



2022/2023 INTEGRATED ANNUAL REPORT

A POSITIVE OUTLOOK ON ECONOMIC RECOVERY

MAKING IT HAPPEN TOGETHER

Vision, Mission and Values



VISION

To be the catalyst for growth, socio-economic development and empowerment in the KwaZulu-Natal Province.



OUR VALUES

- Passion
- Integrity
- Future-Focused
- Service
- Respect



OUR MISSION

- Promote investment in development programmes and projects
- Optimise the property portfolio for tenant retention and attraction, and priority sector development
- Support SMME's and co-operatives to be sustainable participants in the economy
- Serve as the preferred implementing agent for economic and infrastructure development projects in the province
- Facilitate programmes that drive radical economic transformation

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ABSA Bank Ltd.

Auditors:

Auditor-General

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Approved Panel of Attorneys

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ACRONYMS

ADA	Agribusiness Development Agency
AGSA	Auditor-General of South Africa
APP	Annual Performance Plan
ARC	Audit and Risk Committee
B-BBEE	Broad-Based Black Economic Empowerment
BCIC	Board Credit and Investment Committee
BLC	Banking License Committee
CCMA	Commission for Conciliation, Mediation and Arbitration
CEO	Chief Executive Officer
CIPC	Companies and Intellectual Properties Commission
CPI	Consumer Price Index
CRMP	Compliance Regulatory Management Plan
CSI	Corporate Social Investment
DMRE	Department of Mineral Resources and Energy
DUT	Durban University of Technology
EAP	Employee Assistance Program
EDTEA	Economic Development, Tourism and Environmental Affairs
EMDE	Emerging Market and Developing Economies
EME	Exempted Micro Enterprise
ERM	Enterprise Risk Management
EVP	Employee Value Proposition
EXCO	Executive Committee
FATF	Financial Action Task Force
FV	Fair Value
GEP	Global Economic Prospects
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
HR	Human Resources
HRSEC	Human Resource Social and Ethics Committee
ICT	Information Communications Technology
IDFC	Ithala Development Finance Corporation

IFRS	International Financial Reporting Standard
IIRC	International Integrated Reporting Council
KPA	Key Performance Areas
KZN	KwaZulu-Natal
MEC	Member of the Executive Council
MTSF	Medium-Term Strategic Framework
NEHAWU	National Education, Health and Allied Workers Union
NGREMCO	Nomination, Governance and Remuneration Committee
NIR	Non-Interest Revenue
OHSE	Occupational Health, Safety and Environment
PAIA	Promotion of Access to Information Act
PFMA	Public Finance Management Act
POPI	Protection of Personal Information (Act)
PSP	Properties Strategic Partnership
PwD	People with Disabilities
QSE	Qualifying Small Enterprise
RAPETT	Rationalisation of Public Entities Task Team
RASET	Radical Agrarian Socio-Economic Transformation
ROI	Return on Investment
SARB	South African Reserve Bank
SCM	Supply Chain Management
SEDA	Small Enterprise Development Agency
SETAs	Sector Education and Training Authorities
SLA	Service Level Agreement
SOC	State Owned Company
SOE	State Owned Enterprise
SMME	Small, Medium and Micro Enterprise
TIKZN	Trade and Investment KwaZulu-Natal
TRERS	Township and Rural Economies Revitalisation Strategy
VPN	Virtual Private Network



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ABOUT THIS REPORT

The Integrated Annual Report encompasses the Ithala Development Finance Corporation Limited's (IDFC) strategy, material issues and performance for the period **1 April 2022 to 31 March 2023** and our prospects for the future.

IDFC is a state-owned entity and, through this report, sets out to address our material stakeholders, most notably being, our shareholder, regulators, clients, employees 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 set by the Auditor-General of South Africa (AGSA) to convey our performance against our Annual Performance Plan.

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

We are 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 (2016) (King Code). Further standards applied in defining the contents of this report include the International Financial Reporting Standard (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 a guarantee 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.

IDFC makes no representation or warranty, express or implied, that the operating, financial or other results anticipated by such forward-looking statements will be achieved and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. IDFC undertakes no obligation to update the historical information or forward-looking statements in this document.

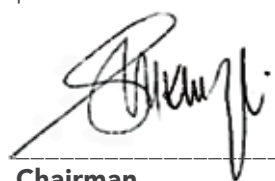
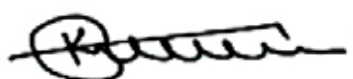
APPROVAL AND ASSURANCE OF OUR REPORT

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.

Internal and external audits provide additional assurance on the effectiveness of our risk management of material issues.

STATEMENT OF THE BOARD OF DIRECTORS

The Board of Directors acknowledges its responsibility to ensure the integrity of the Integrated Annual 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



Launch of State-of-the-art technology Ithala SOC Ltd Branch on Anton Lembede Street by MEC of EDTEA, Mr Siboniso Duma



HIGHLIGHTS - 2022/23



We are pioneers of SMME development, the first institution to bank unbanked communities, and the first to establish shopping centres in rural areas, stimulating development in the more remote regions of KwaZulu-Natal.



IDFC is one of the largest property managers in KwaZulu-Natal, with 1,2 million square metres of industrial and commercial space.



The IDFC re-established the Implementing Agent Unit to strengthen its position as the preferred implementing agent for economic and social infrastructure projects in the province.



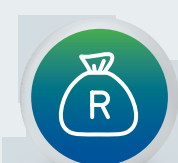
In 2022/23 IDFC approved R311 million in funding to 607 businesses across the province. We directed 94% of this funding towards black-owned, 44% to youth-owned, and 32% to women-owned businesses.



IDFC achieved 97% preferential procurement from black-owned businesses, of which 26% was contracted with women-owned, 12% with youth-owned and 1% with PwDs-owned businesses.



Job creation is a top priority for our organisation. In 2022/23, the 396 businesses funded by the IDFC created 2 018 jobs, despite a difficult economic environment.



IDFC developed a Township and Rural Economy Investment Policy and are strategising the development of tailored funding solutions for township, rural and informal SMMEs.



The IDFC Capital Development Programme delivered R100,2 million in investment for property expansion and refurbishments.



IDFC created 3,129 jobs in 2022/23 through its Capital Development Programme and the signing of new leases.



IDFC achieved an unqualified external audit outcome on the previous years (2021/22) financial statements.



A survey of IDFC employees found that 80% felt satisfied and engaged in their role, compared to 50% in 2020.



Through partnership with the South African Institute of Chartered Accountants (SAICA), three (3) aspiring accountants are serving their articles at IDFC over a 3-year period.



IDFC launched Masakhe Business Clinics in four Districts – Zululand, uMkhanyakude, eThekweni and uMsunduzi – delivering business training, financial guidance and opportunities to 192 SMMEs and co-operatives.



Established or maintained MOUs with strategic partners including education institutions, development agencies, government departments and industry associations, all designed to strengthen and broaden the impact of the organisation.



WHO WE ARE

The Ithala Development Finance Corporation Limited (IDFC) was established in 1958 as a development finance agency, wholly owned by the province of KwaZulu-Natal, mandated to assist government in promoting economic development and empowerment in the province. In its current form, IDFC functions through the promulgation of the KwaZulu-Natal Ithala Development Finance Corporation Act, 2013 (Act No. 5 of 2013), under the oversight of the Board and reports to the Provincial Department of Economic Development, Tourism and Environmental Affairs (EDTEA). IDFC is listed as a Schedule 3D Provincial Business Enterprise in terms of the Public Finance Management Act (No. 1 of 1999, as amended) (PFMA).

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, the first institution to bank unbanked communities, and the first to establish shopping centres in rural areas, stimulating development in the more remote regions of KwaZulu-Natal. We seek to play a role in growing the economy and improving quality of life.

We continue drawing on these core competencies to deliver ever more effectively and efficiently on our developmental mandate. Making it Happen Together for all those who live in the province.

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.

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. 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.



OUR PURPOSE

To achieve the intended impact of sustainable and competitive SMME's and co-operatives contributing meaningfully to radical socio-economic transformation and job creation in the KwaZulu-Natal Province.



OUR VISION

To be the catalyst for growth, socio-economic development and empowerment in the KwaZulu-Natal Province.



OUR MISSION

- Promote investment in development programmes and projects;
- Optimise the property portfolio for tenant retention and attraction, and priority sector development;
- Support SMME's and co-operatives to be sustainable participants in the economy;
- Serve as the preferred implementing agent for economic and infrastructure development projects in the province; and
- Facilitate programmes that drive radical economic transformation.



OUR VALUES

- Our **PASSION** for making a difference is what drives us
- We act with **INTEGRITY**
- We strive to be **FUTURE-FOCUSED**
- We lead through **SERVICE**
- We treat everyone with **RESPECT**

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 drive economic development and empowerment through implementation of projects and programs in KwaZulu-Natal

We provide savings, loans, insurance, home loans and financial services

We strive to meet development goals, while deriving realisable economic opportunities for SMMEs and co-operatives



MEC'S FOREWORD

South Africa faces severe socio-economic challenges, exacerbated by the slow growth economy. Global forces, including the Covid-19 pandemic and the war in Ukraine, have dampened investment and necessitated a contractionary monetary policy. Electricity shortages have worsened over the last several years, resulting in chronic load shedding, disrupting economic activity, and increasing the cost of doing business. While GDP has recovered to pre-pandemic levels, employment remains nearly half a million jobs below where it was in early 2020, with wellbeing further constrained by the cost-of-living crisis.

KwaZulu-Natal offers a competitive advantage relative to the rest of Southern Africa in the capital-intensive manufacturing, transport, storage, communications, finance and business services sectors. The province is also well-positioned for development in the agriculture, forestry and fishing, agro-processing, tourism, accommodation, and hospitality sectors. However, the private sector's capacity to exploit these opportunities is however constrained by the current economy and unforeseen crises, including the April 2022 floods, which severely affected the Ithala Development Finance Corporation, its clients and tenants.

Notwithstanding these economic challenges, IDFC remains committed to providing the people of KwaZulu-Natal tailored solutions that are replicable,

affordable and transformative. The aim is to develop and empower the communities the IDFC is mandated to serve. In line with the provincial government's Economic Recovery Strategy, during the 2022/23 financial year, IDFC processed 682 funding applications from SMMEs and co-operatives, approving 607 applications to a total value of R311 million. In total, R208 million was distributed, creating 2 018 jobs.

The province must intensify its efforts to implement the South African Economic Reconstruction and Recovery Plan, harnessing the investment capacity of the public and private sectors. The IDFC, as a key role player, must put in place mechanisms and key enablers to mobilise the requisite financing for SMMEs and co-operatives through blended finance schemes, agro-processing funds, and supplier development programmes.

IDFC maintains an extensive property portfolio, including the Isithebe, Ezakheni and Madadeni Industrial Estates, which provide investors an opportunity to lease business space and create employment for the people of KwaZulu-Natal. The organisation continues to work with the Department of Trade, Industry and Competition (the dtic) on the Industrial Estates Revitalisation Project. IDFC remains focused on increasing capital investment in its properties portfolio, including the remodelling of some properties and rebuilding properties



Mr Siboniso Duma, MPL

MEC: KwaZulu-Natal Department of
Economic Development, Tourism and
Environmental Affairs

“ I am encouraged with the prospects for job creation, skills development, and SMME support, targeted at women, youth, and persons with disabilities. I wish to thank the IDFC Board for providing strategic leadership and accountability in the delivery of the IDFC's mandate. **”**



destroyed during the July 2021 civil unrest. This ensures that they are fit for purpose, compliant and able to attract and retain tenants. During the reporting period, the IDFC Capital Development Programme delivered R100,2 million in investment for property expansion and refurbishments. Finally, in partnership with the dtic, the IDFC is implementing the Black Industrialist Programme to ensure that the organisation advances transformation in the province.

The energy crisis continues to undermine the IDFC's investment prospects, including in the properties and SMME portfolio. The crisis has resulted in persistent load-shedding which in turn disrupts businesses and compromises production processes. IDFC must find feasible solutions to mitigate these risks, especially for the property portfolio. This includes the development of alternative energy solutions and plans for a robust response to green building compliance, which will lower energy consumption and improve business profitability.

In line with the National Development Plan, the IDFC continued to support businesses owned by youth, women and persons with disabilities through its procurement and funding programs. The intent is to provide avenues for business development to increase economic participation by these designated groups.

It is pleasing to note that IDFC has re-established itself as an implementing agent in the province, with emphasis on Operation Vula, Grant Relief for Rural and Township Shops, Bulk Buying, the Shared Detergents Manufacturing Incubation Centres, among other catalytic projects. These initiatives seek to transform rural and township businesses to play a significant role in the mainstream economy of KwaZulu-Natal and, eventually, the country.

Strategic investment and small enterprise development are critical levers for economic growth, strengthening and diversifying our provincial economy and advancing transformation and job creation. These interventions are needed more than ever to set South Africa on a firmer economic path. This imperative further underscores the critical role of IDFC as a catalyst for economic change.

The term of office for the Board of Directors ended on 31 May 2022. On 1 June 2022, the term of office for five board members was extended for another three (3) years and four new board members were appointed for a three (3) year term, ending 31 May 2025. It was with great sadness that the previous Chairman of the Board, Mr Roshan Morar, passed away on 9 August 2022. He had served the IDFC from 1 June 2017 to 31 May 2022.

My department is pleased with IDFC's performance during the financial year under a difficult operating environment resulting from harsh economic conditions. I am encouraged with the prospects for job creation, skills development, and SMME support, targeted at women, youth, and persons with disabilities. I wish to thank the IDFC Board for providing strategic leadership and accountability in the delivery of the IDFC's mandate.

Mr Siboniso Duma, MPL

MEC: Kwazulu-Natal Department of Economic Development, Tourism and Environmental Affairs



CHAIRMAN'S LETTER TO STAKEHOLDERS

Ithala Development Finance Corporation (IDFC) is one of the few vehicles to deliver inclusive socio-economic growth and development in the province of KwaZulu-Natal. The organisation has a proud legacy of nearly 65 years delivering development through industrial estate parks, shopping centres, program implementation, and business financing, particularly for Small, Micro and Medium Enterprises (SMMEs). Uniquely and consistently, IDFC extends services to communities underserved by other financial institutions, making it a true development-oriented entity. This legacy was not achieved without challenges, ranging from political, social, economic, technological, climate and other environmental related issues. The recent Covid-19 pandemic, 2021 civil unrest, 2022 floods, rapid technological changes, surging cost of living, unemployment and crime are among the challenges directly affecting IDFC's operations, most critically in the past three (3) financial years.

The current provincial government's economic growth and development frameworks, plans, policies, strategies and programmes are directly aligned to what IDFC is mandated to achieve. Specifically Strategic Goal 1 of the *Provincial Growth and Development Strategy (2035) - Inclusive Economic Growth*. This goal is advanced by the IDFC's vision to become a catalyst for growth, socio-economic development, and empowerment in the KwaZulu-Natal province. This vision, in turn, find its expression through the following mandates:

- a) Mobilise financial resources and provide financial and supportive services to persons domiciled, ordinarily resident, or carrying on business within KwaZulu-Natal.
- b) Plan, execute, finance, and monitor the implementation of development projects and programmes in KwaZulu-Natal.
- c) Promote, assist and encourage the development of the province's human resources and its social, economic, financial and physical infrastructure.
- d) 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
- e) 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.

The 2022/23 financial year was one of South Africa's most difficult economically. It marked the post-Covid era, necessitating the learning and unlearning of certain business practices and habits, taking stock, and resetting business operations. The financial year was also impacted by the catastrophic floods in KwaZulu-Natal in April 2022, record levels of load-shedding, and an unprecedented rise in the cost of living mainly due to fuel, food, and power price increases. These challenges occurred at a time when the province was still recovering from the damages caused by the July 2021 unrest and the Covid-19 pandemic. Collectively, these factors had a significant and negative effect on IDFC's operations including impacts on IDFC's tenants, industrial parks, shopping centres, and business finance clients.



Mr Siphesihle Mkhize
Chairman of the Board

“The organisation has a proud legacy of nearly 65 years delivering development through industrial estate parks, shopping centres, program implementation, and business financing, particularly for Small, Micro and Medium Enterprises (SMMEs).”



As the shareholder's representative, the Board of Directors provides strategic direction, oversight, and the governance systems that will enable management to implement solutions to restore investor confidence and make it easier to do business with the IDFC. Most importantly, the Board works tirelessly toward accelerated growth, socio-economic development, and empowerment in KwaZulu-Natal. Serving on the Board of Directors provides each member an opportunity to make meaningful contributions to the organisation, and by extension, the Province.

The Board believes that establishing and implementing good governance is key to developing a higher-functioning Board, while 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.

In November 2022, the Board established the Property Investment Committee to:

- Facilitate and promote communication in respect of property investment risk related matters between the Board and management.
- Have oversight on the performance of the IDFC property portfolio.
- Assist the Board in bolstering economic activities in the province by participating in development projects and partnerships with like-minded investors.
- Assist the Board to leverage public and private capital for development and infrastructure projects.

IDFC's Business Finance Unit continued to support SMME's and co-operatives to increase socio-economic transformation and drive job creation. The Corporation's financing activity for the 2022/23 financial year reflects higher demand for funding in a period of challenging operating conditions. During the financial year, IDFC approved 607 applications amounting to R311 million, compared to 461 applications to the value of R192,9 million in the previous year. IDFC successfully distributed R208 million in funding creating 2 018 much needed jobs in the process. The Board remains concerned about the performance of the loan book and continued to focus on strengthening its position, particularly on high-value matters which have a material impact on the level of non-performing loans.

IDFC is one of the largest property portfolio holders in KwaZulu-Natal, with over 1,2 million square metres of industrial, retail and commercial space. Our

focus during the financial year was to rebuild sites destroyed during the July 2021 unrest, grow the properties portfolio through investment, undertake important repairs and maintenance, and develop and execute a strategy for dilapidated buildings and vacant land. During the reporting period, the IDFC invested R100,2 million in property expansion and refurbishments and created 3 129 jobs through the IDFC Capital Development Programme and the signing of new leases.

IDFC has expanded its services as an implementation agent to various government departments and entities throughout the province. During the reporting period, the Board approved the revised structure for the Division, as well as the Implementing Agent strategy and Implementing Agent Project and Programme Management Policy. Examples of projects undertaken during the financial year include the high-impact Cleaning Detergent Shared Production Facility in Kwamashu, implemented on behalf of the Department of Economic Development, Tourism and Environmental Affairs (EDTEA), and establishment of two (2) additional detergent manufacturing facilities in the King Cetshwayo and Ugu Districts, both of which were nearly complete as of 31 March 2023. IDFC will continue to build capacity to expand its client base for the implementation of catalytic projects in the province.

Our achievements this year would not have been possible without the support of our stakeholders in government, and our business, social and strategic partners. Therefore, special gratitude is extended to our Executive Authority, the KwaZulu-Natal EDTEA for supporting our mandate and demanding strong performance, good governance, and high levels of accountability. I wish to also thank the Honourable Siboniso Duma, the Member of Executive Council (MEC) for EDTEA for trusting and providing unwavering support to the current Board of Directors.

Finally, I express my warmest gratitude to the Board, its committees, and Executive Management Team led by IDFC's Group Chief Executive, Ms Pearl Bengu for the organisational achievements during the 2022/23 financial year as we proceed with the implementation of our five-year strategic cycle to 2025.

Mr. Siphesihle Mkhize
Chairman of the Board



FROM THE GROUP CHIEF EXECUTIVE'S DESK

The 2022/23 IDFC Integrated Annual Report reflects operations during a time of economic recovery, albeit with notable levels of uncertainty, volatility and complexity. Despite these challenges, the IDFC maintained focus on implementing the 2020-2025 5-year Strategic Plan with emphasis on the following six outcomes:

1. Increased investment in development programmes and projects by strategic partners;
2. Property portfolio optimised for tenant retention and attraction, with a focus on priority sectors;
3. Increased contribution of supported SMME's and co-operatives to encourage socio-economic transformation and job creation;
4. Increased access to economic opportunities for KZN residents and enterprises from designated groups;
5. Effective implementation of development programmes and projects in the province; and
6. Sustainable and high-performing organisation.

As a development finance institution, the IDFC is uniquely differentiated in its investment approach and risk appetite. We seek to maximise opportunities for economic growth and employment by supporting entrepreneurs, the establishment of new businesses, and fostering business growth and expansion. While we maintain a strong mandate, like any financial institution, we pursue sustainability through the extension of loans to be repaid.

The IDFC approved financing of R311 million and disbursed R208 million during the 2022/23 financial year. These figures represent jobs created and saved, businesses supported – new and existing – and opportunities created for the expansion of productive capacity. Furthermore, the organisation demonstrated its commitment to the transformation agenda, evidenced by its continued support for black-owned companies, women and youth entrepreneurs. Of the businesses that were approved funding, 94% were black-owned SMMEs, 44% were owned by youth and 32% owned by women. IDFC is committed to improving these figures through enhanced engagement, collaboration and targeted intervention.

In view of our developmental mandate, we continued to support our business partners in distressed industries and those faced with persistent difficult economic and trading conditions. This was partly reflected in the non-performing loans and impairment ratios, which remained relatively high, although improving slightly to 69.5% from 71% the previous year.

The KZN Township and Rural Economies Revitalisation Strategy (KZN TRERS) focuses on catalysing township and rural economies to drive economic recovery across the province. As a provincial development financier, IDFC plays a critical role in delivering both funds and support to businesses in these target areas. To this effect, IDFC has created a Township and Rural



Ms Pearl Bengu
Group Chief Executive

“As challenging as the year was, it also offered glimpses of inspiration. We experienced notable success with our collaboration efforts and continue to pursue partnerships across various sectors, including agriculture, to create programmes that address SMME development and sustainability.”



Economy Investment Policy, which is aligned to the provinces overarching development framework and seeks to provide holistic implementation of TRERS with a focus on identified gaps and opportunities. During the financial year, IDFC launched the Masakhe Entrepreneurship Programme to support entrepreneurs, with a focus on women, youth, People with Disabilities and entrepreneurs operating in township and rural areas. The Programme delivers business support services, access to finance and flexible qualifying criteria to enable the participation and long-term sustainability of SMMEs.

The IDFC is committed to revitalising the Property Portfolio, ensuring that the institutions vast industrial, retail and commercial space is optimally utilised to support industrialisation, SMME development and economic transformation in the province. In the year under review, this commitment was advanced through the implementation of strategic investments, property repairs and maintenance, conducting detailed assessments of all derelict properties and the reconstruction of destroyed and damaged properties. These efforts are strategically poised to create jobs directly, through the development and construction phase, and indirectly through the advancement of peri-urban and rural economies.

IDFC is also leveraging and advancing its strategic expertise in infrastructure project management and programme development, by extending these services to government departments and institutions. This includes the implementation of projects in partnership with the KZN Department of Economic Development, Tourism and Environmental Affairs (EDTEA) and KZN Department of Human Settlements. The aim is to establish the organisation as the lead Implementing Agent in the province; to strengthen the capacity, revenue and sustainability of the IDFC; and to support the development of an inclusive and rapidly growing provincial economy.

To align with the Provincial Government's mandate to catalyse radical economic transformation, IDFC continued with the robust implementation of preferential procurement in favour of African Exempted Micro-Enterprises (EMEs) and Qualifying Small Enterprises (QSEs), together with businesses owned by women, youth and People with Disabilities

(PwDs). IDFC's procurement spend in 2022/23 amounted to R301,4 million, compared to R229,1 million during the previous year. Overall, 97% of procurement spend was from black-owned businesses, 26% from women-owned businesses, 12% from youth-owned businesses and 2% from businesses owned by PwDs.

The IDFC strives to ensure our people feel connected to our purpose and are empowered and recognised for their work. To enable this, we measure engagement levels and employee satisfaction on a regular basis, communicating results and establishing plans to address issues raised. It is a pleasure to note the 30% improvement in employee satisfaction levels in 2022, with 80% of employees reporting job satisfaction, compared to only 50% in 2020. IDFC also continued prioritising employee relations through a series of engagement sessions, together with ongoing efforts to foster sound relations between management and organised labour.

As challenging as the year was, it also offered glimpses of inspiration. We experienced notable success with our collaboration efforts and continue to pursue partnerships across various sectors, including agriculture, to create programmes that address SMME development and sustainability.

All that we have achieved and aspire to do would not be possible without the support and guidance of the Honourable Siboniso Duma, the Member of Executive Council (MEC) for EDTEA and the Board of Directors. On behalf of the executive team and staff I thank them for their commitment to the IDFC. I also thank the IDFC management and staff who continue to give their best effort. Lastly, I recognise our partners and stakeholders, who continue to work with us in all our endeavours, particularly during these challenging times.

Ms Pearl Bengu

Group Chief Executive



GROUP CHIEF FINANCIAL OFFICER'S REPORT

INTRODUCTION

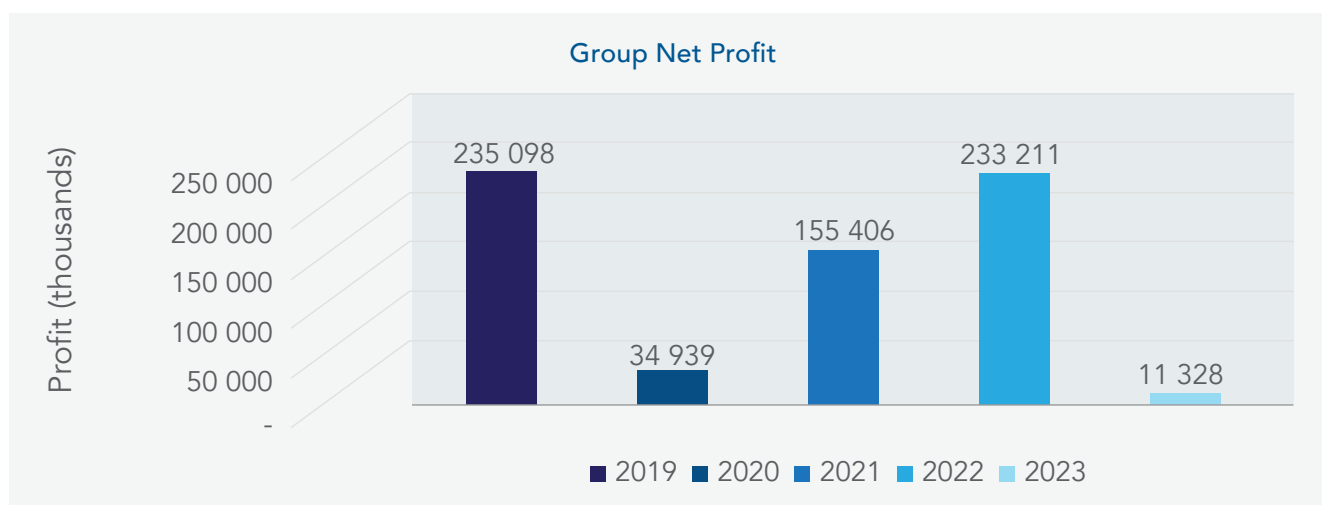
The Ithala Group faces enormous challenges as it works to recover from the Covid-19 pandemic. The civil unrest in July 2021, followed by devastating floods in April 2022, resulted in loss of life and livelihoods across KwaZulu-Natal and slowed the economic recovery. Within this tough economic climate, the Ithala Group struggled to achieve collection targets but remained financially sustainable.

