 2019)	279	872	279	872
T Galelekile (Acting term ended October 2018)	106	1 164	106	1 164
MR Sikhosana (Acting term ended October 2018)	62	-	62	-
TP Bokaba (Acting term ended January 2019)	80	-	80	-
XE Mkhize (Appointed March 2019)	71	-	71	-
SB Mnguni (Appointed March 2019)	108	-	108	-
	11 229	11 385	11 229	11 385
ITHALA SOC LIMITED				
Executive Directors' remuneration	6 741	6 944	-	-
D Zandamela - Chief Executive Officer	3 874	4 079	-	-
L Serithi - Chief Finance Officer and Acting Chief Risk Officer (resigned 31 March 2019)	2 868	1 251	-	-
PA Ireland - Chief Executive Officer (Resigned 31 May 2017)	-	990	-	-
M Miya - Acting Chief Executive Officer (Appointed 01 June 2017 and resigned on 31 August 2017)	-	624	-	-
Appointed prescribed officers remuneration	8 875	12 412	-	-
PN Salanje – Compliance Officer (Resigned 31 December 2017)	-	2 135	-	-
S Gwala - HR Manager	1 645	1 421	-	-
S Xolo - Marketing and Sales Manager	989	962	-	-
Z Mthiyane - Head Ithala Connect (Resigned 17 November 2017)		567	-	-
T Mungwe - Company Secretary	1 258	1 109	-	-
F Dikgale - Chief Risk Officer (Resigned 08 December 2017)	-	1 476	-	-
D Pillay - Chief Audit Executive (Resigned 31 August 2017)	-	874	-	-
MC Zikalala - Head IT (Resigned 31 March 2017)	-	421	-	-
S Moodley - Head Segments	1 080	966	-	-
S Johnson - Acting Head: Distribution Channels (Resigned 31 August 2017)	-	664	-	-
A Ndlovu - Head Insurance (Appointed 15 September 2016, resigned 26 May 2017)	-	228	-	-
M Tloubatla - Head: Credit (Appointed 1 April 2016, resigned 31 October 2017)	-	694	-	-
L Keyise - Chief Technology Officer	1 421	895	-	-
M Sewchuran - Compliance Officer (appointed 14 May 2018)	1 264	-	-	-
D Mti - Head: Credit (Appointed 01 July 2018)	1 217	-	-	-

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	Group		Corporation	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000
Acting Prescribed Officers remuneration	**935**	337		
N Ndlovu - Acting Head: Insurance (appointed 01 December 2017)	**935**	337		
Total employee benefits	**16 551**	19 693		
Personnel costs	**428 063**	415 919	**254 178**	241 803

Included in personnel costs is R4.6 million (2018: R4.4 million) paid in respect of staff costs for Ntingwe Tea (Pty) Ltd in terms of an agreement between Ithala and the Department of Agriculture.

25. TAXATION

25.1 Direct taxation

South African normal taxation	**5 466**	4 808	**-**	-
Deferred taxation	**545**	3 703	**-**	-
	6 010	8 511	**-**	-

Ithala Development Finance Corporation is exempt from normal tax in terms of Section 10(1) (cA) (i) of the Income Tax Act. Consequently, all wholly-owned subsidiaries of the Corporation are exempt from normal tax in terms of Section 10(1) (cA)(ii) of the Income Tax Act. The following subsidiaries that are not wholly-owned are subject to normal taxation: Sundumbili (Pty) Ltd, Nongoma (Pty) Ltd and Durban Wharfside Trust.

26. NOTES TO CASH FLOW STATEMENTS

26.1 Cash generated from operating activities

Net income before taxation	**233 420**	284 206	**248 305**	251 453
Adjustment for non-cash items:				
Grants applied	**(145 720)**	(143 810)	**(145 720)**	(141 810)
Provision for rehabilitation	**1 132**	2 557	**1 071**	1 009
Straightlining of operating lease income and expenditure	**(5 165)**	(1 771)	**(6 888)**	(11 037)
Depreciation and amortisation	**39 834**	53 018	**27 476**	28 060
Impairment of assets and inventory	**8 560**	18 588	**17 516**	66 706
Interest on Stage 3 loans	**12 610**	-	**9 991**	-
Credit impairment for trade receivables	**10 737**	(15 980)	**8 112**	(12 754)
Fair value adjustment on PIPs	**1 529**	5 634	**-**	-
Fair value adjustments	**(114 275)**	(145 563)	**(108 703)**	(147 307)
Credit impairment for loans and advances	**(3 658)**	10 299	**(8 962)**	43 308
Write-off of property in possession	**6 925**	-	**-**	-
Movement in other provisions	**1 764**	226	**1 252**	435
(Profit)/loss on disposal of assets	**(679)**	933	**(82)**	99
Post-retirement liability	**11 868**	12 942	**7 451**	8 285
Interest from borrowings	**-**	(910)	**-**	(951)
Long service provision	**4 770**	5 952	**3 219**	3 084
Dividends received	**(1 322)**	-	**(1 322)**	-
Movement in non-controlling interest	**12**	-	**-**	-
Movement in cell captive	**(8 583)**	(5 932)	**(8 583)**	(5 932)
Revaluation of shares	**4 633**	2 316	**4 633**	2 316
	58 392	82 706	**48 766**	84 963

	Group		Corporation	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
26.2 Decrease/(increase) in working capital				
Trade and other payables	(66 530)	163 610	(93 435)	162 578
Trade and other receivables	35 260	(23 593)	(9 069)	(29 717)
Inventory	728	(201)	647	(203)
	(30 542)	139 815	(101 857)	132 658
26.3 Taxation paid				
Opening balance	367	1 957	-	-
Charge for the year	(5 466)	(6 984)	-	-
Closing balance	(554)	367	-	-
Taxation paid	(5 652)	(4 660)	-	-
27. COMMITMENTS				
27.1 Capital commitment				
Authorised and contracted	137 824	37 586	85 866	31 097
	137 824	37 586	85 866	31 097
27.2 Operating lease commitments				
The future minimum lease payments under non-cancellable leases are as follows:				
Next 12 months	13 672	11 641	74	74
From 2 - 5 years	15 515	13 632	372	374
Later than 5 years	(17 594)	(16 433)	1 667	1 739
Total future cash flows	11 593	8 840	2 113	2 187
Straight-lining of operating lease expenditure accrued on balance sheet:	(13 655)	(11 874)	(2 113)	(2 187)
Short-term portion	956	1 141	(74)	(74)
Long-term portion	(14 611)	(13 015)	(2 039)	(2 113)
Future expenses	(2 062)	(3 034)	-	-
	135 762	34 552	85 866	31 097

Corporation

The operating lease relates to the land, where IDFC erected a light industrial factory. The lease commenced on 1 September 2000, with the expiry date of 2051.The lease is for 50 years. The remaining lease period is 31 years. The lease has no renewal option, nor does it allow the transfer of land to IDFC. The escalation rate of rental is 12% on 1 August of each year. The lease also has turnover rental depending on the performance of the building.