The Ithala Group realised a net profit of R11 million for the financial year ending 31 March 2023, just R1 million above the budgeted net profit and a steep decline from a R233 million profit achieved the

previous financial year (2021/22). The decrease in profit is due to a once off insurance claim of R276 million, related to the damage caused to properties during the civil unrest in 2021, which was recognised as income in the 2021/22 financial statement. For 2022/23, Ithala Development Finance Corporation (IDFC) achieved a net profit of R226 million which is a 30% improvement year on year and is attributed to a dividend of R198 million received from Sundumbili Plaza Limited, a subsidiary company that was wound up in line with the state-owned entities rationalisation programme recommendations. This dividend was eliminated on consolidation.

The chart below depicts the net profit for the group over the past five (5) financial years:

Figure 1: Group Net Profit



Ms Farhana Abdool Kader
Acting Group Chief Financial Officer

“Management is confident that the organisation will turn a corner in the next financial year despite the current economic challenges, which are exacerbated by the ongoing energy crisis and its constraint on the revenue generating capacity of businesses.



Net profit has been extremely volatile over the past five (5) financial years. The significant decline in profit for 2020/21, due to the Covid-19 pandemic, impacted on forecasts used in the expected credit loss model resulting in large impairments of loans, advances and trade receivables as well as the devaluation of properties as vacancy rates increased. The 2021/22 financial year saw a brief improvement in expected credit losses and fair value of investment properties, however, the July 2021 unrest led to a further decline in investment property values. The Group has not fully recovered from the unrest, which damaged

and destroyed numerous Group properties, many of which are still being rebuilt.

The Group is severely impacted by the current economy, as demonstrated by the poor performance of the loan book which experienced an increase in non-performing loans as well as a sharp increase in rental debtors. The following graph depicts the Expected Credit Losses (ECL) over the past five (5) financial years for trade receivables, loans and advances:

Figure 2: Expected Credit Losses (ECL)



ECL has trended upwards since 2019 as clients struggle to meet their instalment and rental obligations. This trend is indicative of the significant impact of the current economic climate on the Group's core operations and client base, which comprises mainly SMME's.

2022/23 FINANCIAL PERFORMANCE

The solid operational performance of our income generating units is demonstrated by the total operating income of the Group of R1,326 billion. This includes a grant of R65 million received from EDTEA for Ithala SOC's capital injection. Income for 2022/23 is 13% lower than the previous financial year, owing to a R276 million insurance pay-out accrued in 2021/22. Further to this, the Group experienced a 31% decrease in grant income in 2022/23 as no grants were received for on-lending to SMME's, compared to R28 million the previous financial year.

During 2022/23 total operating expenditure increased by 10% from R1,188 billion to R1,311 billion for the Group. The purchase of electricity from Eskom for on selling to clients in Industrial Estates

increased by 19% owing to greater client demand. The Group also experienced a 23% spike in security costs to counteract break-ins and vandalism and salary costs increased by 11% as key critical positions were filled.

The Properties Department recorded a profit of R227 million against a budget of R220 million. This is mainly due to sundry revenue and late payment charges, which exceeded the budget by R48 million; savings in salaries and other operating costs of R32 million; and a decrease in the expected credit loss of R25 million offset by a fair value adjustment that came in R116 million below budget. Reconstruction of properties damaged in the 2021 civil unrest is underway and will result in an improvement in rental income and fair value of investment properties. The debtors' book deteriorated by 21% year on year as collection of arrears poses a challenge to the Unit.

The Business Finance Department incurred a loss of R48 million against the budgeted profit of R2,4 million. This was mainly due to higher-than-expected credit losses, which exceeded the budget



by R32 million, and interest received being behind budget by R20 million due to Stage 3 interest reversals because of the increase in non-performing loans. The non-performing loans showed a slight improvement year-on-year of 1,5%, closing the year at 69,3%.

The Implementing Agent Unit generated revenue of R10,9 million against a target of R10 million. The Unit acquired four (4) new projects during the financial year with a revenue impact of R6,4 million.

The largest subsidiary in the Group, Ithala SOC Limited, reported a loss of R60,5 million compared to the budgeted loss of R58,3 million. The variance of R2,2 million is attributed to lower than budgeted fee income of R40 million, and higher than expected credit losses which exceeded the budget by R10 million due to an increase in non-performing loans. These losses were somewhat offset by interest received, which exceeded the budget by R25 million due to the increase in interest rates and lower than expected operational expenses of R27 million.

Ithala SOC Limited operates with an exemption to a full banking licence, granted by the Minister of Finance up until 15 December 2023. An application for a full banking licence is in progress.

2022/23 FINANCIAL POSITION

The Group's total assets increased slightly year-on-year from R8,067 billion to R8,125 billion. This is attributed to an increase in loans and advances of R190 million, arising mainly from Ithala SOC Limited, and an increase in investment property of R85 million as the entity invested in refurbishments. These gains were partially offset by a decrease in trade and other receivables of R100 million due to a partially settled insurance claim, an increase in expected credit losses, and a decrease in cash and cash equivalents of R120 million.

The Group's total liabilities increased slightly by 1% year on year, from R3,383 billion to R3,432 billion. The Group has a debt-to-equity ratio of under 1%, indicating a very low gearing ratio.

The Group's total assets exceed liabilities by R4,693 billion, and therefore the Group remains solvent and is a going concern.

FOCUS AREAS

The Group remains committed to financial sustainability and gearing the business appropriately for the continued execution of our five-year strategy, which commenced in 2020. To achieve these objectives we focused on the following financial drivers:

Cost Management

We remain focused on cost management and effectively deploying our assets and resources to generate value. Cost management is critical to our business and is the foundation of operational efficiency.

Credit Collections

We have centralised and enhanced our credit collection efforts. We focused on deepening our understanding of our clients' business challenges to enable suitable payment arrangements in an attempt to collect arrears.

Liquidity Management

We closely manage our liquidity position and make prudent financial decisions to ensure sustainability. We have embarked on various fundraising activities with strategic partners to provide access to the capital required to help grow the business.

FUTURE OUTLOOK

Management is confident that the organisation will turn a corner in the next financial year despite the current economic challenges, which are exacerbated by the ongoing energy crisis and its constraint on the revenue generating capacity of businesses. We are exploring opportunities as well as devising mitigating interventions to protect the sustainability of the Group.

The Group has budgeted for a net profit of R165 million for the 2023/24 financial year, increasing to R236 million and R427 million in FY2025 and FY2026 respectively. This demonstrates an improvement over the MTEF, with Ithala SOC Limited budgeting for profit from FY2026. The operational budget assumes that the rebuild programme will be accelerated to restore and improve the value and offering of IDFC's property portfolio. The budget also addresses capacity enhancement through recruitment and training.



The capital budget for 2023/24 is focussed on growing the asset base with loans and advances, budgeted at R150 million; investment in the property rebuild program and property refurbishments of R240 million; investment in operational systems of R54 million; and business support to clients of R9 million to improve the success rate of SMMEs and enhance collections.

The Group plans to embark on a recapitalisation programme to remodel and expand some of its shopping centres and is looking to diversify and grow its loan book. We aim to use our strong balance sheet to raise the capital necessary for the increase in investment activity as well as strengthening our relationship with funders and investors to execute our financial model and support our strategy to grow the portfolios.

Acknowledgments

I would like to thank the Auditor General and all supporting audit firms for their professional and diligent service and support through the annual audit and look forward to a continued beneficial working relationship. I would also like to highlight our ongoing appreciation to our clients who believe in IDFC and are supportive of our mandate.

Ms Farhana Abdool Kader

Acting Group Chief Financial Officer



OUR LEADERSHIP

BOARD OF DIRECTORS



Siphesihle Mkhize

Independent Non-Executive
Director (Chairman)

Re-appointed
01 June 2022



B Compt, B Com (Honours)
CTA, Auditing Specialised
Course (APT), Chartered
Accountant (SA), Bachelor
of Laws (LLB)



Area of Expertise

- Financial Management
- Audit
- Accounting
- Supply Chain Management
- Strategy Formulation and Management
- Taxation



Other Directorships

- None



Sipho C Gina

Independent Non-Executive
Director (Deputy Chairman)

Re-appointed
01 June 2022



Social Legal Studies
Diploma, Political Economy,
Conciliation and Arbitration
Certificate, Arbitration
Certificate



Area of Expertise

- Human Resources and Labour Specialist
- Social and Ethics Management



Other Directorships

- National Textile Bargaining Council
- Tsogo Sun International - Member of Audit Committee and Chair of Social and Ethics Committee
- Ubuciko Twines and Fabric (Pty) Ltd
- EduFund
- KZN Economic Council
- Clothing Bargaining Council
- Clothing Bargaining Provident Fund Trustees
- Star Knitting Textile in Mauritius - Non-Executive Director
- Nortex Textile - Non-Executive Director



Precious N Sibiya

Independent Non-Executive
Director

Re-appointed
01 June 2022



Bachelor of Accountancy,
Post-Graduate Diploma in
Accountancy, Leadership
Development Certificate,
Chartered Accountant (SA),
Advanced Short Course in
Business Rescue Practice



Area of Expertise

- Financial Management and Reporting
- Financial Analysis
- Auditing (Internal and External)
- Enterprise-wide Risk Management
- Financial Planning (Budgets and Forecasts)
- Strategy Formulation and Management
- Supply Chain / Procurement Management
- Investment Management
- Project financing
- Business Rescue / Turnaround



Other Directorships

- Air Traffic & Navigation Services (ATNS)
- Trans Caledon Tunnel Authority (TCTA)
- AWCA Investment Holdings (AIH)
- Reef Tankers (Pty) Ltd
- Zukhanye Consulting (Pty) Ltd
- So2Be Enterprises (Pty) Ltd

**Sihle L Ndlovu**

Independent Non-Executive
Director

Re-appointed
01 June 2022



Doctoral of Business Administration (PhD) Degree, MBA, Professional Accountant (SA), Advanced Diploma in Management Accounting, National Diploma in Cost Management Accounting (CIMA), Business Management on Developing Countries Certificate, Tax Practitioner, Post-Graduate Diploma in Accounting and Finance, Professional Accountant Member with Chartered Institute of Management Accountants (CIMA), UK and Stanford University Graduate School of Business Seed Transformation Leadership Certificate Programme.

**Area of Expertise**

- 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 Management

**Other Directorships**

- Built Environment Support Group - Chairman
- Inzalo Group of Companies - Chairman
- BFG Retail Ltd - Non-Executive Director - Chairman
- Msinsi Holdings t/a Msinsi Resorts and Game reserve a wholly owned subsidiary of Umgeni Water
- Umgungundlovu Economic Development Agency - Chairperson of the Board

**Khulekelwe G Mbonambi**

Independent Non-Executive
Director

Re-appointed
01 June 2022



B Accounting, B Com Honours (CTA), Certificate in Board Governance, Certificate in Enterprise Risk Management

**Area of Expertise**

- Financial Reporting
- Financial Management
- Risk Management and Internal Controls
- Supply Chain Management
- Compliance with Laws and Regulations
- Corporate Governance
- Strategy and Performance Management
- South African Tax Legislation

**Other Directorships**

- Umgeni Water - Non-Executive Director and Chairperson of the Audit and Risk Committee
- The Salvation Army (NGO) - Non-Executive Director and Chairperson of the Audit and Risk Committee
- Department of Agriculture, Land Reform and Rural Development - Member of the Audit and Risk Committee
- South African National Energy Development Institute (SANEDI) - Chairperson of the Audit and Risk Committee



OUR LEADERSHIP

BOARD OF DIRECTORS



Usha Roopnarain

Independent Non-Executive Director

Appointed
01 June 2022



Bachelor of Social Science, Honours in Social Science, Master's in Political Sociology, PhD (Political Sociology), LLM (Human Rights Law), MBA



Area of Expertise

- Legal Skills
- Human Resources and Labour Experience
- Development Finance
- Corporate Governance
- Strategy Formulation and Management



Other Directorships

- Naifa Maruf Foundation - Bangladesh (NPO)
- Deputy Director for Africa



Denisha Jairam-Owthar

Independent Non-Executive Director

Appointed
01 June 2022



Doctor in Business Leadership (DBL in ICT), Master's in Business Admin (Specialisation in IT), BCompt (Accounting Sciences), Certified Director; Certifications: Artificial Intelligence, Robotics, Digital Transformation, Cybersecurity, COBIT, ITIL, Data Science



Area of Expertise

- Financial Skills
- Investment Experience
- Planning and Development Skills Experience
- Information, Communication & Technology (end to end value chain of modernised IT)
- Risk Management
- Corporate Governance
- Strategy Formulation and Management
- Credit Management
- Data Science



Other Directorships

- Financial Intelligence Centre of South Africa
- Railways Safety Regulator of SA
- South African Qualifications Authority: QCTO
- IT Web (Public Sector ICT & Wired for Women in ICT: Non-Profit)



Mbusiswa Ngcobo

Independent Non-Executive Director

Appointed
01 June 2022



BCom, BCom Hons, CA(SA), Certificate in Trade and Investment (UKZN), FAIS RE1 Representative



Area of Expertise

- Private Equity and Venture Capital
- Development and Project Finance
- Retail, Private, Corporate and Investment Banking
- Trade and Investment Promotion
- Auditing
- Risk Management
- Governance and Policy Development
- B-BBEE Advisory



Other Directorships

- Crescendo Investment Holdings (Pty) Ltd
- TKZN (Independent Audit Committee Member)
- NAACAM KZN - Chair and NEC Member
- International Trade Administration Commission APDP2 Technical Working Group
- UKZN Accounting Programs Advisory Board (APAB)
- Mbusiswa and Co. Inc.



Manqoba Ngubo
Independent Non-Executive
Director

Appointed
01 June 2022



B. Acc, PDGip
Management and
Leadership, MSc Global
Energy



Area of Expertise

- Financial Skills
- Investment Experience
- Human Resources and Labour Experience
- Development Finance
- Project Finance
- Planning and Development Skills Experience
- Risk Management
- Corporate Governance
- Strategy Formulation and Management



Other Directorships

- PSV Holdings Ltd
- Nutritional Holdings Ltd



Pearl Bengu
Executive Director

Appointed
01 November 2018



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



Area of Expertise

- Strategic Leadership Management
- Stakeholder Management
- Public Sector Banking
- Business Acquisition



Other Directorships

- Cowslip Investments SOC Ltd



OUR LEADERSHIP (continued)

MANAGEMENT TEAM

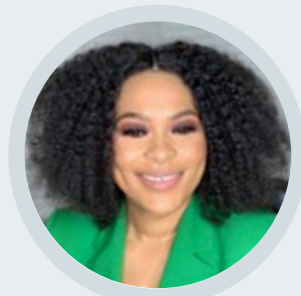


Pearl Bengu
Group Chief Executive

Appointed
01 November 2018



- 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



Babalwa Mapisa
Group Chief Financial Officer

Appointed 1 March 2022,
Resigned 31 March 2023



- B Compt
- B Com Honours
- Chartered Accountant (SA)
- Certified Internal Auditor



Xolani Mkhize
Properties Executive

Appointed
18 March 2019



- Post-Graduate Diploma in Management
- Post-Graduate Diploma in Project Management
- BSc
- Global Executive Development Programme



Khetha Cele
Group Chief Information Officer

Appointed
01 February 2021



- Diploma in Project Management
- B Com Business Information Systems and Technology
- B Com (Honours) Business Information Systems



Bonginkosi Shangase
Business Finance Executive

Appointed
01 June 2017



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



Dr. Manogran Muthusamy
Group Chief Risk Officer

Appointed
01 July 2022



- Doctor of Business Leadership
- MBA
- Postgraduate Diploma in Management Studies
- B Com (Financial Management)
- Diploma in Bank Credit Management
- CAIB (SA) - Associate Diploma in Banking
- Certificate in Advanced Business Risk Management

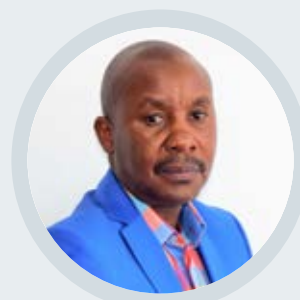


Tozi Mthethwa
Group Corporate Support Services Executive

Appointed
01 June 2020



- BA Soc Sc
- BA Soc Sc (Hons)
- M Soc Sc
- Management Development Programme (MDP)
- Master of Business Administration (MBA)



Armstrong Malope
Organisational Strategy, Performance
and Efficiency Executive

Appointed
09 October 2022



- MBA
- Bachelor of Social Sciences
- Post Grad Diploma in Employment Law and Employment Relations
- MPhil in Labour Law and Employment Relations
- Management Advancement Programme



SECTION 2

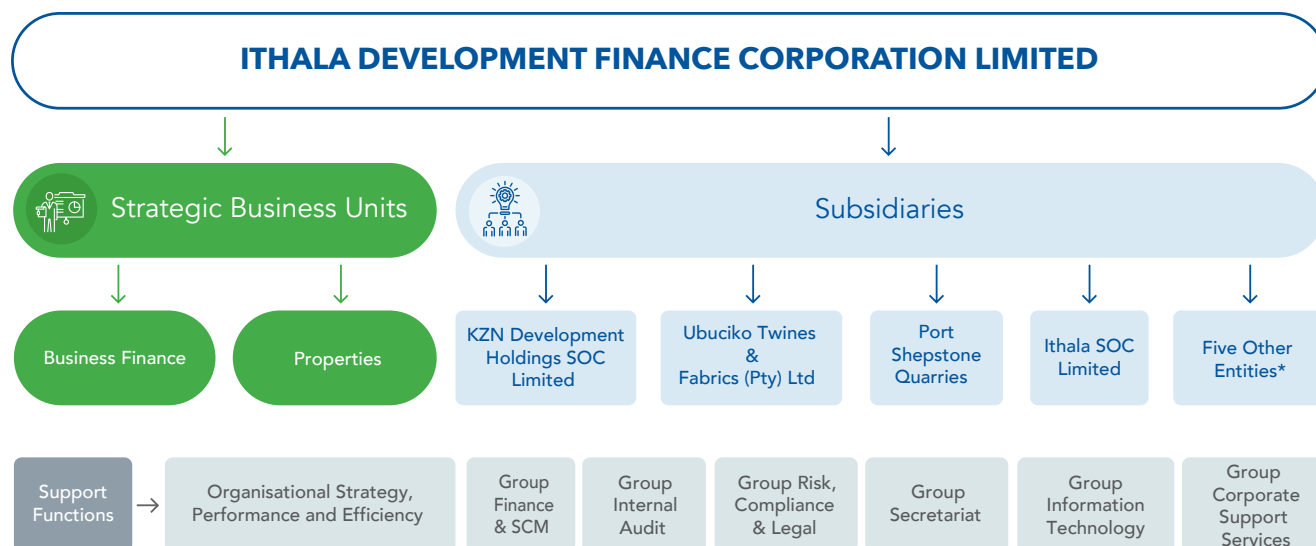
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ORGANISATIONAL STRUCTURE

The following diagram illustrates the IDFC organisational structure, including Strategic Business Units and Subsidiaries.

Figure 3: IDFC Organisational Structure



*Cowslip Investment (Pty) Ltd, Sundumbili Plaza Ltd, Nongoma Plaza Ltd, Durban Wharfside Trust and Sibaya Conservation Projects SOC Ltd.

PROPERTIES

Our properties business is responsible for the effective management and development of IDFC's property portfolio, which comprises a range of large industrial, retail, light industrial and SMME properties.

IDFC is one of the largest property portfolio holders in KwaZulu-Natal. Details of the Properties Department's performance and prospects are contained on pages 64 to 66.

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 meeting our primary mandate, as expressed in the Ithala Act. Details on our business finance performance and prospects may be found on pages 56 to 63.



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 especially in areas where such services were previously insufficient.

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, and services the needs of individuals, groups, businesses, and other public sector entities.

The Ithala SOC Limited Integrated Annual Report provides additional information regarding this wholly owned subsidiary and 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 of the IDFC and was established in 2006. Previously, the company produced polypropylene twine, woven material and polypropylene bags and sacks.

Since the 2017/18 financial year, the equipment previously used by Ubuciko Twines and Fabrics has been leased to another company. Rental revenue continued to be collected monthly until the lease expired in May 2022. Most of the enterprise's operational staff members, originally employed by Ubuciko Twines and 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 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 (CIPC). Subsequent to the 2022/23 financial year end, the Board resolved to repurpose KPDH as an interposed company in pursuit of the application for the banking licence application.



Port Shepstone Quarries (Pty) Limited

Port Shepstone Quarries (Pty) Ltd (PSQ) is a quarry mining business operating on a leased farm in Port Shepstone. IDFC initially acquired a 30% shareholding in PSQ when it granted its debt facilities in September 2013. In July 2015 IDFC acquired the remaining 70% shareholding, through a settlement agreement with the majority shareholder following the company's failure to service its debt obligations.

The Company was placed under business rescue in May 2017, until the end of January 2018 and the Quarry temporarily closed. A turnaround strategy and implementation plan was developed and approved by the IDFC Board in 2021. The Strategy explained, in detail, areas upon which the Company needed to focus and improve into the future.

Approval was sought and obtained from the MEC of EDTEA and all relevant officials for the dilution of shareholding in Port Shepstone Quarries and the acquisition of a third-party investor to revive operations. IDFC seeks to dilute a majority shareholding in the Company, however, at the time of preparation and issue of this annual report, the percentage of dilution was unknown. IDFC has finalised the investor assessment process and a proposal will be tabled with the IDFC Board in the 2023/2024 financial year. Once this process is complete and a new shareholding structure is in place the Department of Mineral Resources and Energy (DMRE) will be approached for approval to relaunch operations.

Five Other Entities

IDFC owns five other entities including Cowslip Investment (Pty) Ltd, Sundumbili Plaza Ltd, Nongoma Plaza Ltd, Durban Wharfside Trust and Sibaya Conservation Project SOC Ltd.

On 9 November 2021, approval was obtained from the MECs of EDTEA, Provincial Treasury and all relevant officials for the dissolution of the Sundumbili and Nongoma Plazas. Upon dissolution, IDFC will receive the property as a dividend in specie (non-cash assets of an equivalent amount) whilst minority shareholders will receive a dividend in cash. The dissolution will have no impact on the financial statements at Group level. The process of dissolving these subsidiaries is yet to be concluded.

Sibaya Conservation Project SOC Ltd previously carried on the business of letting a lodge, situated in the Chithumuzi area of Manzengwenya Isigodi of Tembe Tribal Authority. However, the lodge has been vacant since May 2004 and all attempts to find a replacement tenant have been unsuccessful. The company is in the process of liquidation.

Associate Company - Ntingwe Tea Estate

Ntingwe Tea Estate (Pty) Ltd, located in the Nkandla Local Municipality, was established in 1988. IDFC holds a 38% ownership in the estate, while 62% is held by the KwaZulu-Natal Department of Agriculture and Rural Development.

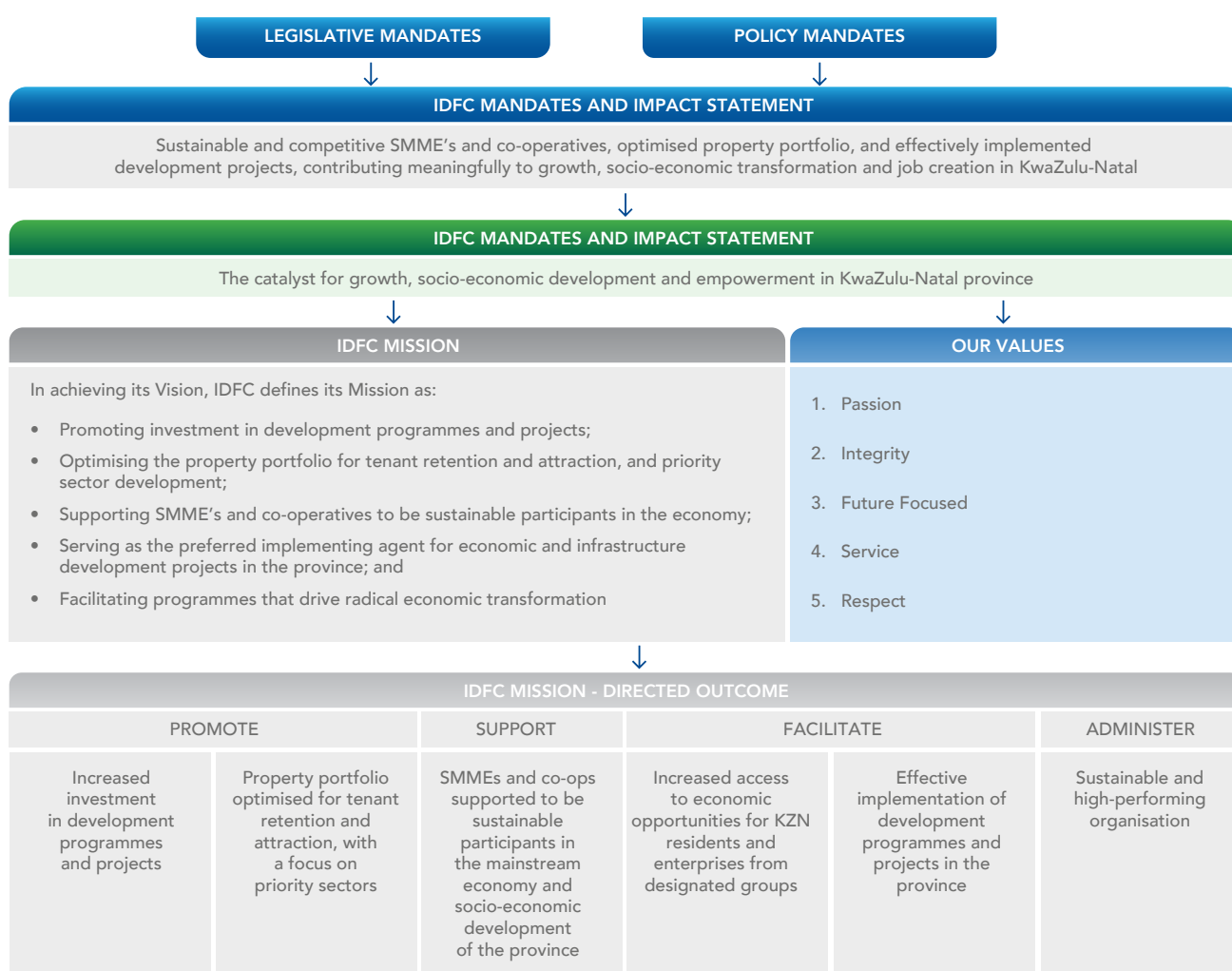
IDFC was responsible for providing management support to the enterprise. However, with effect from 2019/20, responsibility for operations were moved to the Agribusiness Development Agency in line with the recommendation of the KwaZulu-Natal Rationalisation of Public Entities Task Team (RAPETT) as adopted by the Provincial Executive Council, in principle.



OUR STRATEGY

IDFC develops strategic objectives aligned with the shareholder's expectation and Government's priority areas as per the MTSF (2019-2024). During the 2019/20 financial year IDFC developed and adopted a new five-year strategy covering the period 2020 to 2025. This Strategy is summarised in the diagram below.

Figure 4: IDFC Mandate and Strategic Objectives



Progress towards achieving IDFC's strategic objectives is monitored through the key performance indicators, set out in the IDFC Annual Performance Plan.



OVERVIEW OF EXTERNAL ENVIRONMENT

WORLD ECONOMIC OUTLOOK

The world economy is in a highly uncertain moment, underpinned by the Covid-19 outbreak in December 2019 and Russia's invasion of Ukraine in February 2022. The repercussions of these events are global and include pent-up aggregate demand, lingering supply chain disruptions, spiking commodity prices, and rising inflation. The crises have also led to fluctuating monetary policy, with central banks drastically reducing interest rates from 2020 to 2021 to counter the effects of the pandemic, followed in early 2022 by a contractionary monetary policy designed to curb inflation. Collectively, high inflation and rising interest rates have led to what economists are calling the 'cost of living crisis'.

Amidst this 'crisis', the world is also undergoing tremendous change. Firstly, is a perceived shift in **global and political economic power**. Although Western Europe and North America remain central to the world economy, growth is increasingly driven by E7 'emerging' economies including Brazil, China, India, Indonesia, Mexico, and Turkey. By 2050, it is anticipated that E7 economies may have increased their share of world GDP from 35% to nearly 50%.

Secondly, the **rise in technology and digitisation** are reshaping the global economy. Established technologies including the internet and smart phones continue to alter the way we do business, share information, and access education. At the same time, new innovations from big data analytics to cloud computing and artificial intelligence are expected to transform the world in ways that are not yet understood. The result is a substantial investment in aligned business models, technology, research and development, and specialised skills.



IDFC Business Finance Client: Siyawisa Hlathi

Lastly, the **effects of climate change**, including an increase in the frequency and severity of natural disasters, warming climates and changing rainfall patterns are having a severe yet uneven effect on global economies. While some countries can mitigate

the crises others, including much of the developing world, are battling damaged infrastructure as well as food and energy insecurity. The result is widening inequality and a even more urgent need for global solutions.



Isithebe Industrial Estate

WORLD INVESTMENT OUTLOOK

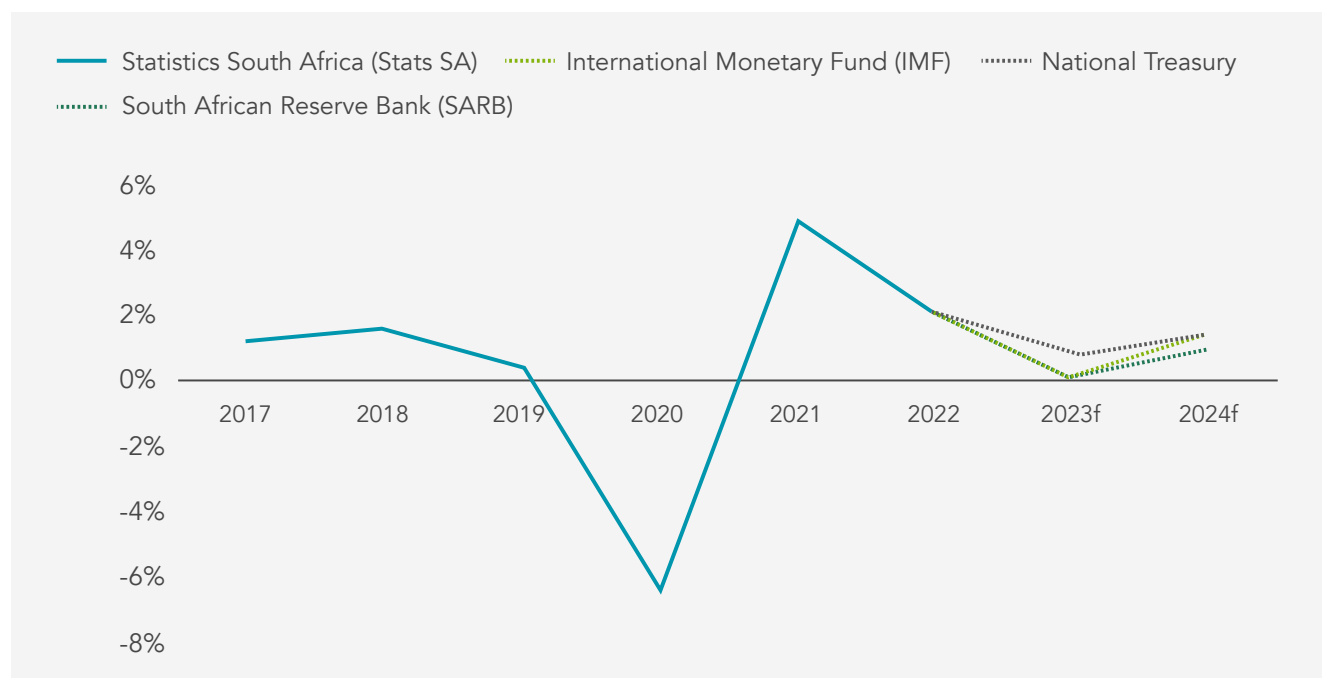
The global investment climate is experiencing a significant shift, underscored by the challenges discussed above. Escalating geopolitical tensions, including trade conflict between China and the US, the impact of Brexit, and divergence on the Russia-Ukraine conflict, pose challenges to international trade and investment. The result is rising pessimism, uncertainty, and a widening trust gap among global investors. Consequently, investors and policy makers are increasingly looking inward, an approach that could diminish many of the recent gains from globalisation.

Globally, economic relations are impacted by the fragmentation of capital flows along geopolitical fault lines and the emergence of geopolitical, trade and investment blocs. Increasingly, investors and policy makers are looking for trade and investment opportunities in partner countries, with unwavering political relations. This is evidenced by recent interest in the BRICS (Brazil, Russia, India, China, and South Africa) bloc. In 2022, Algeria, Argentina, Bahrain, Egypt, Indonesia, Iran, Saudi Arabia, and the United Arab Emirates enquired about, or applied for, BRICS membership. Their interest, as well as the prominence of China and India in the global economy, has positioned BRICS as a leading force toward a new global economic order.

SOUTH AFRICA'S ECONOMY

In South Africa, a slow-growth economy continues to exacerbate socio-economic challenges. Global forces, including the Covid-19 pandemic and the war in Ukraine, have dampened investment and necessitated a contractionary monetary policy. At home, electricity shortages led to chronic load shedding, disrupting economic activity, increasing the cost of doing business and damaging infrastructure. While GDP has recovered to pre-pandemic levels, employment remains nearly half a million jobs below where it was in early 2020, with wellbeing further constrained by the cost-of-living crisis. The result is deepening poverty and a greater demand for social grants, placing the nation's fiscal sustainability at risk.

South Africa narrowly missed a technical recession in the first three months of 2023. According to Statistics South Africa (StatsSA) economic growth was only 0.4% during the quarter, following a decline of 1.1% in the last quarter of 2022. There is also little confidence that the economic situation will improve. The following graph provides growth forecasts for 2023 and 2024 from StatsSA, the South African Reserve Bank (SARB), National Treasury and the International Monetary Fund (IMF). It shows that, at best, South Africa will return to pre-pandemic growth by 2024.

**Figure 5: Global GDP and Forecasts**

Source: StatsSA, SARB, National Treasury and the IMF (2023)

Investment in power generation capacity is critical to address the nation's economic crises. During the 2022/23 financial year, the development of private sector energy projects accelerated, driven by a more favourable regulatory environment and a growing demand for Eskom alternatives. However, further investment is needed in the energy industry and the economy more broadly if South Africa hopes to address infrastructure and service delivery challenges and create meaningful jobs. Risks include

the governments proclaimed neutrality stance on the Russia-Ukraine war, a faster-than-expected return to external (current account) deficits in the range of 2-3% of GDP, and the grey-listing of South Africa by the Financial Action Task Force (FATF). Consequences of the FATF's classification include a higher cost of raising finance for South African businesses, additional financial requirements for South African entities, and enhanced client screening by local banks and global counterparties.



New tenant, Mozambik, at IDFC owned property Wilson's Wharf



KWAZULU-NATAL ECONOMY

KwaZulu-Natal has the second largest provincial economy in the country, contributing 16% to the national GDP. Finance, manufacturing, trade, business services and transport communications are the largest and strongest growth sectors. The province is also well positioned in the agriculture and agro-processing, forestry and fishing, tourism and accommodation sectors. Within manufacturing, competitive advantages exist across a range of industries including aluminium conversion, fabricated products, automotive components, electronics, engineering, metal works, petro-chemicals, and wood and paper products, as well as in transport, storage and communications.

KwaZulu-Natal's emergence as a regional industrial hub is attributed to its natural resource endowments, exceptional productive capacity, well-developed first-world infrastructure, and advantageous coastal location. Economic activity is concentrated in the metropolitan areas of Durban, Pietermaritzburg, and Richards Bay, while the coastal area is utilised for farming sugar cane, sub-tropical fruit and vegetables, and tourism. Two of Africa's primary seaports are in Durban and Richards Bay, while the world-class Dube Trade Port – home to the King Shaka International Airport – provides a key competitive advantage and positions the province to drive economic growth and increase its global market share.

Crime and a lack of local economic opportunities pose the greatest threat to investment and business in the province. Much of KZN remains rural and poor, with extremely high unemployment, inadequate infrastructure and weak service delivery. These challenges often manifest in protests, as seen in the violent uprisings across the province in July 2021. Nevertheless, the number of protests declined slightly during the year under review. More recently, one of the most pressing risks to emerge is grassroots

activism by localised militant lobby groups, often calling themselves business forums. While this challenge persists throughout South Africa it is a top priority for the province. Relevant authorities in all spheres of government are engaging on lasting solutions.

IMPACT ON ITHALA DEVELOPMENT FINANCE CORPORATION

The small, medium and micro-enterprise (SMME) sector forms the base of the economy, yet is particularly vulnerable, especially for those that lack access to finance. IDFC has championed funding for SMMEs for nearly 65 years. The IDFC legacy is built upon providing access to financial services for unbanked poor communities, building shopping centers in rural areas, and enabling socio-economic development across the province. This legacy is aligned to our mandate as a developmental state-owned company, under the auspices of the KwaZulu-Natal Department of Economic Development, Tourism and Environmental Affairs (KZN EDTEA).

The IDFC mandate is constrained by the economic turbulence in recent years. IDFC's existing and prospective clients are directly affected by the increased costs of doing business as a result of surging inflation, cost of alternative energy due to on-going load-shedding, degenerating road infrastructure, unpredictable water supply, rising municipal rates and taxes, violent community protests, project site invasion by groups demanding contracts, increasing crime, rising unemployment, and dampened consumer demand. These factors, combined with rising interest rates, have reduced SMMEs demand for financing. By extension, IDFC is directly affected as loan demand withers and revenue collections fall, which will in turn reduce the availability of funds to advance the IDFC's socio-economic mandate.



STRATEGIC OUTCOMES AND TARGETS: 2020-2025

The IDFC has established strategic outcomes, outcome indicators and five-year targets. These are aligned to the organisations five-year strategic plan and advance a commitment to 'Making it Happen Together'.

Table 1: Strategic Outcomes and Targets

Outcome	Outcome Indicator	Five-Year Target (to March 2025)
Pillar of Mandate PROMOTE: Encourage the participation of the private sector and community organisations in development projects and programmes, and in the development of human resources and social, economic, financial and physical infrastructure in the province.		
Outcome 1: Increased investment in development programmes and projects by strategic partners	1.1. Cumulative Rand value of investment attracted into provincial development programmes and projects	Business Finance (matched funding): R500 million Properties (partnership investments in properties): R650 million
Outcome 2: Property portfolio optimised for tenant retention and attraction, with a focus on priority sectors	2.1. Return on Investment in the Property Portfolio	>8,8%
	2.2. Vacancy rate of gross lettable space	<10%
	2.3. Percentage growth in the asset value of properties over the five-year period	25% (5% per annum)
	2.4. The number of new developments and industrial hubs revitalised over the five-year period	Five (5)
	2.5. Cumulative number of jobs created through infrastructure developments and new leases	7 069 jobs from 2020/21 to 2024/25
Pillar of Mandate SUPPORT: Provide financial and non-financial support and assistance to KwaZulu-Natal residents and enterprises, to enable them to best participate in the mainstream economy and in the socio-economic development of the province.		
Outcome 3: Increased contribution of supported SMME's and co-operatives to socio-economic transformation and job creation	3.1. Rand value of the loan book	R1 billion
	3.2. Survival rate of SMME's supported (Percentage of SMME's supported that are operational two years after receiving financial support from IDFC + IDFC loan performing)	70%
	3.3. Cumulative number of jobs created by supported enterprises	10 000 jobs from 2020/21 to 2024/25
	3.4. Percentage of non-performing loans	<60%
	3.5. Percentage of loans with first disbursement within 30 days after loan approval	90%
Strategic Focus Area of Mandate FACILITATE: Make it easier to do business and invest, and ensure excellence in the planning, executing, financing and monitoring of the implementation of development projects and programmes in the province.		



Outcome	Outcome Indicator	Five-Year Target (to March 2025)
Outcome 4: Increased access to economic opportunities for KZN residents and enterprises from designated groups	4.1. Rand value of public sector procurement in KwaZulu-Natal accessed by IDFC supported SMME's and co-operatives over the five-year period (Facilitating access to markets and localisation)	R500 million
	4.2. Percentage of funding allocated to enterprises owned by designated groups: • Black • Women • Youth • PwD's	1. Black, African in particular - 60% 2. Women - 40% 3. Youth - 35% 4. PwD's - 3%
	4.3. Cumulative number of black manufacturing businesses supported to be sustainable participants in historically monopolised sectors	Six (6)
Outcome 5: Effective implementation of development programmes and projects in the province	5.1. Percentage of SLA commitments achieved on assigned projects	90%
Foundation of Mandate ADMINISTER: Ensure a capable, ethical and sustainable organisation.		
Outcome 6: Sustainable and high-performing organisation	6.1. External audit outcome	Achieve an unqualified audit outcome by 2022/23, and maintain thereafter
	6.2. IDFC cost-to-income ratio	Including grant and Fair Value adjustment: 70% Excluding grant: 75%
	6.3. Percentage customer satisfaction rating (revised methodology)	>90%
	6.4. Percentage overall organisational performance rating	>90%
	6.5. Return on investment of the Ithala Group	5%



IDFC and EDTEA hosted Delegation from Gauteng Treasury for Establishment of a State Bank Benchmarking Visit



BUSINESS FINANCE STRATEGIES

Business Finance Mission

Our mission is to provide financial and non-financial services to persons and businesses operating an SMME within KwaZulu-Natal.

Target Market

Our target market is primarily previously disadvantaged individuals seeking to establish and/or grow their small and medium-sized business.

PROVINCIAL DEVELOPMENT IMPERATIVES RELATED TO SMME AND CO-OPERATIVE FINANCE

The IDFC extends finance and non-financial support to SMMEs and co-operatives in KwaZulu-Natal, in alignment with the Provincial Growth Development Strategy, which sets out the following imperatives:

- 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 sectors;
- Institutionalise business support services;
- Rural and township economic development;
- Drive Radical Economic Transformation;
- Improve SMME support interventions;
- Reduce unnecessary red tape;
- Build a culture of service excellence; and
- Drive innovative business solutions.

FOCUS ECONOMIC SECTORS

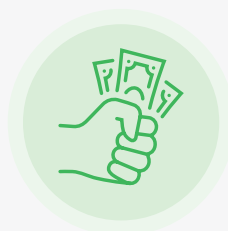
The IDFC supports economic sectors with the greatest potential to drive economic growth and employment creation in the province. Priority sectors are:



Agriculture and agro-processing



Manufacturing



Trade and services



Commercial property



Construction



Logistics



Mining



Tourism



KEY CHALLENGES IN BUSINESS FINANCE

Funding

IDFC manages an Enterprise Development Fund on behalf of the KZN EDTEA. The purpose of this Fund is to accelerate development within the province by advancing loans at interest rates below the market. The Fund, and consequently the IDFC loan book, have declined in value over the past several years owing to lack of capitalisation and low collection rates. Efforts are underway to mobilise funding through strategic partnerships and loans. IDFC is engaging identified partners and continues to mobilise funding from key stakeholders, including the KZN EDTEA and the Industrial Development Corporation (IDC) with the aim of concluding partnerships in the 2023/24 financial year. IDFC is highly dependent on the Fund to advance its on-lending activities and requires re-capitalisation as a matter of urgent priority.

During the financial year, IDFC launched the Masakhe Entrepreneurship Programme which provides support to entrepreneurs, with a focus on women and youth-owned businesses and those operating in township and rural areas. The Programme delivers business support services, access to finance and flexible qualifying criteria to enable the participation and long-term sustainability of SMMEs.

Training delivered through the Masakhe Entrepreneurship Program focused on the following:

- Supply Chain Management Training
- South African Revenue Services (SARS): Compliance for Small Businesses
- Small Enterprise Development Agency (SEDA): Business Management and Business Plan Development
- Small Enterprise Finance Agency (SEFA): Products and Services
- National Youth Development Agency (NYDA): Business Support for Youth in Business

Profitability

The variables affecting profitability are:

- Low interest rates charged on the Enterprise Development Fund of between 2% and 7%;
- Reduction in management fees on the Enterprise Development Fund;
- IFRS 9 interest income recognition on Stage 3 loans; and
- Increased provisions due to the high level of non-performing loans.

A series of portfolio management processes were introduced to manage the profitability risk. These

include efforts to increase collections as well as client visits to review performance and detect early warning signs of non-payment.

Non-Performing Loans

The non-performing loans percentage is around 69,3% and is a major cause for concern. For this reason, Business Finance has embarked on a strategy aimed at improving the performance of its loan book. This strategy involves the following:

- Increasing the loan book to R1 billion by the end of the 2024/25 financial year, and R1,1 billion by the end of 2025/26.
- Aggressive collections from high value non-performing loans extended under the IDFC Fund and Enterprise Development Fund.
- Expediting the legal recovery process.
- Restructuring of non-performing loans that are potentially viable and meet the necessary criteria.
- Pro-active and close monitoring of all performing loans to prevent them from slipping to the non-performing loan book.

Adverse Market Conditions Affecting Small Businesses

Unfavourable trading conditions have a negative bearing on the SMME sector and the likelihood of entrepreneurial success. Access to markets, particularly for businesses operating in historically monopolised sectors and in rural and township areas, remains one of the major challenges facing SMMEs.

The KZN Township and Rural Economies Revitalisation Strategy (KZN TRERS) focuses on catalysing township and rural economies to drive economic recovery across KZN. As a provincial development financier, IDFC plays a critical role, delivering both funds and support to businesses in these target areas. To this effect, IDFC has created a Township and Rural Economy Investment Policy, which is aligned to the provinces overarching development framework and seek to provide holistic implementation of TRERS with a focus on identified gaps and opportunities.

Critical to the IDFC approach is an understanding of the challenges faced by township and rural SMMEs, and the barriers to providing support. This includes applicant's inability to meet qualifying criteria, non-viable business propositions, and negative credit profiles among business members/directors. To overcome these challenges, IDFC is strategising to include a funding solution that will directly assist rural, informal and township economies by providing finance to businesses including shisanyama's, clothing and textiles, personal care, car washes and bakeries.



Inadequate Secondary Source of Repayments

IDFC provides loans and other business support to previously disadvantaged South Africans who, largely because of historic inequalities, may have minimal or no collateral. As a result, there is often no source of recovery available should businesses default on their loans. Business Finance has continued to improve security to encourage a thriving entrepreneurial spirit and reduce risk in the lending portfolio.

Human Capital and Information Technology

Clients seek a seamless process when interacting with IDFC, which includes accessing services through their channel of choice. As such, IDFC needs to

drive digital adoption and scale-up the introduction of digital tools to promote business continuity and efficiency.

In the year under review, IDFC started the process to procure a Commercial Lending System (CLS), to manage the commercial lending process in a comprehensive, organised and secure way. This process will be finalised and implemented in the next financial year (2023/24). Once complete, IDFC will be better equipped for the effective implementation of business rules and strategies, with quick and intuitive access to information for monitoring, management and decision making.

BUSINESS SUPPORT SERVICES

The historic performance of IDFC-funded businesses illustrates the need for non-financial support, designed to nurture, grow and sustain our clients. These services are referred to as Business Support and are provided in partnership with the following organisations:



Trade and Investment KZN (TIKZN) – provides business retention support to clients.



Agriculture Development Agency (ADA) – provides financial and non-financial support to clients in the agriculture and agro-processing sectors.



National Construction Incubator (NCI) – provides non-financial support to clients and service providers in the built environment.



Umzinyathi Development Agency (UDA) – provides financial and non-financial support to clients in the built environment.



Durban University of Technology (DUT) – provides training in business management skills to prospective and existing clients.

The Post Investment Management team has five (5) members dedicated to the pro-active monitoring of loans and provision of post investment support to clients. The team also attends to the turnaround and restructuring of ailing businesses that are viable or potentially viable.

To augment the role played by Post Investment Management, Business Finance is in the process of appointing a panel of service providers who will provide support prior to and following IDFC investment. This support includes assistance with business planning, feasibility studies, coaching, mentorship and training. It is anticipated that the panel will be in place in the second quarter of the 2023/24 financial year.



BUSINESS SUPPORT PROJECTS IN THE PIPELINE

The IDFC is also developing a pipeline of business support projects designed to assist prospective and existing clients:



Designing of the SMME Toolkit – The toolkit will educate prospective clients on important aspects of starting a business and the loan application process.



SMME Skills Training – Training will be provided to SMMEs by qualified facilitators.



Business Incubation Centres at District Municipality Level – Regulatory and business support will be made available closer to where our clients live and work.

KEY PERFORMANCE INDICATORS

The Business Finance Department has set out the following Key Performance Indicators (KPIs):

- Increase in the number of start-up businesses (pre-funding);
- Increase in the success rate of start-up businesses;
- Decrease in business failures;
- Increase in the average lifespan of existing businesses; and
- Number of training mentorship programmes implemented for SMMEs.



IDFC Property Flamingo Light Industrial Park



PROPERTIES STRATEGY: 2020-2025

Background on the IDFC Properties Business

Large Industrial Portfolio

The large industrial portfolio consists of three Industrial Estates, Isithebe, Ezakheni and Madadeni, located on the borders of the former homelands. Prior to 1990, these Estates received infrastructure funding and other incentives to encourage business development. Industrial Estates constitute 70% of the IDFC's property portfolio.

Municipal Services

The large industrial portfolio also requires the delivery of infrastructure and municipal services, such as electricity, water, sewage, refuse removal and roads, for which IDFC is responsible.

Retail Portfolio

The retail portfolio was established to accelerate economic activity in peri-urban areas and rural towns, and as such the rental rates are set below market. Most shopping centres in the portfolio are anchored by national retailers.

Key Challenges

The IDFC Properties Business Unit faces five key challenges:

1. **Condition:** The portfolio is nearly 50-years old and requires urgent intervention to restore functionality and compliance.
2. **Competition:** The portfolio is facing competition from new developments, resulting in increased vacancies.
3. **Profitability:** Operational expenses are increasing at a rate higher than rental escalations.
4. **Growth:** The portfolio has not grown during the past 15 years.
5. **Funding:** The portfolio needs urgent funding to recapitalise assets, address the current condition, and create growth opportunities.

Decline in the Industrial Sector

South Africa is undergoing a prolonged phase of deindustrialisation sparked by the removal of import restrictions and subsidies in the mid-1990s and

accelerated by skills shortages, low productivity, weak infrastructure, crime and the electricity crisis. This has precipitated a migration of skilled labour away from rural and peri-urban areas towards cities and overseas markets. As a result, 70% of the IDFC property portfolio is at risk.

Competitive Forces in Retail Property

The IDFC previously dominated the retail market in many peri-urban areas. However, growth in retail demand has attracted private-sector developers, bringing new competition to the IDFC portfolio.

PROPERTIES BUSINESS STRATEGIC OPTIONS

Recapitalise and Grow the Property Portfolio

IDFC continued to implement a planned capital investment programme through the 2022/23 financial year, which will ensure continued functionality and compliance within the Property Portfolio. This includes continuation of the roof replacement strategy for Industrial Estates, which will extend the life span of affected buildings by 15 to 20 years, as well as the installation of an automatic sprinkler system in applicable factories.