Group

The operating lease relates to land where Port Shepstone Quarries conducts its mining activities.The lease is for 30 years. It comenced on 1 August 2013 with an expiry date of 1 July 2043. The remaining lease period is 24 years.The escalation rate of rental is 7% every 1 August of each year. The lease has no renewal option nor does land transfer to the lessee at the end of the lease period.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

	Group		Corporation	
	2019	2018	**2019**	2018
28. CONTINGENT LIABILITIES	**R'000**	R'000	**R'000**	R'000
28.1 Guarantees issued				
Loans by petrol companies to service station	**-**	131	**-**	131
South African Insurance Association	**6 000**	6 000	**3 000**	3 000
Eskom guarantees	**19 225**	19 938	**19 225**	19 857
Ethekwini Municipality	**111**	111	**111**	111
Total	**25 336**	26 180	**22 336**	23 099

28.2 Legal matters

The Company is currently opposing (defendent) certain claims that have been instituted against it by various parties. At year-end, the outcome of the following legal disputes is considered uncertain.

	Group 2019	Group 2018	Corporation 2019	Corporation 2018
CORPORATION				
- Claim by an employee for relocation costs	**-**	-	**104**	104
- Claim for illegal connection to a neighbouring property's pipeline	**-**	-	**-**	84
- Claim by a supplier for electrical installation	**-**	-	**579**	579
- Claim for services rendered in construction of factory units	**-**	-	**-**	988
- Claim for damages suffered due to Ithala misrepresentation	**-**	-	**-**	653
- Claim for damages to a tenant's equipment due to a roof leak	**-**	-	**5 304**	-
- Claim by tenant for damages due to electricity disruption	**-**	-	**502**	-
- Claim for damage resulting from the rain after an Ithala contractor attended to roof repairs	**-**	-	**196**	-
- Claim for damages caused by an alleged breach of a management agreement	**-**	-	**1 002**	-
- Claim by ex-employee for legal fees	**-**	-	**784**	-
ITHALA SOC LIMITED				
Mr PR Bele	**325**	325	**-**	-
Mpikwana Co-operative	**900**	900	**-**	-
South African Insurance Association	**3 000**	3 000	**-**	-
Pinespring Properties	**664**	644	**-**	-
Ithunzi Protection Services	**50**	50	**-**	-
Emerging Search Consultants	**449**	-	**-**	-
	5 388	4 919	**8 471**	2 408

	Group 2019	Group 2018	Corporation 2019	Corporation 2018
29. DEFERRED TAXATION LIABILITY				
Deferred taxation liability comprises:				
- Provision for doubtful debts	**(1 017)**	(649)	**-**	-
- Straightline rental debtors	**2 376**	2 488	**-**	-
- Fair value adjustment	**30 422**	28 803	**-**	-
- Income received in advance	**(318)**	(251)	**-**	-
- Provision for audit fee and other	**(64)**	(69)	**-**	
	31 399	30 322	**-**	-
The movement is reconciled as follows:	**(30 322)**	(26 740)	**-**	-
Balance at beginning of year				
Movement during the year:	**371**	74	**-**	-
- Provision for doubtful debts	**111**	34	**-**	-
- Straightline rental debtors	**(1 622)**	(302)	**-**	-
- Fair value adjustment	**68**	(387)	**-**	-
- Income received in advance	**(5)**	(10)	**-**	
- Provision for audit fee and other	**(31 399)**	(27 331)	**-**	-

	Loans Granted R'000	Outstanding Balance R'000	Arrears R'000	Specific Impairment Charge R'000	Security Amount R'000	Interest Received R'000

30. RELATED PARTIES

Parent/Holding Company

Ithala Development Finance Corporation Limited (The Corporation) is a 100% held subsidiary of the KwaZulu-Natal Provincial Government, reporting to the Department of Economic Development, Tourism and Environmental Affairs. The Corporation and its subsidiaries, in the ordinary course of business, enter into various transactions with related parties. These occur under terms and conditions that are no more favourable to those entered into with third parties in arm's length transactions.

30.1. Loans to Members of Provincial Legislature, senior management of the Department of Economic Development, Tourism and Environmental Affairs

Entities controlled or jointly controlled or significantly influenced by any individual referred to above:

	Loans Granted R'000	Outstanding Balance R'000	Arrears R'000	Specific Impairment Charge R'000	Security Amount R'000	Interest Received R'000
2019						
Corporation	**29 132**	**27 188**	**854**	**-**	**28 693**	**700**
2018						
Corporation	14 175	12 614	64	-	12 260	639

30.2. Loans to key management personnel

These are individuals responsible for planning, directing and controlling the activities of the Ithala Development Finance Corporation, its subsidiaries and associated companies.

	Loans Granted R'000	Outstanding Balance R'000	Arrears R'000	Specific Impairment Charge R'000	Security Amount R'000	Interest Received R'000
2019						
Corporation	**35 385**	**21 740**	**2 630**	**2 540**	**14 116**	**1 854**
Ithala SOC Limited	**-**	**4 780**	**-**	**-**	**5 808**	**406**
2018						
Corporation	35 385	34 523	6,268	13,212	14 019	3 586
Ithala SOC Limited	-	4 868	-	-	6 842	430

Loans to Executive and Non-Executive Directors are secured by mortgage bonds over properties for housing loans and the market value of the asset for vehicle and asset finance. The Company, in the ordinary course of business, entered into various transactions with related parties. These transactions occur under terms that are no more favourable to those entered into with third parties at arm's length except for housing loans where all full-time employees qualify for the prime overdraft rate less 1,75% and vehicle and asset finance where all full-time employees qualify for the prime overdraft rate less 1,00%.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

	2019 R'000	2018 R'000

30.3. Transactions between the Corporation and its subsidiaries

These are transactions and balances with subsidiaries of the Corporation. These amounts are only included in the Corporation accounts and are eliminated on consolidation.

	2019 R'000	2018 R'000
a) Ithala SOC Limited		
Bank charges received	-	-
Interest paid on customer deposits and retention accounts	5 193	5 040
Shared services	11 340	(14 246)
Rental	3 923	(4 768)
Recovery of operating expenses	511	925
WAN costs	8 300	10 935
The outstanding balances of the Current and Shareholders Loan Accounts:		
Deposits due to properties tenants	46 145	43 199
Outstanding balance on savings and fixed deposits	73 670	77 559
Ithala Development Finance Corporation inter-company balance	(13 291)	1 028
b) KwaZulu-Natal Property Development Holdings		
Dividends received	-	6 882

c) Other Subsidiaries	**Distribution**	**Sale of refuse**	**Management**	**Interest on loans**	**Insurance**	**Other**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
2019 Transactions with othe subsidiaries and IDFC						
Nongoma Plaza	-	-	626	2 889	337	6
Sundumbili Plaza	-	527	837	2 283	398	165
The Durban Wharfside Trust	5,758	-	581	-	228	123
Sibaya Conservation	-	-	-	-	-	-
Port Shepstone Quarries	-	-	-	-	-	410
	5 758	**527**	**2 044**	**5 172**	**963**	**704**