IDFC is pursuing strategic partnerships to access capital for new property development. The following developments have been identified:

- Re-modelling of Wilsons Wharf
- Re-modelling of Manguzi Shopping Centre
- Re-build and re-modelling of Umlazi Shopping Centre
- Re-build and re-modelling of Kwamashu Shopping Centre

Execute an Asset Management Strategy

The Property Portfolio provides IDFC with capital appreciation and rental income. IDFC is developing a robust strategy to invest this income in strategic infrastructure and high performing properties. The aim is to derive additional income, build sustainability within the IDFC and promote economic development in KZN.

Focus on Rental Vacancy Reductions

The financial health of the Property Portfolio depends on the ability to attract and retain tenants and reduce vacancy rates across all property types. IDFC has a marketing strategy to attract tenants and is building retention through the delivery of business support services.



ENTERPRISE RISK MANAGEMENT

ADDRESSING RISK

Defining Risk within the Organisation

IDFC defines risk as any factor that may hinder the achievement of desired business objectives or lead to adverse outcomes or failure. The Enterprise Risk Management System addresses several categories of risk, including strategic risks, operational risks and the risk of fraud.

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. It includes processes and systems, regulatory compliance, legal risk and business continuity. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including issues that impact IDFC's day-to-day operations. Fraud risks entail intentional misconduct, designed to evade detection and provide the perpetrator with unlawful gain. Because it requires the collusion of at least two people, poorly defined job descriptions and approval processes present a risk for fraud.

Principles of Risk Management

Risk management at IDFC is guided by the following principles:

- Protect IDFC's reputation through a sound risk culture and attitude;
- Compliance with regulatory requirements and principles;
- A strongly defined risk management structure;
- Communication and coordination between the Executive Committee (EXCO) and Executive Management; and
- Communication and coordination between the Audit and Risk Committee (ARC) and the Board.

Identifying, Monitoring and Managing Risk

Management is responsible for identifying and assessing risks that IDFC may face in the execution of its strategy, including strategic risks, operational risks, and fraud risks in all areas of business. Risks are

monitored by the ARC on a quarterly basis through the adoption and implementation of an Enterprise Risk Management (ERM) Framework, enhancing risk management at both a Strategic and Operational Risk levels in the organisation.

The ARC reviews the ERM Framework regularly and oversees the control and enhancement of systems, policies, practices and procedures. The intent is to ensure that all risks, including their key risk indicators, risk appetite, tolerance and avoidance levels, are identified, measured, controlled, monitored and reported. The risk appetite is reviewed on a quarterly basis in line with changing economic conditions. The year under review was particularly challenging owing to the long-term effects of the Covid-19 pandemic on IDFC and our Business Finance and Properties clients, the flooding which occurred in April 2022, and the ongoing rebuild of various properties affected by the civil unrest in July 2021. As a result, the ARC undertook very close monitoring of strategic risks and the risk appetite in line with the rapidly changing environment.

IDFC undertakes various measures to proactively manage risk. Strategic risks are reviewed annually in alignment with the strategic objectives and direction of the organisation, ensuring that key risk indicators, risk appetite, tolerance and avoidance levels are also updated. IDFC has formally appointed risk champions in all Business Units, which enables the organisation to improve its risk maturity level. IDFC has created a strong culture of risk and ethical practices within the organisation, including the management of ethics and fraud risks, which is spearheaded by the Anti-Fraud and Ethics Committee. The Committee submits quarterly reports to the relevant Board Committees.

Strategic Risk Register

Management is committed to a robust risk management process that ensures IDFC assets are protected and, where necessary, that risk is mitigated through adequate insurance. An IDFC risk workshop was held in February 2022 whereby the strategic risk register was revised and mapped to IDFC's strategy. In total 16 strategic risks were identified.

**Table 2: Strategic Outcomes and Risks**

No.	Strategic Outcome	Risk	Controls in Place to Manage Risk
1.	Outcome 1: Increased investment in development programmes and projects by strategic partners	Funding Risk: Properties	- Property Strategy developed, approved and implemented, including property upgrades and maintenance, as well as marketing. - Property Maintenance Plan developed and approved. - Borrowing Plan developed. - Strategic Partnership Policy implemented. - Monitoring and tracking action plans and reporting on implementation (monthly and quarterly reports to governance structures). - Monitoring and tracking the Annual Performance Plan. - Due diligence on potential new tenants. - Reinforcement of credit control procedures.
2.	Outcome 1: Increased investment in development programmes and projects by strategic partners	Funding Risk: Business Finance	- Execute weekly pipeline meetings to strengthen the acquisitions process and grow the loan book. - Refine business finance processes. - Committees and Approval Structures in place for the assessment and approval of client loan facilities. - Risks on new loan applications assessed by the Internal Credit Risk Committee. - Loans assessed as per the new thresholds, which align to the recently reviewed Concentration Risk Policy. - Strengthening of the Technical Investment Support Units due diligence and financial analysis on new loan applications, to mitigate against default in the IDFC's high-risk market. - Implementation of lending policies and a plan for the reduction of non-performing loans, which includes security requirements. - Enterprise Development Fund (EDF) policy has been amended in relation to the 5 C's of the credit assessment. - Defined processes for pre and post business support functions. - Post Investment Monitoring process used to prevent non-performing loans. - Classification of clients and implementation of a Collection Plan for the 10 highest value clients. - Revised debtor management processes. - Effective implementation and prompt interventions through Post Investment Monitoring (PIM). - Regular valuation of collateral.
3.	Outcome 1: Increased investment in development programmes and projects by strategic partners	Business Development Risk	- Brand awareness initiatives. - Capacitation of the Business Development (BD) function using existing resources. - Quarterly monitoring and reporting to HRSEC and the Board. - Appointment of the Executive for Organisational Strategy, Performance and Efficiency (OSPE) Unit. - Research and Development Manager appointed.



No.	Strategic Outcome	Risk	Controls in Place to Manage Risk
4.	Outcome 2: Property Portfolio optimised for tenant retention and attraction	Property Portfolio Investment Risk	- Benchmark reports on rentals per portfolio including a rental valuation exercise to inform rental rates. - Management information reports. - Socio-economic profiling and market research to determine the ideal tenant mix and to explore other business opportunities. - Property Management Policy and Asset Management Policy developed and approved. - Implementation of the Property Strategy, Customer Services Strategy, and Properties Maintenance Plan. - Updated the Properties Maintenance Plan to address operational expenditure, infrastructure and new developments. - Physical security in place. - Ensuring adequate insurance claim cover. - Strengthening stakeholder engagements.
5.	Outcome 3: Increased contribution of supported SMME's and co-operatives to socio-economic transformation and job creation	SMME Sustainability Risk	- Ring fencing funds for SMME's. - Skills development workshops to provide non-financial support to clients. - Restructuring and turnaround of loans to assist SMMEs through payment holidays and delaying repayment plans. - Business support function established and capacitated to support business sustainability and job creation. - EDTEA Steering Committee in place to ensure alignment with the Provincial Development Plan. - Alternative funding mechanisms established through strategic partnerships with the public and private sector. Quarterly Economic Reports including GDP, growth, interest rate, and the impact on Business Finance and Properties. - Post-investment monitoring and client visits.
6.	Outcome 4: Increased access to markets and funding for KZN residents and enterprises from designated groups	Markets, Localisation, and Transformation Risk	- SCM Preferential Procurement Process, B-BBEE Policy, Enterprise Development Fund and IDFC Investment Policies implemented. - Developed a rural and township economy strategy and implemented Operation Vula to support SMMEs. - Business support function established and capacitated to support business sustainability and job creation. - MOUs with strategic partners including district municipalities, departments, Durban Chamber of Commerce, business trade fairs, business associations and the dtic for supplier development programs and access local and overseas markets. - Checking suppliers against the Treasury database to confirm validity and ensure they are not blacklisted. - Cession arrangements with suppliers. - Bulk-Buying Programme implemented on behalf of EDTEA. - Established a methodology for risk rating and vetting the viability of the informal market.
7.	Outcome 5: Effective implementation of development programmes and projects in the province	Programme Delivery Risks	- Implementing Agent Project and Programme Management Policy developed, approved and implemented. - Business support function established and capacitated with staff members. - Quarterly Project Reports presented to project owners, Committees, and the Board. - Vetting of SLAs by the legal team before signing. - SLA compliance and delivery monitored by the Organisational Strategy, Performance, and Efficiency (OSPE) Unit.



No.	Strategic Outcome	Risk	Controls in Place to Manage Risk
8.	Outcome 6: Sustainable and high-performing organisation	Reputational Risk	• Corporate Governance Framework in place. • Marketing and Communications Strategy updated and approved. • Monthly Marketing and Communications Activity Plan in place and reported quarterly to EXCO, HRSEC and the Board. • Developed and approved Annual Marketing Plan. • Updated and approved Stakeholder Engagement Strategy and Plan. • Public relations broadcasts portraying a positive image of IDFC. • Pro-active media monitoring. • Fraud Risk Register to identify and track risks relating to fraud together with mitigating actions. • Anti-Fraud and Ethics Policy and Ethics Management Strategy in place. • Anti-Fraud and Ethics Committee (AFEC) to deal with fraud and ethics trends in the organisation. • Whistleblowing Policy and Hotline for reporting allegations of fraud and corruption. • Investigations are conducted on allegations of fraud and corruption. • Ethics training conducted across all levels of the organisation. • Segregation of duties between Business Finance and Credit Risk. • Management and Board Committees for assessing the viability and risk appetite for loan applications. • Entering into MOUs with strategic business partners to assist in building the KZN economy. • Property Maintenance Plan implementation.
9.	Outcome 6: Sustainable and high-performing organisation	Innovation and ICT Risk	• Budget for execution of the ICT Strategy, which drives the ICT budget and projects. • Management and execution of the ICT strategy to ensure alignment with the Departmental scorecard. • ICT Governance Framework and Governance Committee provides regular oversight. • Training of the ICT team to ensure skills align with industry development. • Engaging markets to identify suitable ICT solutions for business processes. • Revision and implementation of the enterprise architecture. • Updated Return on Investment (ROI) Framework and tool to monitor the effectiveness of systems utilisation. • SLA with Ithala SOC regarding support for the AS 400 system.
10.	Outcome 6: Sustainable and high-performing organisation	Liquidity Risk	• Robust credit collections management. • Business Finance and Properties collections in line with budget. • Daily cash on hand (cash availability), monthly income and expenditure monitoring by the Group CFO. • Monthly cash flow forecasting submitted to EXCO and Board Sub-Committees. • Weekly available funds confirmed with Finance prior to submitting to Management Credit and Investment Committee (MCIC). • Strict expenditure control and cost containment plan. • Budget adjustment to meet minimum cash reserves. • Benchmarked cost structures across the organisation. • Review of current operating model across the organisation. • Additional revenue generated on implementing agent programmes and projects.



No.	Strategic Outcome	Risk	Controls in Place to Manage Risk
11.	Outcome 6: Sustainable and high-performing organisation	Compliance Risk	• Annual Compliance Plan, monitoring, and quarterly reporting. • Quarterly monitoring of performance using scorecards. • Legal compliance function identifies upcoming legislation impacting the IDFC. • Compliance log to track non-compliance with key legislation. • Training of Board and staff on legislation changes. • Internal Audit provides assurance on adequacy and effectiveness of controls. • Internal Audit reviews effectiveness of the compliance division. • The balanced scorecard of all employees includes compliance with legislation under the operational efficiency KPA. • Sufficient board members have been appointed in the year under review.
12.	Outcome 6: Sustainable and high-performing organisation	Fraud Theft and Corruption Risk	• Fraud Hotline to report irregular and fraudulent activities. • Reporting to the ARC on fraudulent and unethical activities. • Forensic Investigation Unit conducts investigation and reports irregular and fraudulent activities. • Employees annual declaration of interest and declarations are updated as and when required. • Updated the Code of Ethics Policy. • Ethics Survey conducted every three years to assess employee perception of IDFC's ethical environment. • Continuous monitoring by Management on implementation of controls. • Consequence Management Policies and procedures in place. • Policies and procedures to support implementation of consequence management. • Quarterly awareness and training initiatives on ethics, values and fraud trends. • Roll out and training on disciplinary management policies and procedures. • Fraud Risk Register developed and monitored continuously. • Cash Threshold and suspicious transactions reporting. • Segregation of duties is driven through delegation of authority. • Governance structures in place to ensure oversight and compliance with policies and procedures. • Anti-Fraud and Ethics Committee established to mitigate fraud and enhance the ethics environment.
13.	Outcome 6: Sustainable and high-performing organisation	Human Capital Risk	• HCM Talent Acquisition, Talent Development and Performance Management Policies and Procedures in place. • Remuneration and Benefits Policy and Procedures and Employee Value Proposition (EVP) Framework developed to offer employees attraction and retention benefits. • Training and development programmes developed to address gaps identified in Individual Development Plans (IDPs). • Annual remuneration benchmarking exercise conducted. • Implementation of a succession plan with key talent identified. • Skills mapping against business needs. • Employee incentive bonus scheme in place.



No.	Strategic Outcome	Risk	Controls in Place to Manage Risk
14.	Outcome 6: Sustainable and high-performing organisation	Return on investment (subsidiaries)	• Regular Joint Board Meetings (Ithala SOC Limited). • Quarterly feedback from the Subsidiary Boards to the shareholder. • Shareholder compact developed including deliverables, targets and quarterly performance monitoring. • Annual Performance Plan (APP) for subsidiaries (Ithala SOC Limited). • IDFC nominates Directors to subsidiary boards. • MOA target included as an annexure to the shareholders compact and implementation tracked (Ithala SOC Limited). • Performance of subsidiaries against their Annual Performance Plan is included in quarterly reports to the Shareholder. • New Board and Board Committees finalised.
15.1	Outcome 6: Sustainable and high-performing organisation	Cyber Security Risk	• Training activities for the ICT team to keep abreast of changes. • ICT Governance Framework and Governance Committee in place. • IDFC users are connecting via secured VPN. • Firewall to prevent intrusions and weekly monitoring of the report. • Antivirus to protect computers against malicious software. • Security tools in place, including enforced email security. • Continuous and automatic detection of vulnerabilities and critical misconfigurations across the IDFC environment, including real-time alerts on zero-day vulnerabilities, compromised assets, and network irregularities. • Annual penetration tests to combat vulnerabilities in the ICT environment. • Event Log Analyser collects, analyses and archives in event logs from distributed Windows hosts and Syslogs from distributed Unix hosts or network devices to pick up potential threats and vulnerabilities.
15.2	Outcome 6: Sustainable and high-performing organisation	Data Protection Risks	• Approved POPI Policy in place to govern the handling of electronic and physical data. • Central PAIA Information Officer to control requests and release information sought from the organisation, in line with policies and legislation. • Password and access controls, including OTPs, that leave an audit trail of access to information, which can only be changed by employees, and ensure devices are not compromised. • Cloud back-up in place for mails, data and files. • Data encryption. • SLAs with service providers. • Vulnerability assessment and penetration testing.
16.	Outcome 6: Sustainable and high-performing organisation	Staff Wellness Risks	• IDFC has an Employee Assistance Programme (EAP) for staff and their families which is communicated to employees. • Hosting of Annual Wellness Days which are open to all staff. • Offering subsidised medical aid to employees.



COMPLIANCE

IDFC operates in a highly regulated environment and we consider all applicable legislative and regulatory requirements when determining our strategic objectives. Regulatory compliance ensures that IDFC meets its legal and regulatory requirements across the industry. Failure of which could lead to potential litigation.

Compliance is also strategically important in protecting our reputation, minimising our operational risk and setting the standard for a strong compliance culture throughout all our business activities. Legal Compliance has forged partnerships with regulatory bodies to strengthen knowledge and working relationships. Regulatory Compliance ensures assurance with legislation and statutory reporting to relevant third-party regulators and paying of annual levies.

IDFC's strategic objectives are defined in the Ithala Act No. 5 of 2013. The IDFC is a public entity in terms of the Public Finance Management Act No. 1 of 1999 and listed under Schedule 3D of the Act. IDFC is defined as an Accountable Institution in terms of Schedule 1 to the Financial Intelligence Centre Act No. 38 of 2001.

IDFC is also a registered credit and authorised financial services provider in terms of the National Credit Act No. 34 of 2005 (NCA) and Financial Advisory and Intermediary Services (FAIS) Act No. 37 of 2005, respectively. IDFC is the holding company of Ithala SOC Limited, a subsidiary that operates under an exemption notice as a deposit-taking institution and is regulated by the provisions of the Banks Act No. 94 of 1990.

Key control measures put in place to mitigate the risk of non-compliance include the development of compliance manuals, policies and procedures and Compliance Regulatory Management Plans (CRMPs). During the past financial year IDFC focused on testing the CRMPs and embedding a compliance culture within the organisation.

IDFC has also adopted a compliance risk management framework that is aligned with the Generally Accepted Compliance Practice Framework of the Compliance Institute of South Africa, which supports the active management of compliance risk.

The regulatory compliance universe was developed to integrate compliance legislation affecting all business processes. It addresses all legislation with a potential impact on IDFC, identified in consultation with business units.

Table 3: IDFC Key Legislation

IDFC KEY LEGISLATION	
No.	Legislation
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.	Property Practitioners Act of 2019
13.	Security by Means of Movable Property Act, 1993
14.	Superior Courts Act, 2013
15.	Magistrates Court Act of 1944
16.	Prevention of Organised Crime Act No.121 of 1998 and amendments thereto
17.	Broad Based Black Economic Empowerment Act No. 53 of 2003
18.	Skills Development Act No.97 of 1998
19.	Skills Development Levies Act No.9 of 1999
20.	Basic Conditions of Employment Act No. 75 of 1997
21.	Employment Equity Act No. 55 of 1998
22.	Financial Advisory and Intermediary Services Act No. 37 of 2002
23.	Prevention of Illegal Eviction from and Unlawful Occupation of Land Act of 1998

The Regulatory Compliance Division monitors levels of compliance with the above legislation, identifying, measuring, aggregating and testing CRMP's, monitoring management actions and reporting the level of compliance thereto to governance structures.

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

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



STAKEHOLDER CONTEXT

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

Table 4 provides a list of stakeholder groups, preferred engagement methods and expectations, as well as IDFC's response to these expectations.

Table 4: Stakeholder Groups and Expectations

Stakeholder	Engagement Method	Stakeholders Expectations	IDFC's Response
Provincial Government	- Quarterly performance reports - Quarterly meetings - Annual general meeting - Meeting with Legislature/Portfolio Committee	- Financial sustainability and viability - Alignment with Government's economic development agenda - Efficient and effective utilisation of allocated funds	- IDFC signed a Shareholder's Compact with EDTEA - Annual Performance Plan (APP) is aligned to the Provincial Growth and Development Plan - Quarterly performance reports against the APP are compiled and submitted to the EDTEA - Quarterly engagements are held with EDTEA to discuss performance and the achievement of targets
Clients	- Business Finance clients pre-funding interaction - Post-funding interaction - We visit and interact with our property's clients and tenants on an ongoing basis	- Accessible and affordable financial services - Non-financial support services - Well-maintained commercial and industrial properties - Affordable rents - Business premises in prime developments	- 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 allocation for capital and maintenance expenditure - Competitive and, in most cases, highly favourable rentals - Industrial and commercial premises located in growth nodes
Regulators	Regulatory reporting	- Responsible lending - Fair treatment of clients - Safekeeping of client records - Good corporate governance	- Submission of regulatory reports in a timely manner - A fully capacitated compliance unit established
Employees	- Quarterly briefings by the Group Chief Executive - Online internal magazine business broadcasts	- Job security - Fair rewards and recognition - Personal growth and development - Healthy working environment	- Stabilising the finances of the organisation to ensure sustainability - Advancing skills development through study loans and other forms of training support - Advancing talent management initiatives
Service Providers	- We interact with our service providers on an ongoing basis to monitor and track performance - SCM Training to SMMEs	- Fair and transparent process of selecting service providers - Pay for services rendered in a timely manner - More opportunities for smaller enterprise	- Approved supply chain policies and procedures in line with Government policy - Specific focus on engaging B-BBEE compliant service providers



SHAREHOLDER/STAKEHOLDER EXPECTATIONS

The shareholder and broader development finance sector have developed a renewed set of expectations for IDFC, expressed in a variety of forums. These expectations are summarised as follows:

- Bolster capacity to execute on commitments, improve governance and advance engagement with community sectors;
- Deliver visible transformational shifts, in line with its mandate, create jobs, capacitate SMMEs and co-operatives and sustain inputs;
- Facilitate economic participation, ownership, access to resources and opportunities for women, youth and persons with disabilities;
- Participate actively in government initiatives aimed at improving inclusive and radical economic transformation, such as the Black Industrialist Programme and Operation Vula;
- Participate in spin-off catalytic initiatives that advance economic activities in rural and township areas;
- Demonstrate IDFC's 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.



IDFC Engagement with Inkosi Mathenjwa of the Mathenjwa Traditional Council



HOW WE CREATE VALUE

IDFC creates value by focusing on activities which optimise developmental outcomes across all supported sectors.

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 (IIRC), which seeks to enhance accountability for and stewardship of the broad base of capital, being financial, manufactured, intellectual, human, social, relationship and natural. The IIRC also promotes an understanding of organisational value creation through active consideration of the relationship between its various operating and functional units and the capital it uses or affects.

BUSINESS ACTIVITY

IDFC's core business activities are summarised as follows:

- Deliver financial and other support to SMMEs and co-operatives operating within KwaZulu-Natal;
- Develop and manage large industrial, light industrial, retail and SMME properties;
- Invest in developing and retaining our people in order to execute our strategy and ensure delivery to our customers and clients;
- Invest in our operations, inclusive of information technology systems and infrastructure, to improve efficiency and deliver appropriate products and services to our customers and clients;
- Serve as an implementing agent for economic and infrastructure development projects in the province;
- Offer bursaries and internships to top-performing students in the province; and
- Provide both public sector banking and corporate and investment banking services to SMMEs and co-operatives, through our subsidiary, Ithala SOC Ltd.

OUR IMPACT

IDFC is mandated to assist government in promoting economic development and empowerment across KwaZulu-Natal. We create innovative and relevant solutions to key development challenges. Our activities result in a broad economic impact by

stimulating the private sector, facilitating access to financial services, and supporting the allocation of capital for economic development.

IDFC encourages socio-economic development in formerly disenfranchised markets by creating jobs, providing business and income opportunities, and improving living standards. During the past nine years, we have facilitated the creation of 24 848 employment opportunities, generated by way of our lending activities, and have advanced loans valued in excess of R1 billion.

BUSINESS FINANCE

The IDFC Business Finance Department is responsible for facilitating small business development and supporting job creation throughout KwaZulu-Natal. This is achieved through the delivery of products and services designed to provide SMMEs with the funding, skills and support needed to grow and sustain their business. In the 2022/23 financial year the Department processed 682 applications from SMMEs, of which 607 (89%) were approved. These approved requests amounted to R311 million, of which R208 million (67%) was distributed during the financial year across 396 businesses.

As a development finance institution, IDFC has a mandate to provide financial services and support to the previously disadvantaged in KwaZulu-Natal, with a focus on rural and township areas. In the 2022/23 financial year IDFC directed 94% of its funding towards Black-owned, 44% to youth-owned and 32% to women-owned SMME's. In 2022/23, as part of the IDFC's development mandate, emphasis was placed on supporting SMMEs owned by People with Disabilities (PwDs) with 0,3% of the total funding directed to PwD-owned SMMEs.

IDFC also has an ongoing commitment to job creation, as part of the organisations mandate to support socio-economic development in the province. During the year under review the 396 businesses who received funding created 2 018 jobs, against a target of 1 667, despite a difficult economic environment.

The Business Finance Department is also committed to improving the sustainability of funded enterprise, to strengthen the IDFC's loan book, build the organisation's sustainability, and support economic



growth in the province. In the year under review, 96.7% of funded enterprises were operating two years after receiving their loan, against a target of 85%. The Department also provided pre-support to loan applicants, with 99.6% of those who received support obtaining their funding against a target of 80%.

IDFC is seeking collaborative ways to ensure the success of our clients and grow an inclusive provincial economy. During the financial year, IDFC maintained or entered into MOUs with strategic stakeholders, including the Durban University of Technology (DUT), Trade and Investment KZN (TIKZN), Agribusiness Development Agency (ADA), National Construction Incubator (NCI), uMzinyathi District Agency (UDA) and South African Farmers Development Association (SAFDA) to drive business support and acquisition partnerships. With DUT, a group of 50 clients undertook training in business management. The SMME's were honoured during a graduation ceremony that took place on 28 August 2022.

The Business Finance Department also supports economic development across the IDFC supply chain. This includes the development of a procurement strategy that prioritises local SMMEs and co-operatives. In the 2022/23 financial year, IDFC awarded procurement funding worth R126,5 million to targeted enterprises, against a target of R100 million.

During the year under review, the IDFC launched Masakhe Business Clinics at the District Level. The Clinics comprise of developmental-based sub-programmes, offering SMME's, people living with disabilities and co-operatives the business training, financial guidance and opportunities needed to establish or grow their business. The Clinics engaged participants on the required interventions, provided one-on-one consultation with potential clients and disseminated information on the financial and non-financial services available.

IDFC also launched a campaign encouraging persons with disabilities to apply for funding. The programme was rolled out by Ithala Development Finance Corporation (IDFC) in partnership with the Department of Economic Development, Tourism and Environmental Affairs (EDTEA), South African Revenue Services (SARS), Small Enterprise Development Agency (SEDA), and Small Enterprise Finance Agency (SEFA).

Districts engaged in the Masakhe Business Clinics during the year under review included Zululand, uMkhanyakude, eThekweni and uMsunduzi. A total of 192 persons with disabilities and SMME's benefited from the programme.

Clients Funded



Isivunoh Agrochemicals

1. Isivunoh Agrochemicals (Pty) Ltd

About the Company: Isivunoh Agrochemicals is an agrochemical distribution start-up located in the North Coast of KZN. The Company provides various agricultural inputs including herbicides, pesticides, and fertilisers, as well as personal protective clothing (PPEs) and small agricultural equipment, such as knapsacks and cane knives.