	Distribution	Sale of refuse	Management	Interest on loans	Insurance	Loans
	R'000	R'000	R'000	R'000	R'000	R'000
Balances with other subsidiaries and IDFC						
Nongoma Plaza	-	-	-	-	-	**58 601**
Sundumbili Plaza	-	-	-	-	-	**22 126**
The Durban Wharfside Trust	-	-	-	-	-	**49 163**
Sibaya Conservation	-	-	-	-	-	**4 182**
Port Shepstone Quarries	-	-	-	-	-	**44 190**
Ubuciko Twines and Fabrics (Pty) Ltd	-	-	-	-	-	**82 158**
						260 420

c) Other subsidiaries	Distribution	Sale of refuse	Management	Interest on loans	Insurance	Other
	R'000	R'000	R'000	R'000	R'000	R'000
2018						
Transactions with subsidiaries and IDFC						
Nongoma Plaza	-	-	565	2 945	289	1
Sundumbili Plaza	-	545	821	2 327	347	2
The Durban Wharfside Trust	4 050	-	478	-	139	-
Sibaya Conservation	-	-	-	-	-	-
Port Shepstone Quarries	-	-	-	-	-	-
Ubuciko Twines and Fabrics (Pty) Ltd	-	-	-	-	-	-
	4 050	545	1 864	5 272	775	3

	Distribution	Sale of refuse	Management	Interest on loans	Insurance	Loans
	R'000	R'000	R'000	R'000	R'000	R'000
Balances with subsidiaries and IDFC						
Nongoma Plaza	-	-	-	-	-	58 600
Sundumbili Plaza	-	-	-	-	-	21 981
The Durban Wharfside Trust	-	-	-	-	-	45 767
Sibaya Conservation	-	-	-	-	-	4 162
Port Shepstone Quarries	-	-	-	-	-	33 626
Ubuciko Twines and Fabrics (Pty) Ltd	-	-	-	-	2 835	83 075
	-	-	-	-	**2 835**	**247 211**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

	2019 R'000	2018 R'000

30.4 Transactions between the Corporation and other subsidiaries under the Department of Economic Development, Tourism and Environmental Affairs

	2019 R'000	2018 R'000
Rental	**3 715**	3 512
Parking	**528**	499
Recovery of operating expenses	**690**	878
Corporation	**-**	-
Department of Human Settlements	**111 394**	107 000
Vulindlela Development Agency	**24 808**	120 000
Total	**136 202**	227 000

30.5 Transactions between EDTEA and IDFC

	2019 R'000	2018 R'000
The following grants were received from EDTEA		
RASET	**19 100**	40 050
Enterprise Development Fund	**64 771**	40 022
Industrial Hubs	**40 000**	-
Bulk Buying	**17 000**	-
Operation Vula	**40 000**	-
KwaZulu-Natal Property Development	**-**	2 000
SBGE	**-**	3 052
Thokazi Royal Lodge	**-**	5 500
	180 871	90 624

30.6 Transactions between IDFC and its associates

	Management fees and other R'000	Loan R'000
2019		
Rocktail Bay Dev Co (Pty) Ltd	**-**	**1 027**
Mabibi Development Company (Pty) Ltd	**72**	**459**
Banzi Pan Development Company (Pty) Ltd	**-**	**6 876**
	72	**8 362**
2018		
Rocktail Bay Dev Co (Pty) Ltd	-	1 027
Mabibi Development Company (Pty) Ltd	53	459
Banzi Pan Development Company (Pty) Ltd	-	6 876
	53	8 362

	2019 R'000	2018 R'000
Ntingwe - advances		
Interest-free loan	-	47 680
Loan for wages and operational costs	-	14 010
Loan in terms of purchase and sale agreement	-	4 000
Cost borne by Ithala - Expense in relevant years as per agreement		
Ntingwe management salaries borne by Ithala in prior years	30 900	28 200
Ntingwe management salaries borne by Ithala in current year	1 700	2 700

30.6.1 Transactions between IDFC and its associates

	2019 R'000	2018 R'000
Ulundi Shopping Centre		
Interest		
Loan	2 976	2 976

30.7 Key management personnel

Directors emoluments for the Holding Company and Ithala SOC Limited are disclosed in Note 24.9

Non-Executive Directors at

	2019 R'000	2018 R'000
Port Shepstone Quarries		
Short-term benefits		
Mr ZB Zwane	85	-
Mr NB Nzuza	325	-
Banzi Pan Development Company (Pty) Ltd		
Mr MR Mathenjwa	-	-
Rocktail Bay Dev Co (Pty) Ltd		
Mr V Mvelase	-	-
Mr T Ndlela	-	-
Mr P Ntuli	-	-
Mr H Zikhali	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

	2019 R'000	2018 R'000
Mabibi Development Company (Pty) Ltd		
Mr M Mdletshe	-	-
Mr B Gehren	-	-
Mr T Mbambo	-	-
Ms B Dlamini	-	-
Mr T Ndlela	-	-
Mr V Mvelase	-	-
Ulundi Shopping Centre		
Mr Z Ntombela	-	-
Mr Q Mbatha	-	-
Mr K Zondi	-	-

Various employees of the Holding Company serve as Directors in various subsidiaries, associates and joint venture companies at no additional employee benefits to those companies or the Holding Company. Below is a list of companies and affected employees.

2018 and 2019	Ms F Abdool-Kader	Mr M Muthusamy	Mr B Shangase	Mr T Badenhorst	Mr SD Khwela	Ms B Mokgatle	Mr T Moumakwa
Subsidiaries, associates and joint ventures							
Nongoma Plaza Limited	✓			✓	✓		
Sundumbili Plaza Limited	✓			✓	✓		
The Durban Wharfside Trust	✓			✓			
Sibaya Conservation Projects (Pty) Ltd	✓			✓			
Rocktail Bay Dev Co (Pty) Ltd	✓			✓	✓		
Banzi Pan Development Company (Pty) Ltd	✓						
Mabibi Development Company (Pty) Ltd	✓						
Ubuciko Twines & Fabrics (Pty) Ltd		✓				✓	
Port Shepstone Quarries (Pty)Ltd		✓	✓				
Ntingwe Tea (Pty) Ltd			✓				✓
KwaZulu-Natal Property Development Holding			✓			✓	
Ulundi Shopping Centre	✓						

	Group		Corporation	
	2019	2018	**2019**	2018
	R'000	R'000	**R'000**	R'000

31. FRUITLESS AND WASTEFUL EXPENDITURE AND MATERIAL LOSSES

31.1 Fruitless and wasteful expenditure

There was no fruitless and wasteful expenditure incurred in the current year (2018: Nil), however there are two cases currently under review which may result in possible fruitless and wasteful expenditure.

31.2 Material losses

The Group suffered a loss of R2,3 million as a result of a branch robbery (2018: R1,0 million). Staff fraud amounted to Nil in the current year (2018: R0,1 million).

32. EVENTS AFTER DATE OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Financial Matters Amendment Act, 2019 promulgated on 23 May 2019 amended Section 12 of the Banks Act, 1990 whereby only a nationally state-owned company may apply to establish a bank, precluding the same from a provincially state-owned entity.