Ownership: 100% black woman owned

Jobs Created: 5

Funding: R2,7 million for equipment and working capital



Sanaandi Events and Hospitality

2. Sanaandi Events and Hospitality (Pty) Ltd

About the Company: Sanaandi Events and Hospitality was established in 2016 and organises private, corporate and lifestyle events for business clients.

Ownership: 70% black woman owned

Jobs Created: 5

Funding: R5,5 million to purchase a property and R200 000 for equipment



Truck purchased by New Age Forestry

3. New Age Forestry (Pty) Ltd

About the Company: New Age Forestry was formed in March 2021. The Company was granted a five-year timber harvesting contract by Mondi South Africa (Pty) Ltd.

Ownership: 100% black youth owned

Jobs Created: 16

Funding: R9,7 million for asset finance and working capital



A tent and seating from SkyTent

4. SkyTent (Pty) Ltd

About the Company: SkyTent is involved in the manufacturing of tents, jumping castles and mobile chillers. The company also sells tables, chairs, draping and mobile toilets.

Ownership: 100% black youth owned

Jobs Created: 15 (57 maintained)

Funding: R24,1 million for asset finance and working capital to support business expansion. The Company also received a R18,6 million grant from the dtic.



Crane and Feathers restaurant, uMhlanga Rocks

5. Thubelihle Properties (Pty) Ltd

About the Company: Thubelihle Properties is a newly formed entity trading as Crane and Feathers and is establishing a fine dining restaurant in Oceans Mall, uMhlanga.

Ownership: 100% black owned

Jobs Created: 25

Funding: R8,6 million for restaurant development, working capital and asset finance



Partnerships

IDFC Business Finance is committed to the mandate of *Making it Happen Together*. To this effect, the Department has established MOUs with 13 strategic partners designed to strengthen the impact and sustainability of the organisation. As a result of these MOUs, Business Finance has approved R87,6 million in loans with an expected interest revenue stream of R13,6 million.



Durban University of Technology (DUT)



Department of Education



Umgeni Water



SAPPI



Trade and Investment KwaZulu-Natal (TIKZN)



South African Farmers Development Association (SAFDA)



Agriculture Development Agency (ADA)



uMzinyathi Development Agency



Department of Transport (DOT)



uMgungundlovu District Development Agency



Umhlosinga Development Agency (UMDA)



Mondi (MOU pending)



South African Technicians Association (SATA)

ACTIVE MOUs

The following is an overview of some of the MOUs maintained or established by the IDFC during the year under review:

1. SAPPI

IDFC and SAPPI signed an MOU on 23 June 2022 to provide financial and non-financial support to emerging entrepreneurs from SAPPI's local communities who had received contracts from the Company. The result of this partnership is the successful funding of four (4) businesses to the value of R34 million, creating 129 jobs in the process.

Client Name	District
Thuba Construction CC	iLembe District
Exodec 345 CC	eThekweni Municipality
Mandeni Waste Recyclers	iLembe district Municipality
Sikhunya Security Service	King Cetshwayo District

2. South African Farmers Development Association (SAFDA)

IDFC partnered with SAFDA to provide emerging farmers, including IDFC clients, with financial and other support for agriculture development projects, debt restructuring, funding for salvageable farms under business rescue, and deals aimed at transformation and diversification in the agricultural value chain.

The partnership includes loans, pre-investment and post investment support, and a grant component to lessen the financial obligation of fund recipients, provided the business meets IDFC's funding requirements. Through this partnership, IDFC funded two (2) clients in the sugar cane industry to the value of R11,2 million, creating 160 jobs. These clients also benefited from the 10% grant facility provided by the South African Sugar Association.

Client Name	District
Dhanpal Sugar Estate (Pty) Ltd	iLembe District
Asambe Cane (Pty) Ltd	iLembe District



IDFC Signs MOU with the South African Farmers Development Association (SAFDA)

3. Department of Transport

IDFC signed an MOU with the Department of Transport (DoT) in May 2022. The MOU resulted in funding for two (2) businesses to the value of R16 million.

Client Name	District
Nguyazane Plant Hire (Pty) Ltd	eThekweni Municipality
Magedla Construction (Pty) Ltd	eThekweni Municipality



IDFC and the KZN DoT launch an MOU at Mthonjaneni Bus Service in Melmoth



4. Department of Education

IDFC and the KZN Department of Education signed an MOU enabling the IDFC to provide working capital finance to contractors appointed by the department to deliver on the National School Nutrition Programme (NSNP). The NSNP provides nutritious meals to learners throughout the province with the aim of improving school attendance and learner outcomes. During the 2022/23 financial year IDFC provided R40 million to NSNP contractors.

5. Mondi

During the reporting period, the IDFC established a partnership with Mondi, a leading packaging and paper company. The organisations are working together to finalise an MOU during the next financial year. To date, the partnership has resulted in funding for three (3) clients to the value of R16,8 million and created 52 jobs.

Client Name	District
Goobs Forestry Ltd	Zululand District
New Age Forestry Pty Ltd	uThungulu District
Footprint Holdings Pty Ltd	King Cetshwayo District

6. Durban University of Technology

IDFC and the Durban University of Technology (DUT) established an MOU to drive business development, capacitate IDFC clients through business training, and deliver SMME support. Training was provided to 50 clients during the 2022/23 financial year with a graduation ceremony held on the 26th of August 2022. Further training will be provided as part of this MOU in the new financial year.

7. uMzinyathi Development Agency

IDFC and the uMzinyathi Development Agency established a working relationship to provide enterprise development services to SMMEs including business mentorship, business development services and access to finance. Through this relationship the Agency is providing financial and non-financial support to two (2) companies.

Co-Funded Deals

Clients funded by the Business Finance Department were able to access matched funds in the amount of R54,9 million during the 2022/23 financial year, against a target of R50 million.

Client	IDFC Loan approved	Matched Funding	Institution
Dhanpal Sugar Estate (Pty) Ltd	R4,4m	R0,44m	SASSA
Goobs Forestry (Pty) Ltd	R3,3m	R4,2m	Mondi
Footprint Holdings (Pty) Ltd	R3,9m	R8,5m	Mondi
New Age Forestry (Pty) Ltd	R9,8m	R13,5m	Mondi
SkyTent (Pty) Ltd	R24,1m	R18,9m	the dtic
Folweni Filling Station	R3,9m	R8m	NEF
Mjonaia (Pty) Ltd	R5,9m	R1,5m	uMzinyathi District Agency

The April 2022 Floods

The floods that struck KwaZulu-Natal in April 2022 were the most catastrophic natural disaster recorded in the province. The flooding resulted in 461 confirmed deaths, as well as extensive damage to roads, bridges, businesses and homes. A total of 44 IDFC clients were directly impacted by the floods during a time when they were still recovering from the Covid-19 pandemic and the 2021 civil unrest.



The floods hit the agriculture sector particularly hard. Farmers suffered damage to infrastructure, loss of crops, and difficulty accessing crops and delivering products to market.

To support the IDFC's agriculture clients, the following interventions were undertaken during the year under review:

- Site visits to affected clients to show support, assess the extent of the damage and the cost of restoring normal operations.
- Debt relief measures in the form of payment holidays, capital moratorium and loan restructuring.
- Client referrals to agencies that received flood relief funds from the Department of Small Business Development and other groups, with an aim to strengthening impact through collaboration.



MEC: EDTEA and IDFC team visit a client affected by the floods



PROPERTIES

IDFC is one of the largest property managers in KwaZulu-Natal, with a portfolio comprising of 1,2 million square metres of industrial and commercial space. These properties are situated in urban and peri-urban areas throughout the province and are well positioned, geographically, to serve an urbanising population.

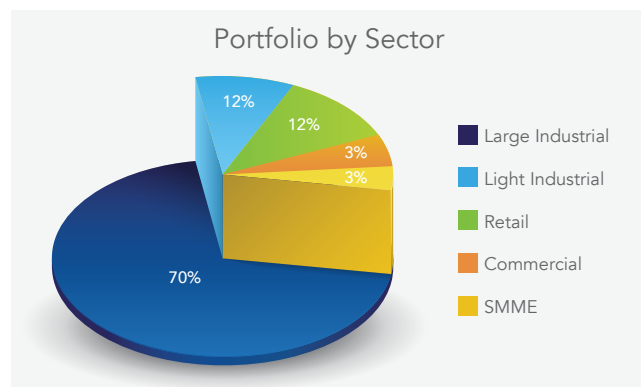
The Properties Department consists of four divisions:

1. Property Management - Responsible for property leasing, ensuring an optimal tenant mix and managing tenants.
2. Asset Management - Responsible for long-term, strategic and financial planning to optimise property asset values, realise returns and achieve growth objectives.
3. Property Development and Project Management - Responsible for managing property construction and refurbishment projects.
4. Technical Operations - Responsible for Facilities Management, including planned and reactive property maintenance, and Engineering Services, including the management of infrastructure and municipal services.

Portfolio Overview

IDFC's property portfolio represents a diverse mix of industrial and commercial sites. The following diagram illustrates the property portfolio by sector, including large industrial (70%), light industrial (12%), retail (12%), commercial (3%) and SMME space (3%), followed by an overview of each property type.

Figure 6: Property Portfolio by Sector



- **Large Industrial Properties:** Three (3) industrial estates - Isithebe, Ezakheni and Madadeni - accommodating 235 manufacturing and other enterprises. Collectively, these businesses employ roughly 20 000 people from neighbouring communities.
- **Light Industrial Portfolio:** Comprises nine (9) industrial parks and five (5) stand-alone factories, providing space for 163 businesses. Two of the light industrial parks are co-owned with Growth Point Properties.
- **Retail Portfolio:** Comprises 21 shopping centres, with 429 tenants in the year under review. The retail portfolio caters for both small businesses and national tenants, with shops ranging in size from 4 to 5 158 square metres.
- **Commercial Portfolio:** Consists of 13 properties, including six (6) office blocks and seven (7) other commercial buildings. Two office blocks are occupied by IDFC, including the Ithala Trade Centre, located in Durban's Point Waterfront Precinct. The remaining space is rented as part of the leasing portfolio, accommodating 35 tenants in the year under review.
- **SMME Portfolio:** Consists of 43 small properties, let as small industrial factories, handicraft centres and motor parks, accommodating 230 tenants in the year under review.

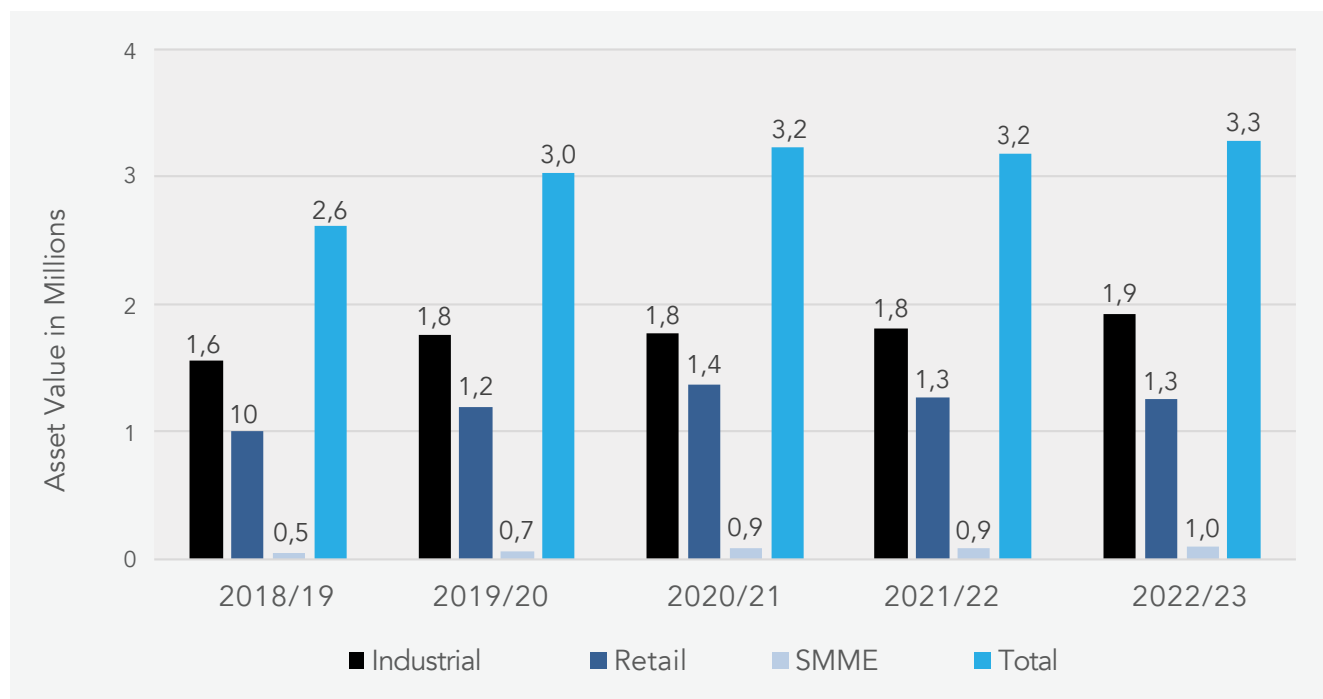
In addition to the Property Portfolio, IDFC owns vacant land. This includes 167 fully serviced sites located within industrial estates, 19 commercial sites and 235 residential sites. A total of 110 of IDFC's vacant sites are illegally occupied. During the reporting period, the IDFC commenced with a project to assess and verify the status of all vacant land, excluding the sites located within the industrial estates. The plan is to attend to any adverse findings in the 2023/24 financial year.

Investment Overview

The total value of IDFC's property portfolio in 2022/23 is R3,28 million, representing a 3,3% increase from the previous year. This increase is attributed to a slight improvement in occupation and rental rates as the Company continues to implement recovery measures following the 2021 civil unrest.



Figure 7: Value of the Property Portfolio



CAPEX Programme

The IDFC CAPEX Programme delivers investment to improve the physical condition, functionality and compliance of its properties. Expenditure over the last five years amounts to R319 million, with a further R140 million earmarked for the next financial year. Projects undertaken during the year under review include a remodelling of the Tugela Ferry Shopping Centre, with a taxi rank and trader's market, and a targeted completion date of June 2023. Other investments include roofing and the refurbishment of industrial properties.



Newly constructed bus-bay at Tugela Ferry Taxi Rank

The IDFC also acquired two investment properties during the 2022/23 financial year worth a total R14,6 million. The properties are a commercial building in Umbilo Road, Durban and an up-market retail and commercial space at the Durban Point Waterfront. A further investment acquisition is also planned for the next financial year.

During the financial year, rebuilding of properties damaged during July 2021 civil unrest commenced at Nongoma Shopping Centre and the four (4) factories located at Madadeni Industrial Estate. It is expected that the rebuild of these five (5) properties will be completed by the end of July 2023. At Eshowe Shopping Centre, demolishing of the damaged section commenced. The rebuild of the remaining properties is expected to commence in the second quarter of the new financial year.



Rebuild at Lot 50 at Madadeni Industrial Estate



Rebuild at Lot 50 at Madadeni Industrial Estate

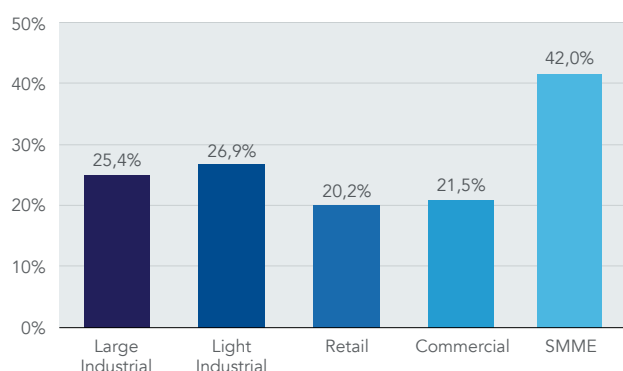
Investment Opportunities

IDFC also identified the need to remodel four (4) high-yielding properties, at an estimated cost of R3,7 billion. The projects include a re-model of the Umlazi and Kwamashu Shopping Centres, which were heavily damaged during the 2021 civil unrest, and an overhaul of the Manguzi Shopping Centre and Wilson's Warf into world class facilities. These projects will be funded through a combination of IDFC funds, commercial borrowings and strategic partnerships. Requests for Proposals were issued during the year under review and the applications are under evaluation.

Vacancy Levels

During the 2022/2023 financial year the property portfolio's vacancy rate decreased from 27,8% to 23,3%, while vacancy rates remain high in the SMME portfolio at 42,0%. Persistently high vacancy rates are attributed to the difficult economic climate, the decline of IDFC infrastructure, and the recent challenges faced by KZN businesses detailed earlier in this report. To mitigate these challenges, IDFC is exploring innovative ways to secure new tenants and retain existing ones.

Figure 8: Vacancies per Sector



Prospects for 2023/24

The Properties Department has set the following objectives for the 2023/24 financial year:

- Grow property revenue (excluding fair value adjustments) by 35%;
- Maintain operational expenditure at current levels;
- Reduce property vacancy levels to 18%; and
- Improve the value of the property portfolio.



IMPLEMENTING AGENT

The IDFC has re-established the Implementing Agent Unit and continues to build capacity and strengthen its position as the preferred implementing agent for economic and social infrastructure development projects in the province. This is in line with the provincial government's priority to effectively deliver infrastructure and other projects.

To support this process, the IDFC Board approved an Implementing Agent Strategy and Project and Programme Management Policy to regulate and set standards for the delivery of programmes and projects in line with the legislative mandate.

Through the effective implementation of various projects, the Implementing Agent Division earned R10,9 million in income against a target of R10 million during the 2022/23 financial year.

Projects implemented by the IDFC on behalf of the KZN EDTEA include:

- Industrial Hubs – Clothing and textiles;
- Ndumo Retail Development;
- Refurbishment of the Thokazi Royal Lodge;
- Bulk Buying Programme;

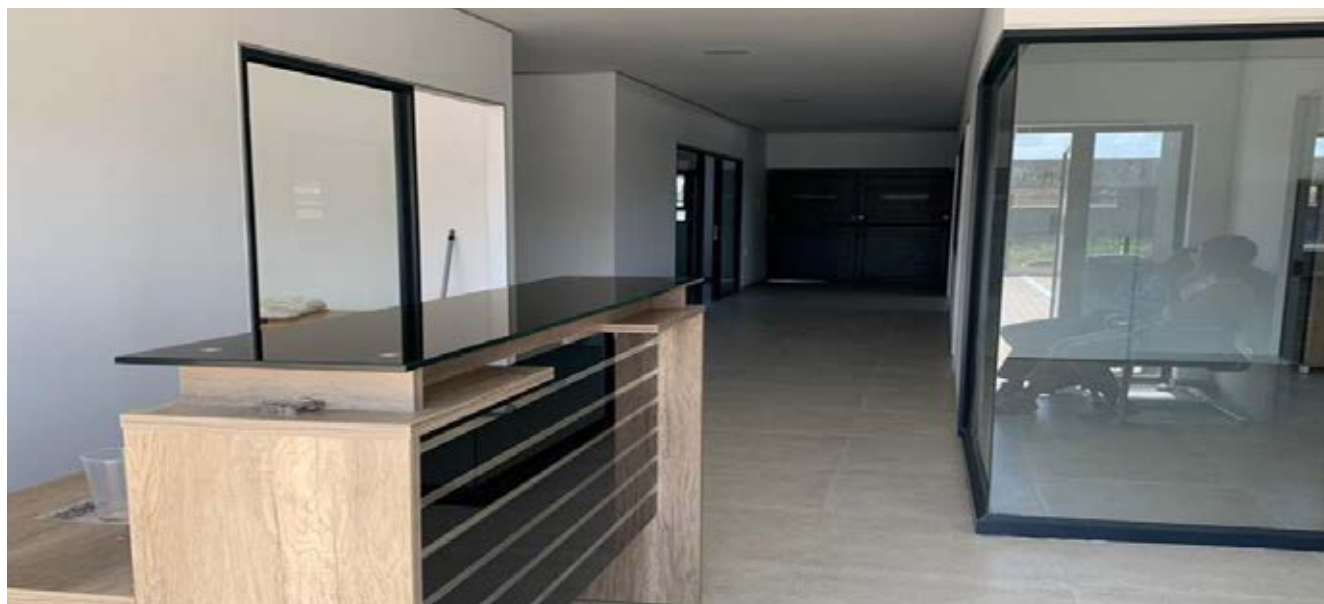
- Radical Agrarian Socio-Economic Transformation (RASET);
- KwaMashu Cleaning Detergents Shared Production Facility;
- Establishment of Cleaning Detergents Shared Production Facility in the Ugu and King Cetshwayo Districts;
- KwaZulu-Natal Corporative Grant Funding;
- Zimele Traders Fund: Spaza and Township Revitalisation; and
- Government garages/auto service hubs.

IDFC actively engages stakeholders to acquire additional projects and enhance its role as an Implementing Agent. In the year under review, IDFC successfully acquired the following projects:

- IDFC entered into agreements with the KwaZulu-Natal Department of Human Settlements to provide Transitional Emergency Accommodation for victims of the April 2022 floods.
- EDTEA: Establishment of a Vula Detergents centre in Amajuba District Municipality
- EDTEA: Conduct a feasibility study for the establishment of a Maritime Boat Building Yard
- EDTEA: Establishment of a Pulp and Paper Incubation Facility in Ethekwin
- EDTEA: Establishment of a Bakery Incubation Facility in Ethekwin



Kwamashu Vula Detergents Shared Manufacturing



Gamalakhe Vula Detergents Shared Manufacturing



Esikhawini Vula Detergents Shared Manufacturing



Isithebe Bulk Buying



ITHALA SOC LIMITED

Ithala SOC Limited is a licensed financial services and registered credit provider, 100% owned by the IDFC. The organisations mandate is to provide financial services to the people of KZN and, in some rural areas, is the only financial institution with a physical presence. The following is an overview of Ithala SOC Limited's activities, outputs and targets during the 2022/23 financial year. The performance of Ithala SOC Limited is described in the organisations Integrated Annual Report which can be downloaded from the website: www.myithala.co.za.

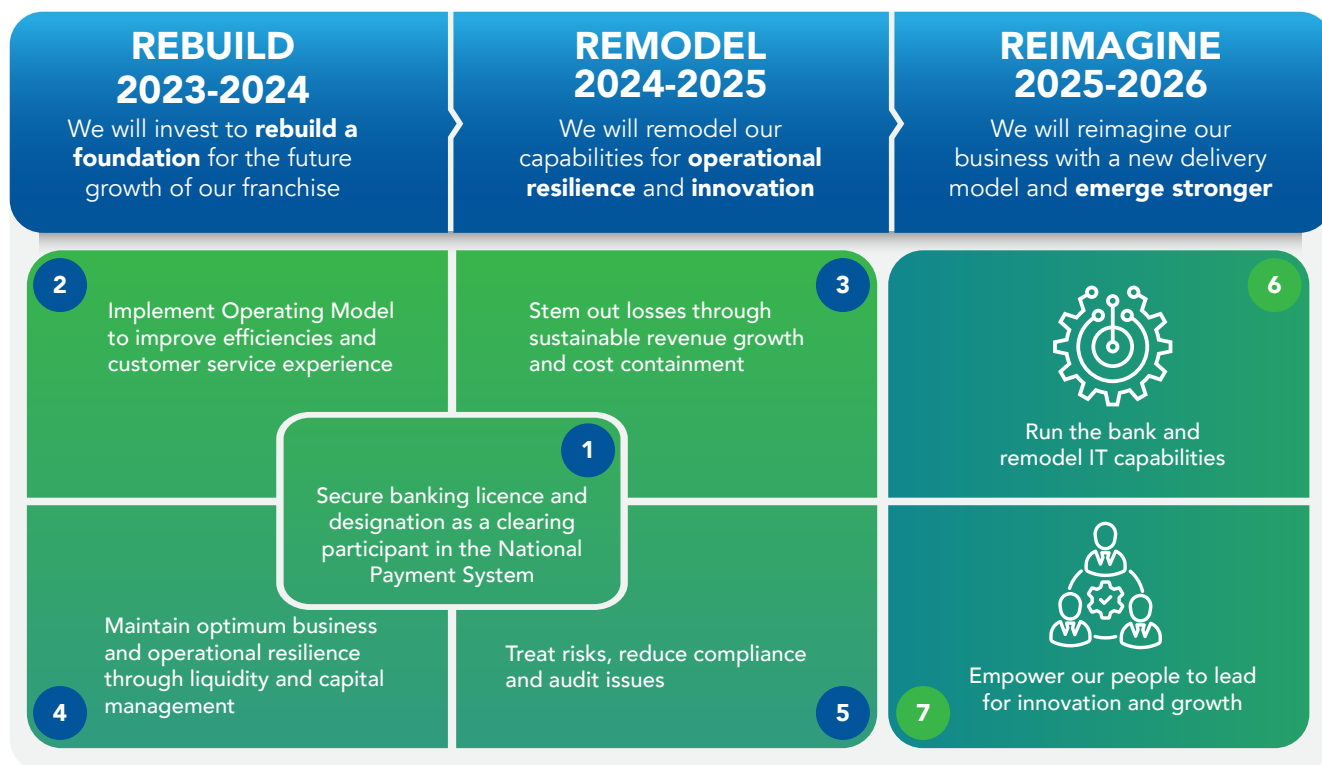
As a financial institution, Ithala SOC Limited is directly impacted by the global and domestic headwinds affecting the KZN economy. Globally this includes slow economic growth, consequences of the Covid-19 pandemic, and the war in Ukraine, while domestically the province is battling unprecedented levels of load shedding, the impact of the April 2022 floods, and rising inflation and interest rates. This has resulted in negative pressure on Ithala SOC Limited's financial

position. The organisation reported a loss of R60,5 million during the 2022/23 financial year, compared to a R52,0 million loss the previous year. For 2022/23, credit impairments worth R8,7 million were raised, compared to a release in impairments of R7,2 million the previous financial year.

Despite these challenges, Ithala SOC Limited reports double digit revenue growth during the reporting period, increasing by 19,9% year-on-year, and resulting in an improved cost-to-income ratio of 113,1%. Furthermore, Ithala SOC Limited's capital adequacy ratio was 18,1% during the reporting period, compared to 18,3% the previous year, above a regulatory requirement of 15%.

In the year under review, Ithala SOC Limited's Repair, Rebuild and Remodel Strategy, adopted in 2020, was redefined as the Rebuild, Remodel and Reimagine Strategy. This renewed strategy is underpinned by seven (7) objectives which will see Ithala SOC Limited achieve its 2026 aspirations:

Figure 9: The Rebuild, Re-Model and Re-Imagine Roadmap



The primary focus in 2022/23 was for Ithala SOC Limited to regularise its activities and apply for a banking licence, in line with all applicable laws and regulatory requirements. To this effect, Ithala SOC Limited will continue enhancing its governance structure, improve its processes and systems, and ensure that value is delivered to clients more efficiently. The intent is to broaden Ithala SOC Limited's revenue base, attain sustainable profits, reduce reliance on net interest income, and grow non-interest income.



OUR PERFORMANCE

The 2022/23 IDFC Annual Performance Plan (APP) identified the organisations output indicators and targets for the financial year. These are summarised in Table 5, accompanied by comments from IDFC's Management.

Table 5: IDFC Outputs and Indicators

Output Indicators	2022/23 Annual Targets	Annual Actual Output	Management Comments
Outcome 1			
Increased investment in development programmes and projects			
Rand value of external matched funding secured per annum	R50 million	R54,9 million	Target achieved
Rand value of investments secured (capital raised) for property developments	R100 million	Nil	Requests for Proposals (RFP's) from prospective investors to remodel and expand 4 shopping centres were issued in November 2022 and closed on 28 February 2023. Proposals are awaiting evaluation by transactional advisers.
Outcome 2			
Property portfolio optimised for tenant retention and attraction			
Rand value of capital expenditure on property developments, expansions and remodelling	R100 million	R100,2 million	Target achieved
Number of jobs created through the Capital Development Programme and new leases	2 660	3 129	Target achieved
Number of new leases concluded with tenants	200	209	Target achieved
Repairs and maintenance percentage over the asset base	3,4%	3,8%	Target achieved
Return on investment in property portfolio	5,2%	5,6%	Target achieved
Outcome 3			
Increased contribution of supported SMME's and co-operatives to socio-economic transformation and job creation			
Average turnaround time for approval of loans from date of valid application (once all documentation is in order)	Within 15 working days	6 working days	Target achieved
Percentage of approved loans disbursed per annum	60%	67%	Target achieved
Average turnaround time for disbursement of first drawdown of approved loans	Average 25 working days from approval date	18 working days	Target achieved
Average percentage of Stage 3 (impaired) Loans per annum	<=65%	69,5%	Shrinkage of the loan book has led to an increase in the non-performing loans percentage. The non-performing loans percentage has improved by 1,5% compared to the previous year.
Percentage of businesses pre-supported that accessed funding	80%	99,6%	Target achieved
Percentage of businesses funded that are performing two years after first disbursement	60%	96,7%	Target achieved



Output Indicators	2022/23 Annual Targets	Annual Actual Output	Management Comments
Number of jobs created through SMME's and co-operatives that received funding from IDFC	1 667	2 018	Target achieved
Outcome 4			
Increased access to economic opportunities for KZN residents and enterprises from designated groups			
Percentage of preferential procurement spend on enterprises that are: Black-owned	Black: 60%	97%	Target achieved
Percentage of preferential procurement spend on enterprises that are: Women-owned	Women: 28%	26%	90% of the procurement during the financial year took place via the panel allocation on a rotational basis. On award of the panels in 2021, preference was given to Level 1 B-BBEE Contributors without emphasis on IDFC's procurement goals (women, youth and PwDs).
Percentage of preferential procurement spend on enterprises that are: Youth-owned	Youth: 15%	12%	
Preferential procurement spend on enterprises that are: People with Disabilities (PwDs)-owned	PwDs: 0,5%	1%	Target achieved
Percentage of funding allocated to designated groups per annum: Black, African in particular	Black, African in particular: 85%	94%	Target achieved
Percentage of funding allocated to designated groups per annum: Women	Women: 20%	32%	Target achieved
Percentage of funding allocated to designated groups per annum: Youth, 35 years and under	Youth: 35%	44%	Target achieved
Percentage of funding allocated to designated groups per annum: Persons with Disabilities (PwDs)	PwDs: 1%	0,3%	Tracking of loans allocated to PwD's was done manually, resulting in underreporting. A new loan application form was introduced in September 2022 that stipulates PwD's, which has improved reporting. Business clinics are held to assist prospective applicants, including PwD's, with their loan applications.
Rand value of IDFC supported SMME's and co-operatives benefiting from Provincial Government procurement spend	R100 million	R126,5 million	Target achieved
Number of SMME's and co-operatives supported to supply the KZN government with prioritised commodities	2	49	Target achieved
Outcome 5			
Effective implementation of development programmes and projects in the province			
Percentage of projects assigned to the IDFC that have achieved at least 80% of SLA milestones (deliverables)	>=80% achievement of agreed project milestones	81,3%	Target achieved
Average percentage achievement of agreed infrastructure development project milestones	>=75% achievement of agreed project milestones	92,0%	Target achieved



Output Indicators	2022/23 Annual Targets	Annual Actual Output	Management Comments
Outcome 6 Sustainable and high-performing organisation			
External audit outcome on previous year's financial statements	Unqualified, with no material findings	Unqualified, with no material findings	Target achieved
Number of material findings on the external audit of performance objectives	Zero material findings	Zero material findings	Target achieved
Number of material findings on the external audit of non-compliance with legislation	Zero material findings	One material non-compliance finding regarding preparation of the AFS	The Annual Financial Statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA. Material misstatements of trade and other receivables, investment property, investments in subsidiaries, other income and disclosure notes identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.
Gross collections (cumulative)	R1,1 billion	R1,1 billion	Target achieved
Net profit (cumulative)	R71,3 million	R28,2 million	The Fair Value Adjustment on investment properties was lower than expected, while Expected Credit Loss (ECL) provisions were high. Delays in the Rebuild Programme also contributed to lower-than expected ROI for the year.
Cost-to-income ratio	Including grants and FV adjustment: 82,8% Excluding grants: 89,7%	Including grants and FV adjustment: 86,9% Excluding grants: 95,3%	
Number of days cash on hand	>45 days cash on hand	7 days cash on hand	Collections from Business Finance clients and Properties tenants were lower than expected resulting in a drop in cash resources.
Rand value of income generated from projects assigned to IDFC for implementation	R10 million	R10,9 million	Target achieved
Percentage of irregular expenditure submitted to Provincial Treasury for condonation	40%	6%	Establishing Value for Money (VFM) is a long-term process. Many instances of irregular expenditure date back to the 2016/2017 financial year and many of the relevant staff have left the organisation.
Percentage fruitless and wasteful expenditure recovered or written off by the Board	60%	0%	There are 2 matters outstanding. Legal recovery process has been instituted.
Turnaround time for resolving customer complaints	Customer complaints to be acknowledged within 24 hours and resolved within six weeks	4,4 weeks	Target achieved
Percentage utilisation of all ICT systems	80%	86,1%	Target achieved
Percentage employee satisfaction rating	10% improvement on previous survey	30% improvement on previous survey	Target achieved



Output Indicators	2022/23 Annual Targets	Annual Actual Output	Management Comments
Percentage of consequence management cases related to corruption finalised within 90 days	80%	N/A	No corruption cases were reported during the year under review or pending from the previous year.
Percentage completion of matters reported for investigation	50%	61%	Target achieved

SUBSIDIARY PERFORMANCE

The following table presents the performance information for IDFC wholly owned subsidiaries that are operational. This excludes Ithala SOC Limited, which prepares its own Integrated Annual Report and can be downloaded at www.myithala.co.za.

Table 6: Performance of IDFC Subsidiaries

Key Performance Indicators	2022/23 Annual Target	Annual Actual Output	Management Comment
UBUCIKO TWINES & FABRIC SOC LTD			
To collect all rentals from the lessee	R175,000	R175,000	Target achieved
NONGOMA PLAZA LIMITED			
Gross collections	R20,4 million	R20,0 million	Target not achieved due to non-payment of rentals by tenants owing to economic challenges.
Net profit (loss)	R1,3 million	(R18,5 million)	Loss due to the devaluation of the investment property by R21,8 million.
SUNDUMBILI PLAZA LIMITED			
Gross collections	R17,0 million	R18,2 million	Target achieved
Net profit	R7,5 million	R23,9 million	Target achieved
DURBAN WHARFSIDE TRUST			
Gross collections	R8,8 million	R11,7 million	Target achieved
Net Loss	R5,5 million	R4,5 million	Target achieved



IDFC's participation in the 2023 Development Finance Institutions (DFI'S) Business Networking Event held in Lesotho



HUMAN CAPITAL

IDFC's Human Capital function aims to be a key resource in driving the strategic imperatives of the organisation, by providing professional human resource management services.

IDFC sets out to provide a human capital base that is capable, motivated and stimulated enough to ensure that IDFC drives economic development and empowerment in the province. At the same time, the human capital function must also promote the financial sustainability of the organisation and ensure that it continues to remain relevant as a development finance institution.

The Human Capital Strategy must also support the business's human capital initiatives. Ensuring that IDFC is properly staffed with resources that possess the requisite skills and competencies to deliver on the organisation's mandate. This is achieved by:

- Inculcating a high-performance organisational culture;
- 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; and
- Implementing the Integrated Employee Value Proposition as a retention mechanism.

Staff Profile

The IDFC Human Capital function stewards to the organisations Employment Equity Plan, which seeks to address issues of equity in the workplace, including the recruitment of people with disabilities and the equitable representation of women to management positions. As such, IDFC has intentionally indicated equity targets in its requisition forms. During the reporting period, IDFC enrolled three employees with disabilities, a 300% increase from the previous year. This is attributed to an awareness drive which resulted in two existing employees declaring their disabilities.

IDFC employed 302 permanent employees at the end of the financial year, four (4) more than the previous year, with a focus on appointments in critical positions. The table below depicts the IDFC's employee profile as at 31 March 2023, per salary band.



IDFC exhibition at Durban Business Fair

**Table 7: Staff Profile as at 31 March 2023**

Employee Levels	Designated												Foreign Nationals			Non-Designated		Grand Total	Disabled
	African			Coloured			Indian			White									
	F	M	Total	F	M	Total	F	M	Total	F	M	Total	F	M	Total	M	Total		
A2	5	21	26															26	
A3		3	3															3	
B1	1	10	11															11	
B2		5	5															5	
B3	7	10	17															17	
B4	3	9	12															12	1
C1	15	14	29	1		1	1		1	2		2						33	1
C2	9	1	10															10	
C3	10	4	14															14	
C4	33	20	53	1	1	2	2	1	3				1		1			58	1
C5	10	9	19	1	1	2	3		3									24	
D1	7	10	17	1		1	3		3	1		1	1		1			22	
D2	6	4	10				1		1									11	
D3	4	2	6					3	3									9	
D4	5	16	21				2	3	5							3	3	29	
EL	3	5	8				2		2									10	
EU	1		1						0									1	
FL	2	3	5					1	1									6	
FU	1		1															1	
Permanent	122	146	268	4	2	6	14	8	22	3		3	2		2	3	3	302	
TT (Temps Exceeding 1 month)	5	7	12															12	
Grand Total	127	153	280	4	2	6	14	8	22	3		3	2	0	2	3	3	314	3

Figures 10 and 11 illustrate the distribution of IDFC staff according to their employment status, gender and race as at 31 March 2023. Of the total staff compliment 96,2% are permanent employees, while 3,8% are on contract. There is a relatively even split between male (52,6%) and female (47,4%) employees, with the female compliment falling 0,3% from the previous year. Of the male employees, 48,3% are Black African, 2,6% Indian, 0,7% Coloured and 1,0% White, while the female employees are 40,4% Black African, 4,6% Indian, 1,3% Coloured and 1,0% White.

Figures 12 and 13 illustrate the age and management profile of IDFC employees. Most employees (74%) are between the ages of 36 and 55, while 10% are youth (35 and under). Only 16% of employees are over 55

and thus due for retirement in the next ten years. The distribution of employees by managerial status and age is shown in Figure 13, with the F Band representing the most senior employees in the organisation. As illustrated, none of the IDFC's current management are under the age of 36, however, management positions are distributed relatively evenly among the three older cohorts.

These figures illustrate the successful achievement of racial targets set out in the IDFC Employment Equity Plan, as well as the need to hire and retain female employees to achieve the 50,5% female employment target. IDFC will also seek opportunities to appoint staff under the age of 36 to management positions.

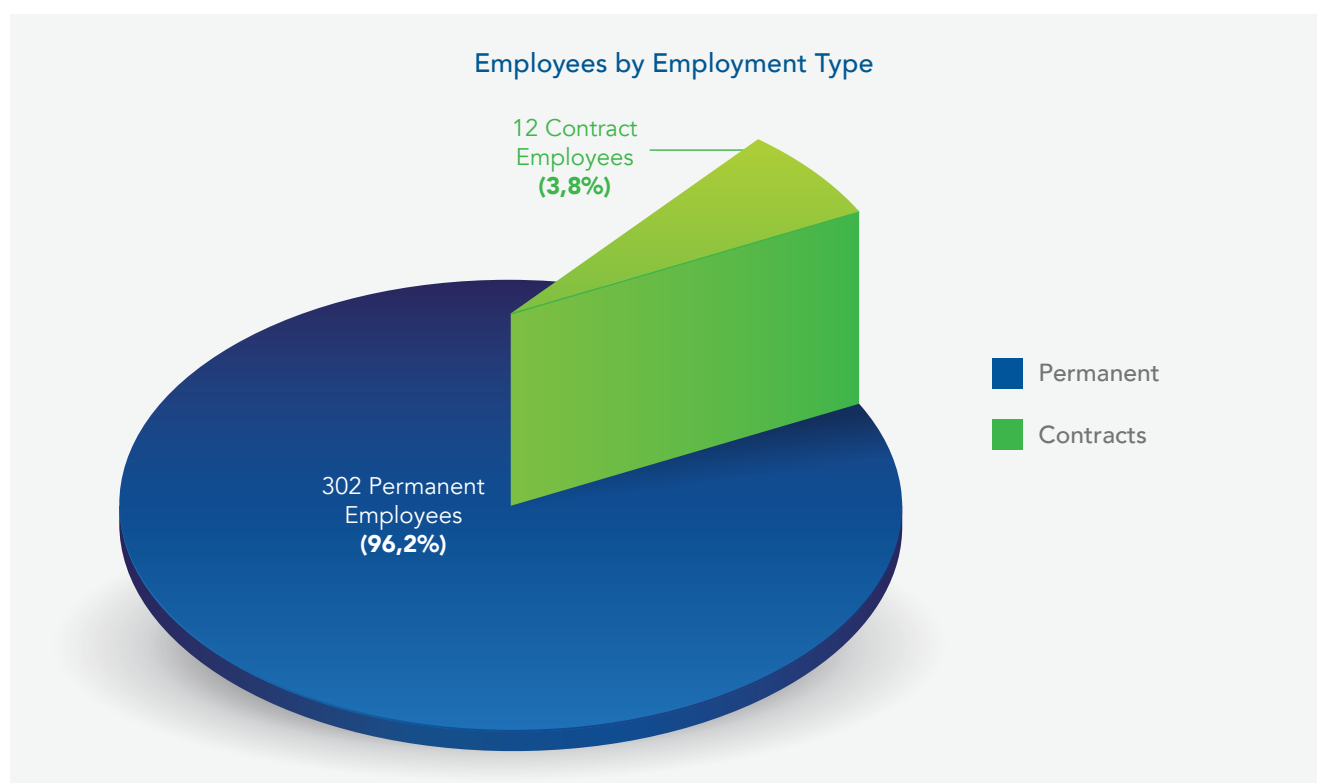
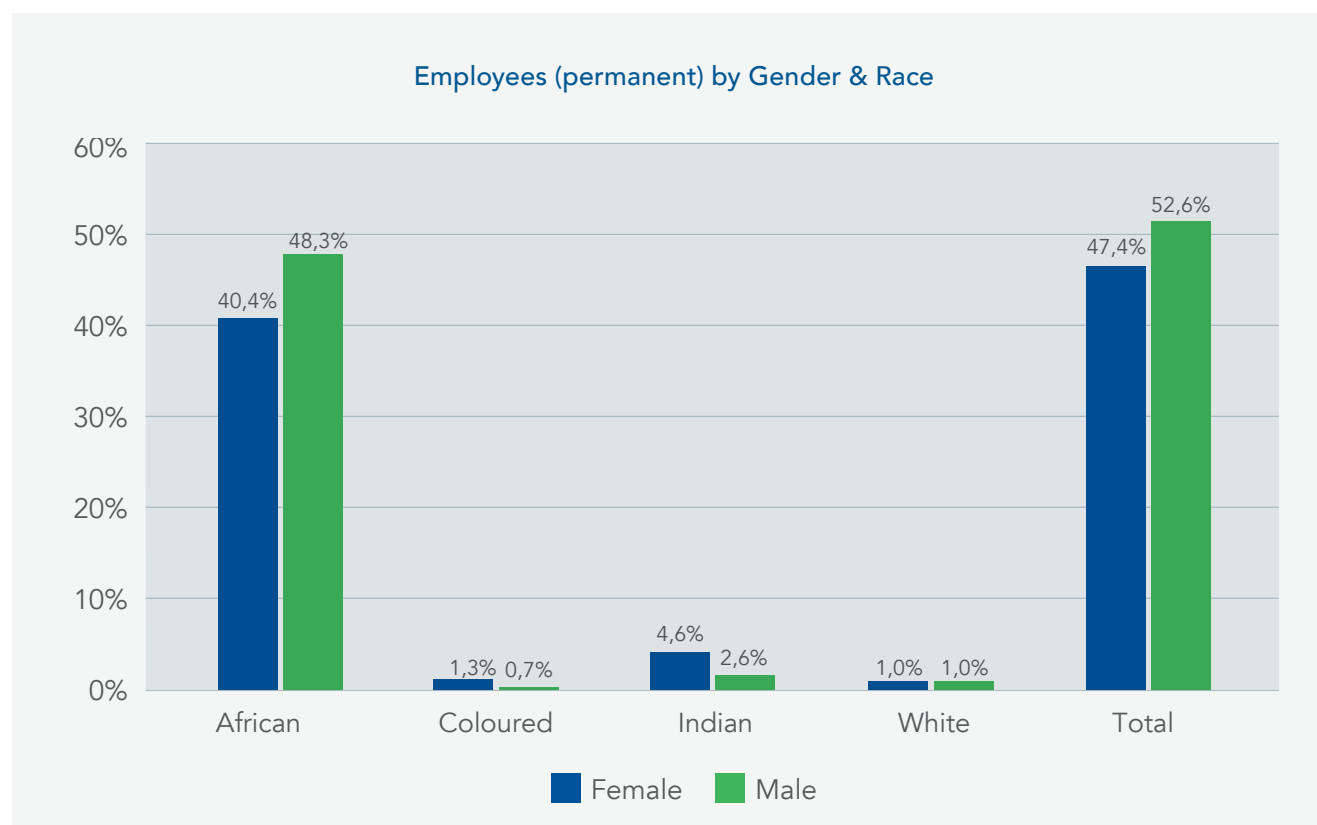
**Figure 10: Employees by Employment Status as at 31 March 2023****Figure 11: Gender and Racial Representation as at 31 March 2023**



Figure 12: Employee Age Profile as at 31 March 2023

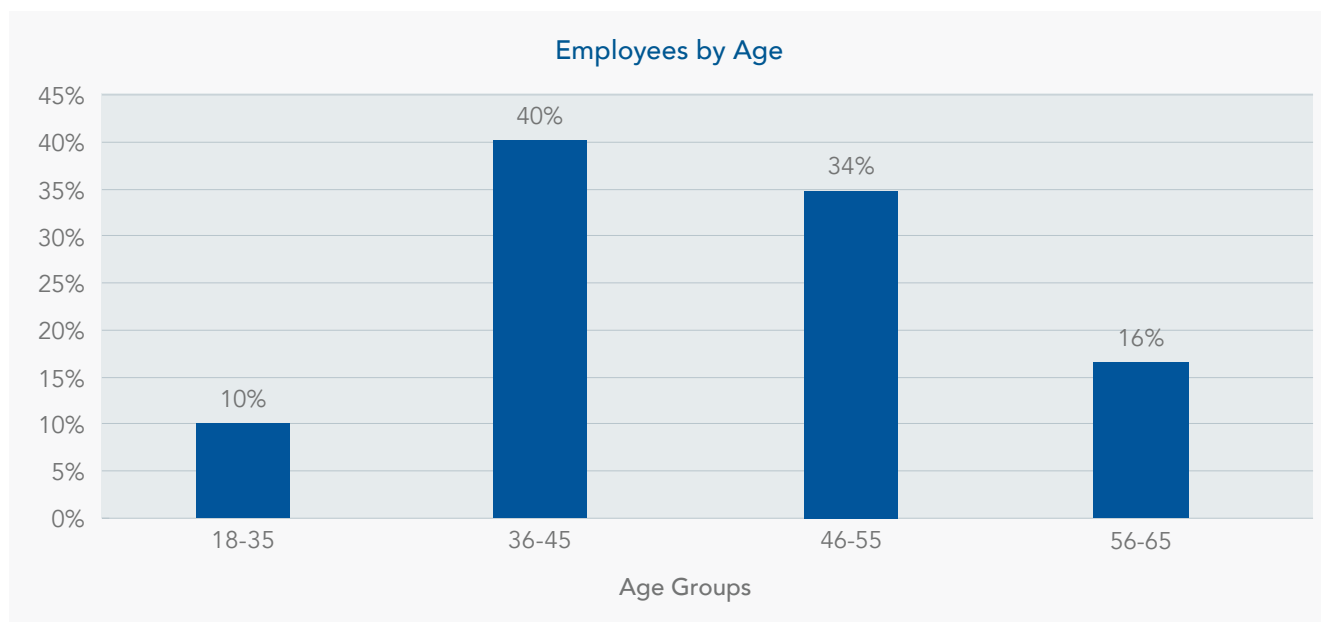
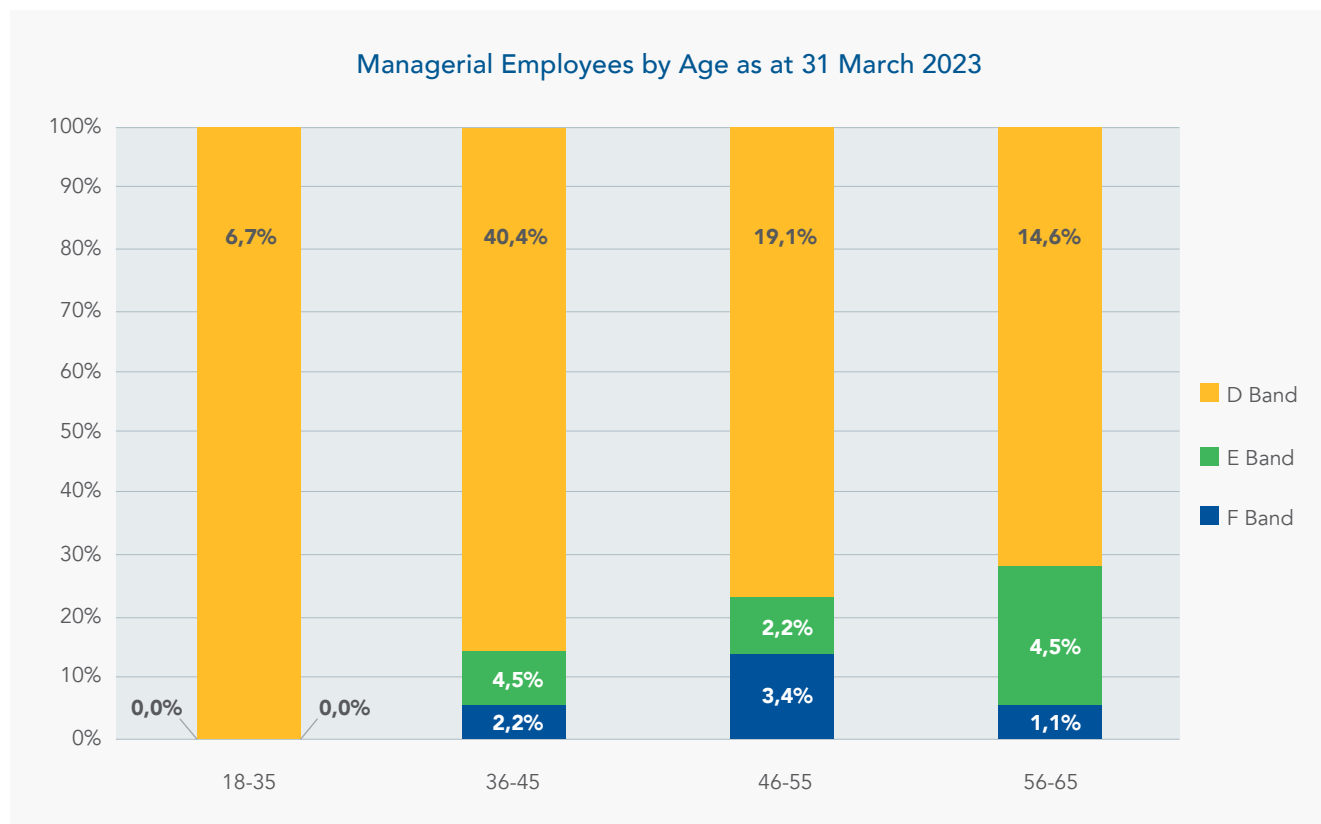


Figure 13: Employees by Managerial Level as at 31 March 2023



IDFC experienced a negative staff turnover (-1,3%) during the reporting period, far below the 10% target, owing to a growth in the number of employees. This represents a positive trend in the organisation. During the reporting period, 21 employees left the organisation, 13 of which resigned, three (3) were deceased, two (2) dismissed and three (3) retired. Over this period IDFC appointed an additional 25 staff members, more than offsetting the departures.



TRAINING AND DEVELOPMENT

IDFC implemented its Annual Training Plan for 2022-23, addressing the training needs identified by each Business Unit. Thirty six (36) training interventions were facilitated both internally and externally, with total training expenditure amounting to R1,2 million.