33. IRREGULAR EXPENDITURE

	Group 2019 R'000	Group 2018 R'000	Corporation 2019 R'000	Corporation 2018 R'000
Opening balance	**34 913**	25 641	**28 459**	23 215
Add: irregular expenditure – current year	**23 222**	14 156	**6 400**	8 676
Add: prior year amounts identified in current year	**351**	2 216	**-**	1 242
Less: Amounts condoned		(7 100)		(4 674)
Irregular Expenditure awaiting condonation	**58 487**	34 913	**34 859**	28 459
Analysis of expenditure awaiting condonation per age classification				
Current year	**23 222**	14 861	**6 400**	9 381
Prior years	**35 265**	20 051	**28 459**	19 077
Total	**58 488**	34 913	**34 859**	28 459

34. FAIR VALUE DISCLOSURES

34.1 Assets measured at fair value

	2019			
	Level 1	Level 2	**Level 3**	**Total**
Group	**R'000**	R'000	**R'000**	**R'000**
Assets				
Measured on a recurring basis 1				
Investment property	**-**	-	**2 924 017**	**2 924 017**
Investment in cell captives*	**-**	31 873	**-**	**31 873**
Investment in SA Corp Real Estate	**13 601**	-	**-**	**13 601**
Total	**13 601**	**31 873**	**2 924 017**	**2 969 490**
Liabilities				
Borrowings**		54 359		**54 359**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

	2018			
	Level 1	Level 2	**Level 3**	**Total**
	R'000	R'000	**R'000**	**R'000**
Assets				
Measured on a recurring basis 1				
Investment property	-	-	2 703 333	2 703 333
Investment in cell captives*	-	23 290	-	23 290
Investment in SA Corp Real Estate	18 234	-	-	18 234
Total	**18 234**	**23 290**	**2 703 333**	**2 744 856**
Liabilities				
Borrowings**	-	67 621	-	67 621

1.Recurring fair value measurements of assets are those assets that IFRS require or permit to be carried at fair value in the statement of financial position at the end of each reporting period.
* For further details, refer to Note 11.1
** For further details, refer to Note 15

Corporation

	2019			
Assets				
Measured on a recurring basis1				
Investment property	-	-	2 671 458	2 671 458
Investment in cell captives	-	31 873	-	31 873
SA Corp Real Estate	13 601			13 601
Total	**13 601**	31 873	**2 671 458**	2 716 932
Liabilities				
Borrowings**	-	52 299	-	52 299

	2018			
Assets				
Measured on a recurring basis 1				
Investment property	-	-	2 469 687	2 469 687
Investment in cell captives	-	23 290	-	23 290
SA Corp Real Estate	18 234	-	-	18 234
Total	**18 234**	23 290	**2 469 687**	2 511 211
Liabilities				
Borrowings **	-	65 105	-	65 105

	2019	
	Group Investment property	Corporation Investment property
	R'000	R'000
Level 3 financial assets		
Reconciliation of level 3 assets		

Investment property

The following table provides a reconciliation of the opening to closing balance for all assets that are measured at fair value and incorporate inputs that are not based on observable market data (level 3)

Balance at 1 April 2018	**2 703 333**	2 469 687
Total gains included in profit/loss	**114 275**	108 703
Issuances and purchases	**99 387**	86 098
Straightline rental	**7 022**	6 970
Balance at 31 March 2019	**2 924 017**	2 671 458

Unrealised gains/(losses) for the period included in profit or loss for level 3 assets held at the end of the reporting period

Other income	**114 275**	108 703
Total	**114 275**	108 703

Balance at 1 April 2017	**2 401 688**	2 195 065
Total gains included in profit/loss	**145 563**	147 307
Issuances and purchases	**144 582**	115 677
Straightline rental	**11 500**	11 638
Sales and settlements	**-**	-
Balance at 31 March 2018	**2 703 333**	2 469 687

Unrealised gains/(losses) for the period included in profit or loss for level 3 assets held at the end of the reporting period

Other income	**157 063**	158 945
Total	**157 063**	158 945

Sensitivity and inter-relationships of inputs

The behaviour of the unobservable parameters used to fair value level 3 assets and liabilities is not necessarily independent, and may often hold a relationship with other observable and unobservable market parameters. Where material and possible, such relationships are captured in the valuation by way of correlation factors, though these factors are, themselves, frequently unobservable. In such instances, the range of possible and reasonable fair value estimates is taken into account when determining appropriate model adjustments.

The table that follows indicates the sensitivity of valuation techniques and main assumptions used in the determination of the fair value of the level 3 assets and liabilities measured and disclosed at fair value. The table further indicates the effect that a significant change in one or more of the inputs to a reasonably possible alternative assumption would have on profit or loss at the reporting date (where the change in the unobservable input would change the fair value of the asset or liability significantly). The changes in the inputs that have been used in the analysis have been determined taking into account several considerations, such as the nature of the asset or liability and the market within which the asset or liability is transacted. Stress tests have been conducted by only flexing/stressing a major significant unobservable input of risk factor (i.e. assumes that all risks are mutually exclusive).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Description	Fair value	Valuation technique	Unobservable input	Total range (weighted average)
Valuation techniques and inputs for level two and level three assets				
Group				
Investment property	2 924 017	Income Capitalisation	Rental escalation rates, Expenditure Rate Cap Rates Vacancy Rate	8% 28% 13% 5%

Description		Change in significant unobservable input From (1%) to 1% Cap rate	Effect on profit or loss Favourable R'000	Effect on profit or loss (Unfavourable) R'000
Sensitivity and interrelationships of inputs				
Group				
Investment property	2 924 017	13%	12%	14%
			243 668	(208 858)

Description	Fair value	Valuation technique	Unobservable input	Total Range (weighted average)
Corporation				
Investment property	2 671 458	Income Capitalisation	Rental escalation rates, Expenditure Rate Cap Rates Vacancy Rate	8% 28% 13% 5%

Description		Change in significant unobservable input From (1%) to 1% Cap rate	Effect on profit or loss Favourable R'000	Effect on profit or loss (Unfavourable) R'000
Sensitivity and inter-relationships of inputs				
Corporation				
Investment property	2 671 458	13%	12%	14%
			222 622	(190 818)

34.2 Fair value of financial instruments

	2019	
	Group	Group
	Carrying Amount	Fair Value
Financial assets		
Loans and advances	2 386 825	2 330 993
	2 386 825	2 330 993

	2019	
	Corporation	Corporation
	Carrying Amount	Fair Value
Financial assets		
Loans and advances	653 336	597 504
	653 336	597 504

Corporation

Level 1	Level 2	Level 3	Total	Level 2	Level 3	Total
R'000	R'000	R'000	R'000	R'000	R'000	R'000
					597 504	597 504

Loans and advances - fair value
IDFC manages an enterprise development fund on behalf of the KwaZulu-Natal Department of Economic Development, Tourism and Environmenta Affairs, governed through a funding agreement. The purpose of the fund is to advance development within the Province with loans advanced at specified interest rates range that are below the market. The fair value of these loans was determined using a fair value matrix. The matrix calculates fair value of the loan using the loan term to determine the applicable Government bond rate plus a risk premium.

Description	Fair value	Valuation technique	Unobservable input	Risk Premium %	Government Bond Range %
Loans and advances	597 504	Discounting of future cash flows	Government bond interest rates plus risk premium	2	6,52 to 9,77

Description		Change in significant unobservable input From (1%) to 1% Cap rate	Effect Favourable R'000	Effect (Unfavourable) R'000
Sensitivity and inter-relationships of inputs				
Corporation				
Loans and advances	597 504	From (1%) to 1% 8,52 to 11,77	123 205	100 991

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

The following table provides a reconciliation of the opening to closing balance and incorporate inputs that are not based on observable market data (level 3).

	2019 Group	2019 Corporation
Balance at 1 April 2018	**2 472 835**	**839 976**
Advances	813 671	380 278
Interest recognised in profit and loss	233 812	53 728
Repayments	(815 940)	(349 617)
Other loan movements	19 070	(6 678)
Write-offs	(48 431)	(38 211)
Present value adjustment/Day 1 loss	(55 832)	(55 832)
Expected credit loss	(288 194)	(226 141)
Fair value at 31 March 2019	**2 330 992**	**597 504**

Unrealised gains/(losses) for the period included in profit or loss for level 3 assets held at the end of the reporting period
There is no impact on the profit or loss at the end of the reporting period

35. FINANCIAL RISK MANAGEMENT

35.1 Capital risk management

The Group's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to optimise the cost of capital. The capital structure of the Group consists of borrowings, deposits due to customers and equity as disclosed in the statement of financial position. There are no externally imposed capital requirements. There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

35.2 Credit risk management

Credit risk is the risk of suffering financial loss, should any customers or market counterparties fail to fulfil their contractual obligations to the Corporation. Credit risk arises mainly from commercial and consumer loans and advances. Credit risk is a significant risk resulting in management carefully managing its exposure. Credit risk management and control are centralised within a credit risk management team, which reports to the Chief Executive Officer.

Whilst the Board retains overall responsibility for risk management, policies and frameworks are developed by management on an enterprise-wide basis striving to identify all relevant risks, to measure and understand such risks and to manage and monitor them in order to minimise and control the impact of adverse occurrences. The Board of Ithala has delegated the responsibility for risk management to Board Sub Committees, namely the Audit and Risk, IT Governance and the Human Resources, Social and Ethics Committees, while the Board of Ithala SOC Limited has delegated the responsibility to the IT Governance and Risk and Capital Management Committee. Each committee has specific terms of reference and delegated powers of authority that are reviewed annually by the Board.

Management is accountable to the Board for designing, implementing and monitoring the process of risk management and integrating it into daily operations.

The Group has exposure to the following risks from financial instruments, namely, credit risk, liquidity risk, market risks and operational risks.

35.2 Credit risk

Credit risk is the risk of potential loss from the failure of customers, clients or counterparties to fulfil obligations to the Corporation. In order to minimise the potential for loss, the Corporation has adopted a credit risk management philosophy, which is based on the principle of assessing the serviceability of individual loans granted and the recoverability of such loans through cash flows and the underlying security. Loans advanced are secured by tangible assets and other forms of security.

The Board of Directors has delegated responsibility for the oversight of credit risk to the Credit and Investment Committee. A separate Management Credit and Investment Committee is responsible for management of the Corporation's credit risk.

Ithala's credit approval is graduated, where increasing magnitudes of credit transactions require higher levels of authorisation. Each credit application is evaluated on its own merits depending on the value and type of transaction under consideration, may be considered progressively by Delegated Line function, Management Credit Committee and the Board Credit and Investment Committee. The transaction-based approach is in keeping with Ithala's risk management strategy throughout the Corporation while ensuring compliance with credit policies set by the Board.

Problem exposures, when they arise, are initially dealt with by Line Management unless further degeneration occurs whereupon they are attended to by the Corporation's Business Support, Legal and Collections staff who then administer the recovery process. Exposures are considered to be non-performing when amounts due are unpaid for more than three months or a counterparty is under judicial management or declared insolvent and management believes that further recoveries are no longer probable.

35.2.1 Credit risk measurement

(a) Loans and advances to customers (including loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and required of models, as the exposures vary with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as the likelihood of defaults occurring, of the associated loss ratios and of the default correlations between counterparties. The Corporation measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. Refer to notes to details below.

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35.2.2 Credit risk grading

The Corporation uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Corporation uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures) is fed into the ratings model.

35.2.3 Expected Credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'stage 1' and has its credit risk continuously monitored by the Corporation.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet deemed to be credit-impaired. Please refer to Note 35.2.4 for a description of how the Corporation determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument in then moved to 'stage 3'. Please refer to Note 35.2.6 for a description of how the Corporation defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that results from default events possible within the next 12 months after the reporting date. Instruments in Stage 2 and 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to Note 35.2.7 for a description of inputs, assumptions and estimation techniques used in the measuring the ECL.
- It is expected that an exposure would experience a significant increase in credit risk prior to the existence of objective evidence of impairment or the occurrence of default. Therefore, the Corporation incorporates both forward-looking as well as historical information in determining whether such deterioration has occurred.

Further explanation is provided on how the Corporation determines appropriate grouping when ECL is measured on a collective basis. Refer to Note 35.2.10

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

STAGE 1	STAGE 2	STAGE 3
(Initial recognition) 12-month expected credit loss	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets) Lifetime expected credit losses
29 742	57 817	191 630

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

35.2.4 Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria:

PD bands have been created for current credit scores and credit scores as at origination of respective contracts. Wherever the bands differed between the two points in time, an account has been transferred to (a) the next worst stage in case the PD band for the current credit score is lower than the one as at origination or (b) the next best stage in case the PD band for the current credit score is higher than the one as at origination.

The remaining Lifetime PD at the reporting date has increased, compared to the original Lifetime PD expected at the reporting date when the exposure was first recognised, so that it exceeds the relevant threshold per the table below:

ITHALA SOC LIMITED

HOUSING LOAN	
Lifetime PD band at initial recognition	Increase in Lifetime PD at reporting date which is considered significant
<=545	3,12%
545-570	0,85%
570-605	1,05%
625-650	1,02%
650-675	0,47%
675-999	0,43%

MICRO FINANCE UNSECURED	
Lifetime PD band at initial recognition	Increase in Lifetime PD at reporting date which is considered significant
<=550	33,06%
550-590	20,49%
590-625	9,14%
625-999	3,20%

MICRO FINANCE SECURED	
Lifetime PD band at initial recognition	Increase in Lifetime PD at reporting date which is considered significant
<=550	2,75%
550-570	1,96%
570-620	0,99%
620-999	0,55%

Corporation				
Product	**Credit Score**	**12M TTC PD**	**Absolute**	**Relative**
AGRI	660-999 620-660 <=620	7% 12% 15%	6% 3%	87% 22%
ASSET FIN	610-999 <=610	13% 22%	9%	69%
COM/PROP	600-999 <=600	2% 35%	0% 34%	0% 2245%
FRANCHISE	625-999 <=625	11% 38%	27%	255%
MICRO FINANCE	625-999 575-625 <=575	1% 4% 9%	4% 5%	592% 124%
STRUCTURED	610-999 <=610	9% 37%	27%	293%
PROC/FIN	640-999 <=640	37% 37%	0%	0%

These thresholds have been determined separately for each class of financial instrument. The lifetime PD movements on instruments which do not subsequently become delinquent have also been assessed, to identify the "natural" movement in Lifetime PD which is not considered indicative of a significant increase in credit risk.