IDFC is committed to upskilling new staff, which will build sustainability in the organisation while furthering the developmental mandate. Three (3) interns were enrolled in the Internship Programme during the financial year within the Information Technology (IT) field. The Program targets recent graduates seeking experience and provides training on a 24-month rotation.

SAICA Trainees



Nomanini Sithole



Thabiso Moloi



Thulasizwe Ndebele

TALENT MANAGEMENT

The fulfilment of IDFC's strategic goals and objectives requires the development of a talent pipeline, ensuring there is continuity in the skills available for key employment positions. During the year under review, IDFC resumed its review of the Succession Policy as well as the list of scarce and critical skills. Implementation of the Succession Policy across all levels of the organisation will begin once the Transition Process is complete. These efforts are strengthened by the success in recruiting new talent, including the appointment of 25 new employees and the promotion of six (6) employees to senior positions. This success is attributed in large part to the IDFC's Employee Value Proposition.

To gauge the effectiveness of the Employee Value Proposition, IDFC conducted an Employee Satisfaction Survey (ESS) to test how talent within IDFC is managed. The survey found that 80% of employees felt satisfied and engaged, compared

As part of the IDFC's focus on 'Making it Happen Together', the organisation continued its collaboration with the South African Institute of Chartered Accountants (SAICA). The IDFC is training three (3) aspiring Chartered Accountants (CAs) over a period of three years. Towards the end of the financial year, IDFC launched a recruitment drive to identify three (3) additional Accounting graduates who will be enrolled on the SAICA training programme in 2023/24.

The IDFC spent R804 000 on both the Internship and SAICA programs. Collectively, this amounts to more than R2,1 million for training and development over the 2022/23 financial year.

to 50% in 2020. This improvement is attributed to intentional interventions implemented by IDFC to address the shortcomings raised by employees in the 2020 Survey.

EFFECTIVE AND EFFICIENT EMPLOYEE RELATIONS

IDFC's Human Resources Strategy seeks to retain and attract valuable talent, while positioning the organisation as an employer of choice in the province. Our approach includes maintaining good employee relations, recognising that we need to respect and promote employees' rights to fair and equitable employment practices.

The entity continues to maintain a Recognition Agreement with its Union, NEHAWU. The two parties have maintained employer-employee relations by professionally engaging in the Local Labour Forum and concluding two (2) collective agreements, namely the Wage Negotiation Agreement for



2022/23 and the Agency Shop Agreement. Due to a cordial working relationship with NEHAWU and a commitment to addressing issues raised by our employees and social partners IDFC experienced no industrial action during the 2022/23 financial year.

Issues did, however, arise related to employee conduct and dispute management. In total, 13 dispute cases were managed by IDFC, with seven (7) disputes at the Commission for Conciliation, Mediation and Arbitration (CCMA) and six (6) at the Labour Court. At the end of the financial year, only six (6) of the 13 matters remained in dispute, including two (2) at CCMA and four (4) at the Labour Court.

RECOGNITION OF EXCELLENCE

IDFC continues to cultivate a high-performance culture and acknowledges excellence through various recognition and reward programmes, designed to improve morale and keep our employees engaged. In the year under review, IDFC implemented an automated recognition and reward platform to make this possible.

IDFC also showed a marked improvement in our organisational performance, reflecting progress towards establishing a high-performance institution. This excellence was acknowledged by the Board of Directors through the payment of performance

bonuses to all employees who reached the required performance threshold. These bonuses form part of the IDFC's Employee Value Proposition.

EMPLOYEE WELLNESS

The IDFC Employee Wellness Programme assists employees and their immediate family who are adversely affected or have the potential to be adversely affected in both their work and performance. The Programme benefits the organisation by fostering employee wellbeing, enhancing productivity, and improving social functioning. Initiatives undertaken as part of this Programme include financial wellness training, AIDS Day Commemoration, eye testing and medical surveillance. In October 2022, the IDFC appointed a new Employee Wellness service provider, the Institute for Counselling and Advisory Services (ICAS). The ICAS was well received by employees when it was introduced at IDFC sites.

The IDFC also established three (3) Employee Forums as part of the Wellness Programme - the Youth Forum, Men's Forum and Women's Forum. These forums established a proper, elected structure, to support employees and their communities. Initiatives implemented by these Forums included the commemoration of Youth Day, Women's Day and hosting of a 'Movember' initiative for men.



Launch of the IDFC Men's Forum

CHANGE MANAGEMENT

IDFC implemented the transition stage of the Organisational Review Project during the year under review. This initiative included the matching and placement of employees within five (5) Business Units, namely Corporate Support Services, Group Finance, Business Finance Group Risk, Compliance

and Legal, and the Group Chief Executive Office. As part of this initiative Managers make inputs to the Transition Committee before it makes the final recommendations of placement to EXCO.

The Transition initiative will be implemented in the Properties and Information Technology Business Units during the next financial year.



SOCIO-ECONOMIC TRANSFORMATION

IDFC is committed to the national socio-economic transformation agenda, placing special emphasis on Broad-Based Black Economic Empowerment (B-BBEE) and related community-based initiatives. Central to our commitment is the need to incorporate previously disadvantaged and marginalised people into the mainstream economy. To do so, IDFC pursues business activities including corporate social investment, bursary schemes, sponsorships, skills development, emphasis on employment equity, the application of preferential procurement, female and youth empowerment workshops and the approval of loans to Black-owned co-operatives and SMMEs.

As a Public Entity, IDFC also adheres to the Public Finance Management Act (PFMA), which seeks to maximise service delivery through the effective and efficient use of financial 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's

procurement spend in 2022/23 amounted to R301,4 million, compared to R229,1 million during the prior year. This excludes spend of R561,5 million paid to other government institutions including Eskom, municipalities, government departments, SOEs, universities, colleges, professional bodies, and the Auditor-General of South Africa. Overall 97% of procurement spend was from black-owned businesses against a target of 60%.

To align with the Provincial Government's mandate to catalyse radical economic transformation, IDFC continued with the robust implementation of preferential procurement in favour of African Exempted Micro-Enterprise (EMEs) and Qualifying Small Enterprises (QSEs), together with businesses owned by women, youth and People with Disabilities (PwDs). During the 2022/23 financial year, IDFC preferential procurement spend from women-owned businesses amounted to 26% against a target of 28%, while spend with youth-owned businesses amounted to 12% against a target of 15%.



Women in Leadership Training



CORPORATE SOCIAL INVESTMENT ACTIVITIES

IDFC's Corporate Social Investment (CSI) programmes resonate with our organisation's brand message 'Making It Happen Together', and create hope, access and opportunity for the people of KwaZulu-Natal. IDFC's flagship CSI programmes are:

- Skills Development
- Job Creation and Entrepreneurship
- Financial Wellness

During the 2022/23 financial year our CSI programme focused on enterprise development and developing entrepreneurship among women, youth and PwD's.

Imbokodo Iyazenzela Women in Business Programme

Imbokodo Iyazenzela Women in Business Programme IDFC, in partnership with the EDTEA Women Empowerment Unit, South African Revenue Services

(SARS) and KwaZulu-Natal Treasury, rolled out woman in business training in August and September 2022. Training was provided to women in rural and peri-urban areas within the Zululand, uMkhanyakude, eThekweni and King Cetshwayo Districts.

This initiative promotes the development and empowerment of female entrepreneurs through the delivery of practical training to move them from the informal to the formal sector. The business training was attended by 226 women and covered the following topics:

- Business management;
- Compiling a business plan;
- Accessing markets;
- Financial management;
- Supply chain management;
- SARS compliance for small business; and the
- Central Supplier Database



Imbokodo Iyazenzela Women in Business Training

Inkunz'isematholeni Youth in Business Programme

IDFC, in partnership with the EDTEA Youth Empowerment Directorate, hosted a series of two-day Inkunz'isematholeni Youth in Business Development Programme workshops. The workshops were held in rural and peri-urban areas within the Harry Gwala, Uthukela and Zululand Districts. Other strategic partners included the Office of the Premier, Small Enterprise Development Agency (SEDA), National

Youth Development Agency (NYDA), Black Umbrellas and District Municipalities.

The first day of the workshop addressed business development including starting and growing your business, business plan development, access to finance and pitching your business and was attended by 149 youth participants. The second day focused on business pitches and provided 49 participants with an opportunity to harness their presentation skills.



IDFC also established the Inkunz'isematholeni Youth in Business Competition to reward innovative business thinking among unemployed youth with a focus on the green economy. Winners of the Competition were announced at an awards ceremony at the Durban International Convention Centre on the 7th of October 2022 and received start-up capital to pursue their innovations.

Inkunz'isematholeni Youth in Business Training at Alfred Duma

The winners of the 2022/23 competition were:



R100 000 - Ntando Ndimande - invented a product that saves water and optimises efficiency in communal and free-standing water taps.



R25 000 - Nomandla Ngcoya - produces natural active ingredients that will be used by pharmaceutical companies to treat certain diseases.



R50 000 - Mbuso Tembe - invented charcoal made from hardwood.



R25 000 - Sameer Khan - invented a device that generates electricity from wastewater.



R50 000 - Hlomla Noziqwaba - developed a car wash application.



R50 000 - Zigi Ziqubu, - invented a machine to speed-up crop harvesting.



The MEC EDTEA Mr. Siboniso Duma, IDFC Chairman of the Board Mr Sihle Mkhize, IDFC Group Chief Executive Ms. Pearl Bengu and the winners of the Inkunz'isematholeni Youth in Business Competition



Masakhe Business Trainings for Persons with Disabilities and SMMEs

IDFC launched the Masakhe “Let’s build” initiative to provide business training and financial guidance for Persons with Disabilities (PwDs). IDFC, in partnership with eThekweni Municipality and Ray Nkonyeni Municipality, hosted training sessions on 8 December 2022 at the IDFC Knowledge Centre and on 28 February 2023 at the Port Shepstone Civic Centre. A total of 192 PwD’s and SMME’s participated in the programme.

The Masakhe training program focused on the following:

- Supply Chain Management Training

- IDFC Business Finance Products and Services
- South African Revenue Services (SARS) Compliance for Small Businesses
- Small Enterprise Development Agency (SEDA) Business Management and Business Plan Development
- Small Enterprise Finance Agency (SEFA) Products and Services
- National Youth Development Agency (NYDA) Business Support for Youth in Business

IDFC intends to continue with this training in the 2022/23 financial year, expanding to other Districts within the province.



Masakhe Business Training for PwD’s and SMME’s



Flood Relief

The floods that devastated much of KwaZulu-Natal in April 2022 created a social emergency that required immediate action by government and the private sector. IDFC donated food items, toiletries and sleeping material to flood victims in Durban. Donated items were delivered to beneficiaries housed in temporary shelters in Te Huis (Umlazi), Ntuzuma B Hall (Ntuzuma) and Tshelimnyama Hall (Pinetown).

Mandela Day

IDFC commemorated the 2022 Mandela Day by extending support to the Mathonsi Traditional Council in Mandeni, including the donation of desks, chairs, school uniforms and stationery to the Lindayiphi Intermediate School and KwaVusumuzi High School. These efforts align to IDFC’s theme of ‘Do what you can, with what you have, wherever you are’.



IDFC Group Chief Executive, Pearl Bengu presenting donated food items to families at Te Huis in Umlazi



IDFC Board Members, Group Chief Executive, teachers and learners participated in the handover ceremony



StarSaver Teach Children to Save Campaign

IDFC is committed to building financial literacy and inclusion among the youth of KZN through its partnership with the StarSaver Programme. The programme is integrated within the Economic Management Sciences (EMS) subject of the school curriculum and seeks to inculcate a culture of savings among the youth. IDFC visited the Lindayiphi Intermediate and KwaVusumuzi High School at Isithebe on the 28th of July 2022 to facilitate StarSaver financial literacy lessons to more than 200 pupils.



Learners at the Lindayiphi Intermediate School



INFORMATION AND COMMUNICATION TECHNOLOGY

Information and Communication Technology (ICT) plays a critical role in enabling IDFC's business units to meet their respective mandates, by delivering effective business solutions and services by way of people, process and technology. The use of ICT systems by the IDFC team averaged 86% for the year under review, highlighting the importance and dependency on the ICT Department and its applications.

The role played by our ICT Department includes the provision of ICT governance, the automation of business processes, the delivery 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 year under review, fostering a team culture, collaboration, and enhancing our capacities remained a top priority for the Department.

ICT efforts and operations are aligned with the IDFC ICT Strategy which focuses on the three pillars - Stabilising Operations, Focusing on Delivery, and Building Capacity and Skills. The following was achieved by the ICT Department across these pillars during the year under review:

Stabilising Operations

- Installed and stabilised WiFi at the Isithebe Industrial Estate office
- Installed and stabilised a network for desktop phones at the Isithebe Guardhouse
- Replaced legacy switches to stabilise the network at the Ezakheni Industrial Estate
- Conducted three network vulnerability and penetration tests
- Tested the information security awareness campaigns by conducting a phishing simulation
- Tested the Disaster Recovery Plan (DRP) on the critical JDE and HALO systems
- Improved security controls on the perimeter firewall
- Replaced critical UPS parts ensuring continuity in times of loadshedding at IDFC head office

Focusing on Delivery

- Installation of an HP ProActive Insights tool as Proof of Concept for proactive computer device management
- Successful rollout of new data SIM cards to all eligible staff
- Continued with acquisition and issuance of new laptops and desktops to staff
- IDFC Domain migrated from Dimension Data to RSAWEB
- Business intelligence (Qlik Sense) dashboard for Executives
- Integration of Central Supply Database and JD Edwards for ease of procurement

Building Capacity & Skills

- Appointed three (3) IT Interns who commenced work in August 2022 for a period of two (2) years
- Filled critical positions including Manager for Network and Communications, Manager for Information Security; and Divisional Manager for Strategy and Analytics, on a fixed term contract basis

Infrastructure did not fall below 97% availability during the year under review, ensuring that ICT-enabled operations remained dependable and accessible. This is critical for the efficient operations of the organisation.

The ICT Department also maintained user satisfaction throughout the year. The team requests user satisfaction ratings following service calls to the ICT support team and attained a Customer Satisfaction Index of 99% through the reporting period. This rating reflects the improvement in operations, delivery, and skills.



HEALTH, SAFETY AND ENVIRONMENT

Health, safety and the environment are areas of great concern to IDFC and continuous awareness is promoted across the organisation. The IDFC Health, Safety and Environment Strategy centres on a combination of risk management, policy setting and employee awareness. The Strategy further seeks to support a culture that promotes the desired health, safety and environment behaviours, the implementation of management systems, and the promotion of staff health and well-being.

IDFC seeks compliance with legal requirements on the protection of health, safety and the environment. This is done by:

- Identifying, controlling, eliminating or reducing both health and safety risks and significant environmental impacts;
- Prevention of pollution and accidents, or ill-health, while delivering continuous improvement;
- Training and informing all members of staff, to ensure they are equipped with adequate knowledge regarding health, safety and environment 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, IDFC assesses our levels of compliance, inclusive of assurance processes. Such checks are undertaken to provide assurance to the relevant authorities that our operations and Business Units do, in fact, comply with legislative requirements and policies. In this regard, we have made good progress towards the development and implementation of improvement plans.



HEALTH

IDFC remains wholly committed to ensuring the health of our staff, which represent our most important resource. This is achieved through the implementation of continuous medical surveillance and other monitoring programmes and is executed in collaboration between the Occupational Health and Safety Business Unit and the Wellness Business Unit.

Although the World Health Organisation (WHO) no longer regards Covid-19 a global pandemic, IDFC continues to ensure good hygiene practices in the workplace.



SAFETY

Occupational Health, Safety and Environment (OHSE) training, awareness campaigns, inspections and audits are regularly undertaken to maintain the health and safety of our staff in the workplace. There were no reportable safety incidents during the 2022/23 financial year in terms of Section 24 of the Occupational Health and Safety Act. IDFC continues to strive for an environment of zero harm to its employees and visitors.



ENVIRONMENT

IDFC strives to ensure that the environment is not adversely impacted by our business activities and recognises that non-compliance on environmental matters impacts both the environment and sustainability of the organisation.

There were no new reportable environmental incidents during the 2022/23 financial year. IDFC has, however, made progress towards resolving prior year compliance issues raised in respect of the Isithebe Industrial Estate Closed Waste Landfill Site and Waste Transfer Station. We continue to work with the relevant authorities towards ensuring a compliant and harm-free environment.



GOVERNANCE

INTRODUCTION

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

The Board is ultimately accountable for putting corporate governance structures and policies in place to ensure that all internal stakeholders take responsibility for ethical behaviour and adhere to the IDFC Code of Conduct. The Board values long-term and ethical client relationships and has well-established governance processes 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.

The Group Chief Executive is the only executive 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 IV Report. This is mitigated by the appointment of executives as members of certain Board Committees.

The Board of Directors believes that in all material aspects relevant to its business, IDFC complied with the recommendations contained in the King IV Report during the year under review.

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 (7), but no more than 13 members. The term of office of the Board ended on 31 May 2022. On 1 June 2022 the term of office for five of the previous Board members, being Mr S Mkhize, Ms P Sibiyi, Mr C Gina, Ms K Mbonambi and Dr S Ndlovu, were extended for another three (3) years ending 31 May 2025.

Four (4) new board members, namely Dr D Jairam-Owthar, Mr M Ngcobo, Dr U Roopnarain and Mr Ma Ngubo were appointed for a three (3) year term ending 31 May 2025, taking the number of Board members to ten (10). Mr S Mkhize was appointed Chairman of the Board (previously Deputy Chairman) and Mr Gina was appointed Deputy Chairman.

Upon reconstitution of the Board a skills analysis was undertaken to ensure it meets the minimum skills requirements as stipulated in the Ithala Act, as well as those skills the Board considers essential for the achievement of strategic goals. This also assists in ensuring that adequate skills are deployed to each Committee of the Board.

BOARD SKILLS AND EXPERIENCE MATRIX

The following skills matrix presents the skills, experience and qualifications of each member of the Board. It illustrates that the Board, collectively, has sufficient skills to bring independent judgement to Board decisions and assist the IDFC to realise its objectives.



IDFC Property: Nongoma Shopping Centre

**Table 8: Board of Directors: Skills and Experience Matrix**

Skill	Mr S. Mkhize	Mr C. Gina	Mr M. Ngcobo	Ms P.N. Sibiyi	Dr U. Roopnarain	Mr M. Ngubo	Mr S. Ndlovu	Dr D. Jairam-Owthar	Ms K. Mbonambi	Ms P. Bengu
Legal Skills	✓				✓					
Financial Skills	✓		✓	✓		✓	✓	✓	✓	✓
Investment Experience or Qualifications	✓		✓	✓		✓	✓	✓		
Marketing Experience or Qualifications							✓			✓
Human Resources or Labour Experience or Qualifications	✓	✓		✓	✓	✓	✓	✓	✓	✓
Planning or Development Skills and Experiences				✓		✓	✓	✓	✓	✓
Social and Ethics	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Information, Communication and Technology	✓	✓	✓	✓				✓	✓	
Banking			✓	✓					✓	✓
Project Finance	✓		✓	✓		✓	✓			
Development Finance			✓		✓	✓	✓		✓	✓
Risk Management	✓		✓	✓		✓	✓	✓	✓	✓
Corporate Governance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Strategy Formulation and Management	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Credit Management	✓	✓		✓				✓	✓	✓

BOARD EFFECTIVENESS

The Board Performance Evaluation Framework requires that the Board evaluation take place annually as follows:

- Year 1: The evaluation of the Board as a collective (Implemented for 2019/ 2020)
- Year 2: The Evaluation of Board Committees (Implemented for 2020/2021)
- Year 3: An Independent Evaluation of the Board and its Committees

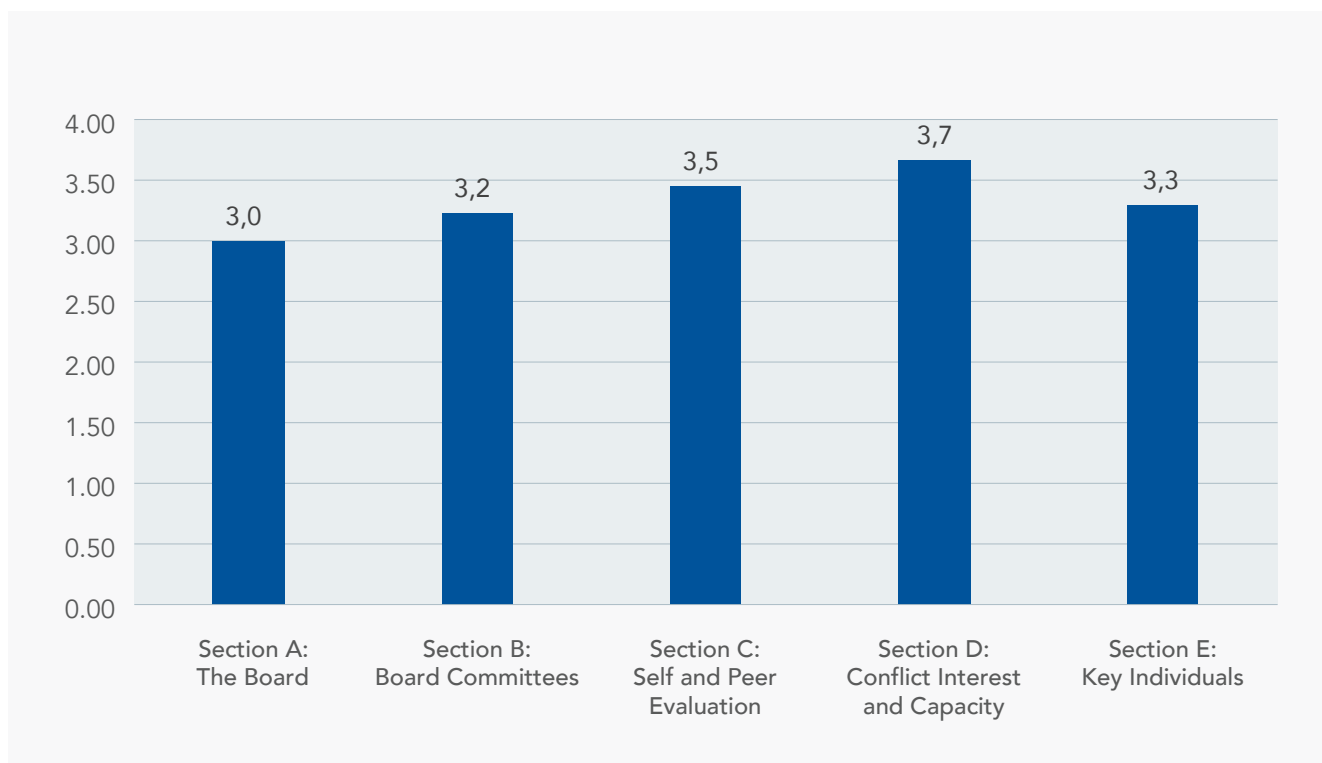
The Independent Evaluation of Board Committees was conducted after the extension of the term of

office, effective from 1 June 2022. The evaluation was limited to the 2021/22 financial year and those who constituted the Board at that time.

The evaluation Report was compiled by an independent service provider and indicated that the Board is confident in its overall performance and contributions to the IDFC, with an overall average score of 3.33 out of 4.00 and only minor areas identified for improvement. An action plan for areas of improvement and timelines has been considered by the Board. The following graph (Figure 14) details the six (6) main evaluation areas and average scores.



Figure 14: Independent Board Evaluation (2021/22)



During the year under review, the Board approved a training plan based on the needs of Board members and the Committees. Board members attended training sessions in ethics and board leadership in line with its responsibilities towards regularisation of the banking licence for IDFC's subsidiary, Ithala SOC Limited.

The Board continued to monitor the progress of rebuilding properties damaged during the July 2021 civil unrest.



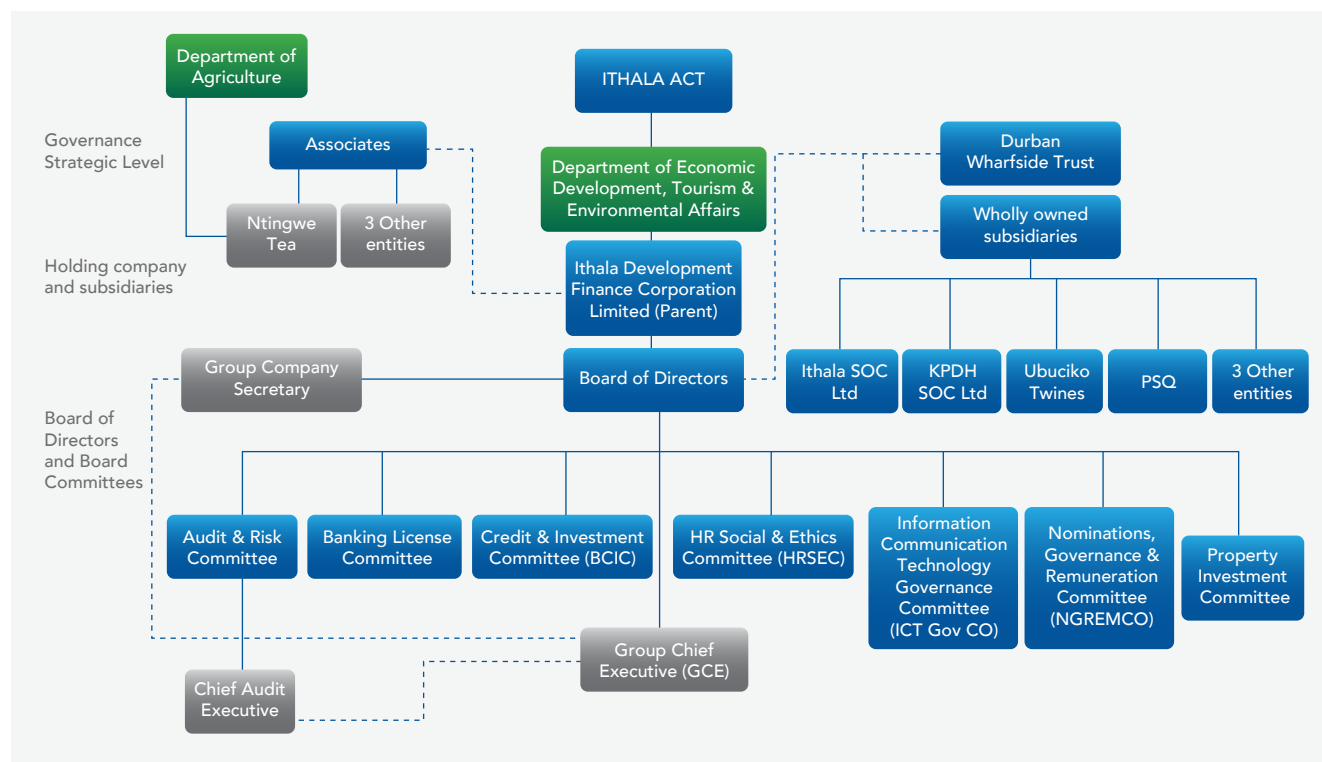
IDFC and Umzinyathi MOU signing ceremony



GOVERNANCE STRUCTURE

The IDFC has established a group corporate governance structure in keeping with the requirements of the Ithala Act (Figure 15).