Qualitative criteria:
If the borrower meets one or more of the following criteria:
- In short-term forbearance
- Direct debit cancellation
- Extension to the terms granted

The assessment of SICR incorporates forward-looking information and is performed on a bi-annual basis at a portfolio level for all financial instruments held by the Corporation. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

35.2.5 Backstop:
A backstop is applied and the financial instruments considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Corporation has not used the low credit risk exemption for any financial instruments in the year ended 31 March 2019.

The following table shows the impact on the 31 March 2019 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised:

ITHALA SOC LIMITED				
Lifetime PD band at initial recognition	**Actual threshold applied**	**Change in threshold**	**Lower threshold**	**Higher threshold**
Housing Loans				
<=545	<=545	548	4 604	5 152
545-570	545-570	973	5 476	6 449
570-605	570-605	6 363	17 177	23 540
605-625	605-625	3 927	11 032	14 959
625-650	625-650	4 991	9 300	14 291
650-675	650-675	4 737	4 921	9 657
675-999	675-999	1 441	1 679	3 119
Micro-finance unsecured loans				
<=550	<=550	47	669	716
550-590	550-590	-2	1 383	1 381
590-625	590-625	7	536	543
625-999	625-999	-	393	393
Micro-finance secured loans				
<=600	<=600	1 458	3 016	4 474
600-699	600-699	2 617	1 348	3 965

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Corporation				
Lifetime PD band at initial recognition	**Actual threshold applied**	**Change in threshold**	**Lower threshold**	**Higher threshold**
Micro-finance unsecured	625-999 575-625 <=575	451 506 318 073	575-625 <=575	625-999 575-625
Agri-finance	660-999 620-660 <=620	(161 241)	<=620	620-660
Franchise finance	625-999 <=625			
Procurement finance	640-999 <=640	93 517	<=640	640-999
Commercial property finance	600-999 <=600			
Asset finance	610-999 <=610	246 739	<=610	610-999
Structured finance	610-999 <=610			

35.2.6 Definition of default and credit-impaired assets

Qualitative criteria:
In addition to criteria defined for the transition from Stage 1 into Stage 2, criteria have been defined to be used in transferring accounts into Stage 3 i.e. in the event of default resulting in the commencement of legal collections and rundown proceedings.

Days past due:
The IFRS 9 standard incorporates a further rebuttable assumption requiring that delinquency beyond 90 days result in transition of the exposure into Stage 3. This assumption has not been rebutted in the model, and all such exposures are automatically transferred into Stage 3 in the staging module of the model.

Status codes and write-off amount:
Further to the use of the 90 days past due assumption defined in the IFRS 9 standard, the client provided status codes to indicate distressed accounts to be moved to Stage 3.
Transition due to manual override
Further to the use of the 90 days past due assumption defined in the IFRS 9 standard, the model incorporates the use of manual overrides in order to allow management to transfer exposures to Stage 3 of the impairment model. This can be done on the basis of an individual assessment that indicates a change from management as an active client to a legal collections and rundown process.

The Corporation defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)

- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

The criteria above have been applied to all financial instruments held by the Corporation and are consistent with the definition of default used for internal credit risk management processes. The default definition has been applied consistently to model the probability of default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Corporation's expected loss calculation.

A backstop is applied and the financial instruments considered to have met the definition of default if the borrower is more than 90 days past due on its contractual payments.

35.2.7 Measuring ECL - explanation of inputs, assumptions and estimation techniques
The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LCD), defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

EAD is based on the amounts the Corporation expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Corporation includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

Loss Given Default (LCD) represents the Corporation's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a profile from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. The 12-month and Lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a 'credit conversion factor' which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Corporation's recent default data. The 12-month and Lifetime LGDs are determined based on the factors which impact the recoveries made post-default. These vary by product type.
- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and Lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to note below for an explanation of forward-looking information and its conclusion in ECL calculations.
The assumptions underlying the ECL calculation such as how the maturity profile of the PDs and how collateral values change etc. are

monitored and reviewed on a bi-annual basis.

35.2.8 Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Corporation has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecasts of these economic variables are sourced from various trusted economic sources, such as Statistics South Africa and Reserve Bank on a bi-annual basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

		2019	2020

35.2.9 Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 March 2019 are set out below. The scenario "base", "Optimistic" and "Downturn" were used for all portfolios.

		2019	2020
Domestic GDP	Base	**1,80%**	2,10%
	Optimistic	**1,80%**	2,10%
	Downturn	**1,70%**	1,60%
Prime rate	Base	**10%**	10%
	Optimistic	**10%**	10%
	Downturn	**10%**	10%
Consumer Price Index	Base	**5,20%**	4,80%
	Optimistic	**4,90%**	4,80%
	Downturn	**5,20%**	5,10%

The weightings assigned to each economic scenario at 31 March 2019 were as follows:

	Base	Optimistic	Downturn
All portfolios	75%	**15%**	10%

The most significant period-end assumptions used for the ECL estimate as at 31 March 2019 are set out below. The scenario "base", "Optimistic" and "Downturn" were used for all

		2019	2020
Interest rates	Base	**10%**	10%
	Optimistic	**10%**	10%
	Downturn	**10%**	10%

The weightings assigned to each economic scenario at 31 March 2019 were as follows:

	Base	Optimistic	Downturn
All portfolios	75%	**15%**	10%

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis or whenever necessary.

Scenario sensitivity
The most significant assumptions affecting the ECL allowance are as follows:
(i) Domestic GDP
(ii) Prime rate; or CPI

Set out below are the changes to the ECL as at 31 March 2019 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Corporation's economic variable assumptions (for example, the impact on ECL of increasing the estimated Domestic GDP by in each of the Base, Optimistic, Downturn scenarios).

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		CPI	Prime rate	GDP
		R'000	R'000	R'000
ITHALA SOC				
	[-,50%]	60 766	59 617	61 911
	No change	62 053	62 053	62 053
	[+,50%]	62 312	63 539	61 156
CORPORATION				
	[-1%]	203 814	209 359	211 185
	No change	213 011	213 011	213 011
	[+1%]	221 883	216 400	214 718

35.2.10 Grouping of instruments for losses measured on a collective basis
For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the Corporation to be statistically credible.

Where sufficient information is not available internally, the Corporation has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:
- Credit rating band
- Product type
- Month of book
- Arrears status

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

Maximum exposure to credit - Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Corporation's maximum exposure to credit risk on these assets.

Housing and Commercial Property	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	R'000	R'000	R'000	R'000
Current	944 575	458 225	5 856	1 408 656
30 days	2,747	26 286	117	29 150
60 days	-	30 356	3 414	33 770
90 days and above	-	-	81 885	81 885
Gross carrying amount	947 322	514 867	91 272	1 553 461
Loss allowance	(3 672)	(29 061)	(21 977)	(54 710)
Carrying amount	**943 650**	**485 806**	**69 295**	**1 498 751**

	Stage 1	Stage 2	Stage 3	
Micro finance - secured	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	R'000	**R'000**	**R'000**	**R'000**
Current	195 179	34 422	463	230 064
30 days	474	4 898	-	5 372
60 days	-	1 097	-	1 097
90 days and above	-		3 780	3 780
Gross carrying amount	195 653	40 417	4 243	240 312
Loss allowance	(758)	(1 013)	(2 592)	(4 363)
Carrying amount	**194 895**	**39 404**	**1 651**	**235 949**
Micro finance - unsecured loans				
Current	389	583	167	1 139
30 days	-	6	-	6
60 days	-	91	33	124
90 days and above	-	-	3 119	3 119
Gross carrying amount	389	681	3 319	4 389
Loss allowance	(73)	(326)	(2 584)	(2 983)
Carrying amount	**316**	**355**	**735**	**1 406**
Micro finance - unsecured loans				
Current	10 464	2 981	-	13 445
30 days	-	36	-	36
60 days	-	124	-	124
90 days and above	-	-	3 821	3 821
Gross carrying amount	10 464	3 141	3 821	17 426
Loss allowance	(118)	(104)	(3528)	(3 750)
Carrying amount	**10 346**	**3 037**	**293**	**13 676**
Agri finance				
Current	126 894	24 150	-	151 044
30 days	-	10 570	-	10 570
60 days	-	37 437	14 550	51 987
90 days and above	-	-	89 308	89 308
Gross carrying amount	126 894	72 157	103 858	302 909
Loss allowance	(3 971)	(21 520)	(57 841)	(83 332)
Carrying amount	**122 923**	**50 637**	**46 017**	**219 577**
Franchise finance				
Current	33 455	-	-	33 455
30 days	-	-	-	-
60 days	-	-	-	-
90 days and above	-	-	6 991	6 991
Gross carrying amount	33 455	-	6 991	40 446
Loss allowance	(2 051)	-	(6 544)	(8 595)
Carrying amount	**31 404**	-	**447**	**31 851**
Procurement finance				
Current	54 634	4 956	-	59 590
30 days	-	1 044	-	1 044
60 days	-	396	-	396
90 days and above	-	-	18 922	18 922
Gross carrying amount	54 634	6 396	18 922	79 952
Loss allowance	(3 734)	(752)	(15 067)	(19 553)
Carrying amount	**50 900**	**5 644**	**3 855**	**60 399**

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	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	R'000	R'000	R'000	R'000
Commercial property finance				
Current	84 207	-	20 691	104 898
30 days	-	-	-	-
60 days	-	29 467	921	30 388
90 days and above	-	-	19 463	19 463
Gross carrying amount	84 207	29 467	41 075	154 749
Loss allowance	(328)	(3 037)	(14 579)	(17 944)
Carrying amount	**83 879**	**26 430**	**26 496**	**136 805**
Asset finance				
Current	82 806	10 321	-	93 127
30 days	-	5 916	-	5 916
60 days	-	933	-	933
90 days and above	-		50 452	50 452
Gross carrying amount	82 806	17 170	50 452	150 428
Loss allowance	(6 251)	(2 005)	(42 898)	(51 154)
Carrying amount	**76 555**	**15 165**	**7 554**	**99 274**
Structured finance				
Current	101 981	-	-	101 981
30 days	-	-	-	-
60 days	-	-	-	-
90 days and above	-	-	41 575	41 575
Gross carrying amount	101 981	-	41 575	143 556
Loss allowance	(8 786)	-	(24 020)	(32 806)
Carrying amount	**93 195**	**-**	**17 555**	**110 750**

Maximum exposure to credit - financial instruments subject to impairment
The Corporation's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Corporation since the prior period. The Corporation closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Corporation will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
	R'000	R'000	R'000	R'000
Credit impaired assets				
Housing and commercial property	1 553 461	(54 710)	1 498 751	2 667 473
Micro finance - secured	240 312	(4 363)	235 950	350 632
Micro finance - unsecured	21 815	(6 733)	15 083	47
Agri-finance	302 909	(83 332)	219 578	183 325
Franchise finance	40 446	(8 595)	31 851	10 182
Procurement finance	79 952	(19 553)	60 399	4 957
Commercial property finance	154 749	(17 944)	136 805	109 639
Asset finance	150 428	(51 154)	99 274	59 235
Structured finance	143 556	(32 806)	110 750	51 632
Total credit-impaired assets	**2 687 629**	**(279 186)**	**2 408 443**	**3 437 122**

Below is the credit impaired (Stage 3) financial assets with their collateral

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral Held
	R'000	R'000	R'000	R'000
Credit-impaired assets				
Agri-finance	103 859	(57 841)	46 018	59 114
Asset finance	50 453	(42 898)	7 555	15 615
Commercial property finance	41 075	(14 579)	26 496	23 130
Franchise finance	6 992	(6 544)	448	442
Micro finance	3 821	(3 528)	293	48
Procurement finance	18 923	(15 067)	3 856	4 937
Structured finance	41 574	(24 020)	17 554	15 439
Total credit-impaired assets	**365 531**	**(191 630)**	**173 901**	**171 662**

35.2.11 Write-off policy

An entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event. The Group writes-off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year ended 31 March 2019 was R 61,3 million. The Group reasonably expects to recover R42,5 million of the total amount written-off.

Below are amounts written-off that the Group seeks to recover through legal action:

	2019	
	Group	Corporation
	Outstanding Amount	Outstanding Amount
Product type		
Housing and commercial property	9 800	
Micro finance - secured	2 573	
Asset finance	20 680	20 680
Franchise finance	569	569
Micro finance	136	136
Procurement Ffnance	11 500	11 500
Total amount outstanding	**45 258**	**32 885**

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35.2.12 Modification of financial assets
If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, an entity shall assess whether there has been a significant increase in credit risk of the financial instrument by comparing:
(a) The risk of a default occurring at the reporting date (based on the modified contractual terms); and
(b) The risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this standard, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate, or when applicable, the revised effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Loans and advances renegotiated

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Group has made concessions by agreeing to terms and rescheduled/renegotiated loans include extended payment arrangements, modification and deferral of payments:

	Group		Corporation	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Continuing to be impaired after rescheduling:				
Micro finance	581	2 533		-
Agri finance		23		23
Housing and commercial property	219			
Non–impaired after rescheduling – would otherwise have been impaired:				
Agri finance	13 542	-	13 542	-
Procurement finance	181	265	181	265
Asset finance	4 320	-	4 320	-
Micro finance	207			-
Housing and commercial property	10 973			
Non–impaired after rescheduling – would otherwise not have been impaired:				
Micro finance	294	200	35	200
Agri finance	206	7 679	206	7 679
Procurement finance	1 805	43	1 805	43
Housing and commercial property	1 999	5 828	1 167	5 828
Asset finance	-	25 116	-	25 116
	34 327	41 687	21 256	39 154

35.3 Liquidity risk

Liquidity risk is the risk that the Group will be unable to service payment obligations timeously or fund asset growth.

The Board of Directors sets the strategy for managing liquidity risk and delegates the responsibility for the oversight of the implementation thereof to the Audit and Risk Committee. The Treasury divisions of the Group are responsible for the management of liquidity risk. Liquidity risk is monitored on a projected cash flow basis, incorporating ongoing review and assessment of assumptions applied and strategies in place to ensure that commitments are timeously funded.

The key focus areas in managing liquidity risk include inter alia:
- The continuous monitoring of actual and projected net cash flows;
- The maintenance of a liquidity "buffer" to fund unforeseen cash flows;
- Daily management of liquidity to support operations and fund asset growth;
- Periodic assessment of sources of funding to fund liquidity shortfalls; and
- Advising management on trends emerging from variance analysis to reassess where necessary business plans and assumptions.

The details the Group's expected contractual maturity for its financial liabilities has been drawn up based on the summary of the undiscounted contractual maturities of financial liabilities including interest that would be payable. A summary of the Group liquidity profile and the contractual maturity is reflected in the table below:

			GROUP 2019		
	On demand to 1 month	One to six months	Six months to one year	From 1 to 5 years	After 5 years
		R'000	R'000	R'000	R'000
Financial assets					
Loans and advances	249 123	155 955	125 190	802 985	1 354 377
Investments at fair value through profit and loss	-	-	-	-	-
Trade receivables	32 706	88 643	33 944	-	-
Statutory liquid assets	188 389	-	-	-	-
Cash and cash equivalents	1 005 665	207 365	37 768	101 179	-
Total assets	1 475 883	451 963	196 902	904 164	1 354 377
Financial liabilities					
Borrowings	840	7 961	5 040	20 160	20 358
Liability to depositors	982 158	148 542	733 108	383 213	45 137
Trade payables	408 354	-	-	-	-
Total liabilities	1 391 352	156 503	738 148	403 373	65 495
Net liquidity (shortfall)/excess	84 531	295 460	(541 246)	500 791	1 288 882
Cumulative liquidity	84 531	379 990	(161 255)	339 536	1 628 418

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FOR THE YEAR ENDED 31 MARCH 2017

	GROUP 2018				
	On Demand to 1 month	One to six months	Six months to one year	From 1 to 5 years	After 5 years
	R'000	R'000	R'000	R'000	R'000
Financial assets					
Loans and advances	228 498	120 252	120 396	623 629	1 380 059
Investments at fair value through profit and loss	18 234	-	-	-	-
Trade receivables	49 178	139 540	-	-	-
Statutory liquid assets	187 714	-	-	-	-
Cash and cash equivalents	879 439	413 141	126 651	75 630	-
Total assets	1 363 063	672 933	247 047	699 259	1 380 059
Financial liabilities					
Borrowings	982	8 699	9 236	39 992	8 712
Liability to depositors	1 177 824	717 057	373 753	40 926	-
Trade payables	421 883	-	-	-	-
Total liabilities	1 600 689	725 756	382 989	80 918	8 712
Net liquidity (shortfall)/excess	(237 626)	(52 824)	(135 942)	618 341	1 371 347
Cumulative liquidity	(237 626	(290 450)	(426 391)	191 949	1 563 296

	CORPORATION 2019				
	On Demand to 1 month	One to Six Months	Six months to One year	From 1 to 5 years	After 5 years
		R'000	R'000	R'000	R'000
Financial assets					
Loans and advances	204 375	105 253	73 990	429 752	76 098
Investments at fair value through profit and loss	-	-	-	-	-
Trade receivables	30 700	129 247	29 580	-	-
Cash and cash equivalents	415 777	60 000	-	-	-
Total assets	650 852	294 500	103 570	429 752	76 098
Financial liabilities					
Borrowings	840	7 961	5 040	20 160	18 298
Trade payables	298 287	-	-	-	-
Total liabilities	299 127	7 961	5 040	20 160	18 298
Net liquidity excess	351 725	286 539	98 530	409 592	57 800
Cumulative liquidity	351 725	638 264	736 794	1 146 386	1 204 186

	2018				
	On demand to 1 month	One to six months	Six months to one year	From 1 to 5 years	After 5 years
	R'000	R'000	R'000	R'000	R'000
Financial assets					
Loans and advances	162 142	69 412	71 259	283 043	254 119
Investments at fair value through profit and loss	18 234	-	-	-	-
Trade receivables	42 078	137 453	-	-	-
Cash and cash equivalents	417 314	110 000	-	-	-
Total assets	639 768	316 865	71 259	283 043	254 119
Financial liabilities					
Borrowings	833	8 403	9 236	39 992	6 641
Trade payables	391 722	-	-	-	-
Total liabilities	392 555	8 403	9 236	39 992	6 641
Net liquidity excess/(shortfall)	247 212	308 462	62 023	243 051	247 478
Cumulative liquidity	247 212	308 462	617 698	860 748	1 108 226

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period the group held deposits at call of R409,7 million (2018: R573,9 million) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, Group Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Financing arrangements
The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	Group		Corporation	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Floating rate				
Expiring within one year (bank overdraft)	100 000	100 000	100 000	100 000
Expiring beyond one year (bank loans)	-	-	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

35.3 Market risk
Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange risks will affect the Group's income or the value of its holdings of financial instruments.

35.3.1 Interest rate risk
Interest rate risk refers to the potential adverse impact on earnings as a result of changes in interest rates. Yields on assets and liabilities are monitored monthly. In addition, interest rate shock analysis is performed to assess the sensitivity on net interest due to unanticipated movement in interest rates.

Interest rate forecasts are reviewed monthly taking into account market and economic data available. Pricing of assets is informed by the trends emerging from the review of interest rates and maturity profiles of assets and liabilities.

Interest rate sensitivity
The sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and IFRS 7.34(a) non-derivative instruments at balance sheet date. The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 2% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable and possible change in interest rates. If interest rates had been 2% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 March 2019 would increase by R14,8 million (2018: R14,9 million) or decrease by R14,8 million (2018: R14,9 million). This is mainly attributable to the Group's exposure to interest on its variable financial instruments.

35.3.2 Equity price risk
The Group is exposed to equity risk arising from investments in marketable equity securities at fair value through profit and loss. These investments are held for strategic rather than trading purposes and the Group does not actively trade these investments.

Equity price sensitivity
The sensitivity is based on the exposure to equity price risk at the reporting date. The investments are fair valued annually at the close of business on 31 March 2019. Fair value is determined by reference to stock exchange quoted bid prices. The Group applies a critical judgement of 5% on the valuation of these investments. If the valuation of the investment at year end had been 5% higher or lower while other variables were held constant, the fair value of investment and fair value gains would have increased or decreased by R3,9 million (2018: R3,9 million).

35.3.3 Foreign exchange risks
The Group has no exposure to transactions or balances traded or denominated in foreign currencies.

35.4 Operational risk
Operational risk arises from human or system error within daily product and service delivery. It transcends all divisions and products. This risk includes the potential that inadequate technology and information systems, operational problems, insufficient human resources, breaches of integrity or non-compliance with regulations and laws will result in direct or indirect losses. The primary responsibility for managing operational risk forms part of the day-to-day responsibilities of management and employees at all levels. Business line management is ultimately responsible for owning and managing risks resulting from their activities. The lending unit has, as part of preventive controls, Operational Policies and Procedures with clear segregation of functions and duties and clear and independent reporting structures. Furthermore, Group Internal Audit and Compliance function act as secondary level control through systematic and independent continuous review of the operations and controls within the lending unit. Results of Internal Audit and Compliance Review Reports are discussed with Business Unit Heads, Executive Committee and submitted to the Audit Committee and the Enterprise Risk Committee.

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