Figure 15: IDFC Group Corporate Governance Structure



Board Committees were established in terms of Section 15(1) of the Ithala Act to assist the Board to discharge its responsibility of reviewing operational performance and monitoring risk management. Members are allocated to the Committee based on their skills and every effort is made to distribute Committee membership evenly among all non-executive directors. The Board approved the terms of reference during the year under review and delegated powers of authority for the Committees.

Each Board Committee has a work plan which serves to ensure that meetings are structured to address King Report on Corporate Governance recommendations, and the requirements of the Public Finance Management Act (PFMA) and Companies

Act. The Board Committee Chairperson's report the activities of their respective Committees to the Board at every meeting, highlighting emergent risks and recommending strategies as they deem appropriate, to enable the Board to monitor, among others, key risk areas that are relevant to the organisation. The Board Committees have the right to obtain independent outside professional advice to assist with the execution of their duties, at company's cost, subject to a Board approved process.

Tables 9 and 10 provide the Board and Committee membership registrar for the 2022/23 financial year, and the attendance list for Committee meetings during this same period.



Table 9: Board and Committee Membership (2022/23)

Name	Board of Directors	Audit and Risk Committee (ARC)	Board Credit & Investment Committee (BCIC)	Banking Licence Committee (BLC)	Information Technology and Communications Governance Committee (ITCGC)	Human Resources, Social & Ethics (HRSEC)	Nomination, Governance & Remuneration (NGREMCO)	Property Investment Committee (PIC)
Mr R Morar (Ex-Chairman Term ended on 31/05/2022)	✓			✓			✓	
Mr S Mkhize (Chairman appointed 01/06/2022)	✓	✓ Until May 2022	✓ Until May 2022	✓			✓	
Mr C Gina (Deputy Chairman appointed 1/06/2022)	✓		✓		✓ Until May 2022	✓		✓
Ms K Mbonambi	✓	✓			✓	✓	✓	
Dr S Ndlovu	✓	✓	✓			✓	✓	✓
Dr D Jairam-Owthar	✓	✓	✓		✓		✓	
Dr U Roopnarain	✓	✓			✓	✓	✓	
Mr M Ngubo	✓		✓	✓	✓			✓
Ms P Sibiya	✓	✓	✓	✓	✓ Until May 2022		✓	✓
Mr M Ngcobo	✓	✓		✓	✓			
Ms P Bengu - GCE	✓	✓	✓	✓	✓	✓	✓	✓
MSP Mapisa - GCFO			✓					



Table 10: Board and Committee Meeting Attendance (2022/23)

Director	Date of Appointment	Board of Directors		Audit and Risk Committee (ARC)		Board Credit and Investment Committee (BCIC)		Banking Licence Committee (BLC)		Information, Technology & Communications Governance Committee (ITC GC)		Human Resources, Social and Ethics Committee (HRSEC)		Nominations & Governance Committee (NGREMCO)		Property Investment Committee (PIC)**	
		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	Scheduled Meetings	Attended Meetings
Mr R Morar (EX-Chairman)	01/06/17	16	02 Apr–May 22	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5	1 Apr–May 22	n/a	n/a
Mr S Mkhize (Chairman)	01/06/17 Re-appointment 01/06/22	16	16	10	2 Apr–May 22	8	2 Apr–May 22	3	3	n/a	n/a	n/a	n/a	5	3	n/a	n/a
Mr C Gina (Deputy Chairman)	01/06/17 Re-appointment 01/06/22	16	16	n/a	n/a	8	7	3	3	8	8	8	8	5	4 Started in June 22	3	3
Ms K Mbonambi	01/06/17 Re-appointment 01/06/22	16	15	10	10	n/a	n/a	n/a	n/a	8	6	8	7	5	5	n/a	n/a
Dr S Ndlovu	01/06/17 Re-appointment 01/06/22	16	16	10	10	8	8	n/a	n/a	n/a	n/a	8	8	5	5	3	3
Ms P Sibiya	01/06/17 Re-appointment 01/06/22	16	13	10	8	8	8	3	3	n/a	n/a	n/a	n/a	5	5	3	3
Dr D Jairam-Owthar	01/06/22	16	13 *	10	8 *	8	6 *	n/a	n/a	8	7 *	n/a	n/a	5	4 *	n/a	n/a
Dr U Roopnarain	01/06/22	16	14 *	10	8 *	n/a	n/a	n/a	n/a	8	7 *	8	6 *	5	4 *	n/a	n/a
Mr M Ngubo	01/06/22	16	14 *	n/a	n/a	8	6 *	3	3	8	7 *	n/a	n/a	n/a	n/a	n/a	n/a
Mr M Ngcobo	01/06/22	16	13 *	10	8 *	n/a	n/a	3	3	8	7 *	n/a	n/a	n/a	n/a	n/a	n/a
Ms PS Bengu (GCE)	01/11/18	16	15	10	9	8	4	3	2	5	5	8	6	5	5	3	0

Date of App = Date of appointment

n/a = Director is not a member of the Committee or Board

*Director appointed started attending meetings from date of appointment (1 June 2022)

**New Committee and meetings started to be scheduled from December 2022



AUDIT AND RISK COMMITTEE

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

The Audit and Risk Committee also reviews significant risks and related mitigations and reports back to the Board after each quarterly meeting. Annual risk workshops are held and identified strategic risks are documented in a risk register and assessed based on likelihood of occurrence and potential impact on IDFC (risk exposure). IDFC continuously seeks to improve and enhance its risk management processes, whilst simultaneously maintaining a practical and business-minded approach.

The internal audit function implemented a risk-based internal audit plan, founded primarily on the risk registers compiled by the Group Risk Department, revised IDFC strategy and other key emerging risks. Assurance on risk is managed through the combined assurance process wherein all levels of assurance play a crucial role and is reported to the committee. In addition to the internal audit plan, the function has a dedicated team dealing with forensic investigation matters. The Committee continued monitoring fraud and corruption trends within the organisation and ensured implementation of consequence management.

The Audit and Risk Committee also focuses on occupational health, safety and environmental risk. Efficient health and safety at the workplace not only ensures that employees are productive, but can also reduce both human and business costs and unnecessary lawsuits.

The organisation has a regulatory universe applicable to its operations and constantly monitors compliance with applicable laws and regulations. Annual review and quarterly reports are submitted to the Audit and Risk Committee indicating the compliance status.

During the year under review, the Audit and Risk Committee focused on the group's financial performance and performance against the Annual Performance Plan (APP), as agreed upon with the EDTEA, and the KwaZulu-Natal Provincial Treasury in March 2022.

The Audit and Risk Committee paid close attention to the following during the year under review:

- 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. The Group Chief Financial Officer also monitors the external audit findings.
- Review of the adequacy of skills and expertise for the Audit, Finance and Risk function teams.
- Non-adherence to supply chain management processes in the 2021/2022 financial year and prior financial years resulted in instances of irregular and/or fruitless and wasteful expenditure. The condonation of the irregular expenditure and recovery of any losses remained 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 fruitless and wasteful expenditure.
- Development and approval of a strategic risk register highlighting the key risks facing the organisation and monitoring adherence to set risk appetite and tolerance levels.

During the 2022/23 reporting period, the Audit and Risk Committee reviewed and recommended, amongst others, the following to the Board for approval:

- Committee's Terms of Reference
- Corporate Business Plan and Annual Performance Plan for 2023/24
- Budget for 2023/24
- Strategic Risk Register for 2023/24
- Integrated Annual Report for 2021/22
- External Audit Strategy and Engagement Letter for the 2021/22 Audit
- Revised Supply Chain Management Policy
- Risk Management and Compliance Programme (RMCP)
- Compliance Risk Management Framework (CRMF)
- Fixed Asset Management Policy



BANKING LICENCE COMMITTEE

The Banking Licence Committee maintained its focus on the regularisation of Ithala SOC Limited's banking activities, with special emphasis on monitoring compliance with the conditions of the banking licence exemption.

The Committee considered the bank structure in preparation for the application for a banking licence for Ithala SOC Limited, which is under consideration by the Executive Authority at the recommendation of the combined Boards of IDFC and Ithala SOC Limited.

CREDIT AND INVESTMENT COMMITTEE

The Credit and Investment Committee remains concerned about the performance of the loan book and thus continued its focus thereon, particularly, on high-value matters which have a material impact on the level of non-performing loans. Given the deterioration in the performance of the loan book, due to, among others, the April 2022 floods and the state of the South African economy, the committee focused on close monitoring of non-performing loans and implementation of the plan to turn these loans around.

The Committee continued to monitor the progress of the turn-around plan for Port Shepstone Quarries (Pty) Ltd (PSQ).

During this reporting period, the Committee reviewed and recommended to the IDFC Board the following:

- Enterprise Development Fund Investment Policy
- IDFC Investment Policy
- Township and Rural Economy Investment Policy
- Committee's Terms of Reference
- Business Finance - bad debt write-offs
- Property Asset Management Policy

HUMAN RESOURCES, SOCIAL AND ETHICS COMMITTEE

The Board revised the microstructure for the organisation in November 2021, which was necessitated by changes to the business. The committee tracked progress with regards to filling of critical vacancies and the implementation of the Transition Framework which defines the process for completing the transition from the current structure to the fully functioning "to-be" IDFC structure.

On a quarterly basis the Committee tracked the progress made towards the implementation of the Employee Wellness Strategy and noted that employee

participation was constantly growing. The approved Employee Wellness Strategy aimed to achieve the following goals and objectives:

- Reduce health care costs;
- Reduce the high rate of absenteeism;
- Increase employee productivity and performance; and
- Improve employee morale, engagement and retention.

The Covid-19 pandemic necessitated that IDFC increase its internal communication activities to ensure that staff stay abreast of measures put in place to ensure their safety during the pandemic. These efforts yielded minimum Covid-19 infections in the organisation. Although the impact of Covid-19 on public health is at a manageable stage, IDFC continues to implement other wellness initiatives and regular health communications.

To ensure that employees are in good health and productive in the workplace IDFC continuously monitors and reports sick leave trends to the Committee.

On the recommendation of the Committee, the Board approved the Business Code of Conduct and Ethics which encourages IDFC employees to conduct themselves in an acceptable manner.

In addition to human resources related matters, the Committee tracked the progress of all marketing initiatives conducted by IDFC.

ICT GOVERNANCE COMMITTEE

In line with the King Codes guidelines, the Board takes responsibility for Information Communication Technology (ICT) governance and has delegated the oversight role of ICT 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, whose terms specifically include responsibilities for ICT, communication and ICT governance;
- Ensuring that the Group Chief Executive appointed a suitably qualified and experienced Group Chief Information Officer, responsible for ICT management; and
- Ensuring that ICT governance is integrated into the Ithala 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 regarding its oversight responsibilities, inclusive of ICT governance. In terms of ICT governance, key deliberations of the Committee focused on the Information Technology Strategy, business continuity and ICT project implementation. During the year under review the Committee:

- Approved business cases geared towards automation of business processes with increased focus on revenue generating business units;
- Recommended its Terms of Reference and the following ICT policies for approval by the Board:
 - o ICT Continuity Policy
 - o ICT Network Policy
 - o ICT Assets Management Policy
 - o ICT Cloud Computing Policy
 - o Content, Document and Record Management Policy
 - o Data Centre Facility Management Policy
 - o ICT Operations Policy

NOMINATIONS, GOVERNANCE AND REMUNERATION COMMITTEE

The Nominations, Governance and Remuneration 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. The intent was to determine whether the skills mix enables to the Board to bring independent judgement to Board deliberations and decision-making.

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.

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

PROPERTY INVESTMENT COMMITTEE

In November 2022, the Board established the Property Investment Committee to:

- Facilitate and promote communication in respect of property investment risk related matters between the Board and management.
- Have oversight on the performance of the IDFC property portfolio.
- Assist the Board in bolstering economic activities in the province by participating in development projects and partnerships with like-minded investors.
- Assist the Board to leverage public and private capital for development and infrastructure projects.

The Committee recommended its Terms of Reference for approval by the Board.

GROUP EXECUTIVE COMMITTEE

The Group Executive Committee is appointed under the leadership of the Group Chief Executive to provide day-to-day leadership for the activities of IDFC. The Committee is responsible for developing and delivering against IDFC's corporate and business plans. It serves as 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 Divisional Manager: Organisational Strategy, Programme and Efficiency 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.



PFMA COMPLIANCE REPORT

IRREGULAR EXPENDITURE

Opening Balance

Irregular expenditure - Current Year

Add: Irregular expenditure confirmed

Less: Irregular expenditure condoned

Less: Irregular expenditure removed

Less: Irregular expenditure recoverable

Less: Irregular expenditure not recovered and written off

Total Irregular Expenditure

2023 R'000	2022 R'000
36 970	36 155
-	1 094
-	-
(679)	(279)
(698)	-
-	-
-	-
35 593	36 970

a) Reconciling notes to the annual financial statement disclosure

Irregular expenditure that was under assessment in 2021/2022

Irregular expenditure that relates to 2021/22 and identified in 2022/23

Irregular expenditure for the current year

Total

-	-
-	-
-	-
-	-

There was no new irregular expenditure identified in the current or prior financial year.

b) Details of current and previous year irregular expenditure

Irregular expenditure under assessment

Irregular expenditure under determination

Irregular expenditure under investigation

Total

1 530	1 274
-	-
34 063	35 975
35 593	37 249

Irregular expenditure under assessment are the items submitted to Provincial Treasury for condonation which were still being assessed by them at financial year end.

c) Details of current and previous year irregular expenditure condoned

Irregular expenditure condoned

Total

(679)	(279)
(679)	(279)

This related to the cases where there was contravention with the SCM policies. Disciplinary actions were taken against the affected employees.

d) Details of current and previous year irregular expenditure removed

Irregular expenditure removed

Total

(698)	-
(698)	-

The variation amounts were below the 20% threshold as determined by the National Treasury Instruction Note 3 of 2016/2017 and was therefore was not deemed to be irregular expenditure. Approval for the removal was granted by the IDFC Board.

e) Details of current and previous year irregular expenditure recoverable

Irregular expenditure recovered

Total

-	-
-	-

No irregular expenditure was recovered in the current or prior financial year. During the 2022/23 financial year, IDFC commenced with the recovery of irregular expenditure amounting to R1177839.

2023
R'0002022
R'000

f) Details of current and previous year irregular expenditure not recoverable and written off

Irregular expenditure written off	-	-
Total	-	-

No irregular expenditure was written off in the current or prior financial year.

g) Details of non-compliance cases where an institution is involved in an inter-institutional arrangement

There is no non-compliance cases where IDFC was involved in an inter-institutional arrangement for the current or prior year.

h) Details of current and previous year disciplinary or criminal steps taken as a result of irregular expenditure

Disciplinary action or criminal steps in respect of confirmed irregular expenditure were taken prior to the 2021/22 financial year.

FRUITLESS & WASTEFUL EXPENDITURE

Opening Balance	698	698
Add: fruitless and wasteful expenditure-confirmed	-	-
Less: fruitless and wasteful expenditure recovered	-	-
Less: fruitless and wasteful expenditure not recovered and written off	-	-
Total fruitless and wasteful Expenditure	698	698

a) Reconciling notes to the annual financial statement disclosure

Fruitless and wasteful expenditure that was under assessment in 2021/2022	-	-
Fruitless and wasteful expenditure that relates to 2021/22 and identified in 2022/23	-	-
Fruitless and wasteful expenditure for the current year	-	-
Total	-	-

There was no new fruitless and wasteful expenditure identified in the current year or prior financial year

b) Details of current and previous year fruitless and wasteful expenditure

Fruitless and wasteful expenditure under assessment	-	-
Fruitless and wasteful expenditure under determination	-	-
Fruitless and wasteful expenditure under investigation	-	698
Total	-	698

c) Details of current and previous year fruitless and wasteful expenditure recovered or transferred to receivables for recovery

Fruitless and wasteful expenditure recovered or transferred to receivables for recovery	698	-
Total	698	-

Legal recovery steps commenced on the 2 fruitless and wasteful expenditure matters in the 2022/2023 financial year.

d) Details of current and previous year fruitless and wasteful expenditure written off

No fruitless and wasteful expenditure was written off in the current or prior financial year as IDFC has instituted recovery steps

e) Details of current and previous year disciplinary or criminal steps taken as a result of fruitless and wasteful expenditure

Disciplinary steps taken as a result of fruitless and wasteful expenditure	11	-
Total	11	-

Disciplinary action for fruitless and wasteful expenditure amounting to R687 087 was taken against employees involved prior to the 2021/22 financial year.



SECTION 3

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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 Ms Farhana Abdool Kader, the Acting Group Chief Financial Officer of Ithala Development Finance Corporation.



REPORT OF THE AUDIT AND RISK COMMITTEE

We are pleased to present the report of the Audit and Risk Committee for the financial year ended 31 March 2023.

AUDIT AND RISK COMMITTEE RESPONSIBILITY

The Audit and Risk Committee has complied with its responsibilities arising from Section 51(1)(a)(ii) and 76(4)(d) of the Public Finance Management Act (PFMA) and the National Treasury Regulation 27.1, as well as the requirements of the King IV Code of Governance. The Audit and Risk Committee also reports that it has adopted appropriate formal terms of reference as its Audit and Risk Committee charter; has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein. The charter is updated regularly and complies with the requirements of the PFMA, read together with the National Treasury Regulations and the principles of good governance.

The Board's Audit and Risk Committee, in addition to having specific statutory responsibilities in terms of the PFMA and the Companies Act, assists the Board in fulfilling its oversight responsibilities regarding the evaluation of the adequacy and effectiveness of the accounting policies, internal controls, risk management and financial reporting processes of the Corporation and the Group. In addition, the Audit and Risk Committee assesses the effectiveness of the internal audit function and the independence and effectiveness of the external auditors.

COMPOSITION

The Audit and Risk Committee comprises of six independent Non-Executive Directors and as at

MEETINGS

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

Table 11: Audit and Risk Committee Meeting Attendance (2022/23)

Name	No. of Meetings attended FY22/23
Ms. KG Mbonambi (Chairperson)	Attended 10 of 10 Meetings
Ms. P N Sibiya	Attended 8 of 10 Meetings
Dr. S L Ndlovu	Attended 10 of 10 Meetings
Mr. M Ngcobo*	Attended 8 of 8 Meetings
Dr. U Roopnarain*	Attended 8 of 8 Meetings
Dr. D Jairam-Owthar*	Attended 7 of 8 Meetings

*The three members were appointed on 01 June 2022

31 March 2023 the Audit and Risk Committee comprised of the following members (members details as of 1 June 2022):

- Ms K G Mbonambi (Chairman), Bachelor of Accountancy, B Com Honours (CTA), Certificate in Board Governance and Certificate in Enterprise Risk Management
- Ms P N Sibiya, Chartered Accountant (SA)
- Dr S L Ndlovu, Doctorate in Business Administration (PhD)
- Dr U Roopnarain, PhD (Political Sociology), LLM (Human Rights Law)
- Dr D Jairam-Owthar, Doctor in Business Leadership (DBL in ICT)
- Mr M Ngcobo, Chartered Accountant (SA)

Members details for the period 1 April 2022 – 31 May 2022:

- Ms P N Sibiya (Chairman), Chartered Accountant (SA)
- Ms KG Mbonambi, Bachelor of Accountancy, B Com Honours (CTA), Certificate in Board Governance, Certificate in Enterprise Risk Management
- Dr S L Ndlovu, Doctorate of Business Administration (PhD)
- Mr S Mkhize, Chartered Accountant (SA), Bachelor of Laws (LLB)

The Group Chief Executive, Group Chief Audit Executive, the Group Chief Financial Officer, Group Chief Risk Officer, Group Chief Information Officer and other executives are standing invitees to the Audit and Risk Committee meetings, with and representatives from the Auditor-General South Africa (AGSA) attending committee meetings by invitation only.

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



STATUTORY DUTIES

In the execution of its statutory duties during the 2022/23 financial year, the Audit and Risk Committee:

- Understood that the appointment of the AGSA, as an external auditor, complies with the relevant provisions of the Companies Act and Public Finance Management Act;
- Determined the fees to be paid to the AGSA, as disclosed in Note 35 of the Annual Financial Statements;
- Determined the terms of engagement of the AGSA;
- Reviewed the annual report and annual financial statements for the 2022/23 financial year;
- Oversaw the implementation of an effective policy and plan for risk management;
- Considered the internal and external audit processes 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 system of internal controls within the IDFC is designed to provide reasonable assurance that the assets are safeguarded and that liabilities and working capital are properly managed in line with the PFMA. This is achieved by means of a risk-based internal audit plan, where the internal audit function provides the Audit and Risk Committee and management with assurance that the internal controls are appropriate and effective in mitigating the risks.

The Audit and Risk Committee monitors the implementation of corrective actions, whilst management retains the responsibility for implementing such recommendations as per the National Treasury Regulations.

From the Audit and Risk Committee's review of the Internal Audit reports presented during the 2022/23 financial year and the outcome of the AGSA audit process, it can be concluded that the system of internal control as applied over financial and non-financial matters, enterprise risk management and in compliance with laws and regulations, is improving.

Notwithstanding the areas of improvement noted during the year under review, more improvements

are required in the management of working capital through aggressive debt recovery strategies, and improvements in other areas of financial reporting. Improvements are also required in the ICT area with regards to the automation of key systems and processes and in the upgrading of core systems to meet the demanding and changing external environment.

Furthermore, the Audit and Risk Committee has:

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

INTERNAL AUDIT

The Audit and Risk Committee believes that the Group Chief Audit Executive possesses the appropriate expertise and experience to meet her responsibilities in this position. 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;
- Satisfied itself that the internal audit function has the necessary resources, and standing authority within the Corporation to enable it to discharge its functions;
- Reviewed internal audit reports, including the response of management to issues raised therein;
- Approved the three-year rolling internal audit plan, including the annual internal audit plan; and
- Encouraged co-operation between external and internal audit in accordance to the combined assurance framework.

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

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, the Committee believes that the IDFC generally complies with regulatory requirements.

FINANCE FUNCTION

The Audit and Risk Committee:

- Believes that the Group Chief Financial Officer, 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, the Audit and Risk Committee believes that the accounting practices are generally 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 the responsibilities in this position.

The Committee participated in the identification of the strategic risks and considered the strategic risk register, risk appetite and tolerance levels for the year and risk management plan for 2023/24 financial year. The Audit and Risk Committee considered the risk assessment assurance report, which indicates that the organisational risk management is generally adequate and implemented in most processes.

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

During the current year under review, the audit committee held two special meetings to evaluate the prevailing risks in the trading environment of the IDFC, and responses to these risks recommended to the Board for actioning.

COMBINED ASSURANCE MODEL

In compliance with King IV on Corporate Governance, the Audit and Risk Committee continues to monitor a combined assurance model to provide a co-ordinated approach to all assurance activities and 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 of 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. In line with King IV, assurance providers reviewed organisational external reports to provide assurance on the accuracy, validity and completeness of the reports.

With combined assurance, the Audit and Risk Committee can fulfil its oversight function much more effectively, economically and efficiently. This Integrated Annual Report was recommended by the Audit and Risk Committee to the Board for approval.

EXTERNAL AUDIT

The Committee has reviewed the progress made by Management in the implementation plan of the external audit issues raised in the prior year, and the progress made is acknowledged. However, based on the interaction with the Management, reports of internal audit and the AGSA, some matters were not being adequately addressed. To effectively address and prevent repeat audit outcomes, the Audit and Risk Committee has implored Management to treat this as a high priority area in the 2023/24 financial year and the Audit and Risk Committee will closely monitor the implementation of the action plan.

The Committee met with the AGSA to ensure that there are no unresolved issues that emanated from the regulatory audit. The Audit and Risk Committee concurs and accepts the conclusions of the AGSA on the Annual Financial Statements, the Annual Performance Report and the report on compliance with laws and regulations, and believes that the audited Annual Financial Statements and other reports must be accepted and read together with the report of the AGSA.

Details of the external auditor's fees are set out in Note 35 of the Annual Financial Statements.

Ms Khulekelwe G Mbonambi

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.

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 104 to 107.

The Annual Financial Statements which appear on pages 112 to 245 were approved by the Board of Directors on 29 August 2023 and are signed on its behalf by:

Mr Siphesihle Mkhize
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 to the KwaZulu-Natal Provincial Legislation on Ithala Development Finance Corporation and its subsidiaries

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of Ithala Development Finance Corporation (the entity) and its subsidiaries (the group) set out on pages 112 to 245, which comprise the consolidated and separate statement of financial position as at 31 March 2023, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, as well as 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 financial position of the group as at 31 March 2023, and the group's 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 of 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 responsibilities of the auditor-general for the audit of the consolidated and separate financial statements section of my report.
4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other 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 code.

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 impairments/ losses

7. As disclosed in note 2 to the consolidated and separate financial statements, the group reported material impairments amounting to R461,48 million (2022: R392,54 million) on loans and advances as a result of loans becoming non-performing.
8. As disclosed in note 15 to the consolidated and separate financial statements, the group reported material impairments amounting to R272,51 million (2022: R237,01 million) on trade and other receivables as a result of trade and other receivables becoming non-performing.
9. As disclosed in note 41 to the consolidated and separate financial statements, a material loss of R18,40 million (2022: R32,00 million) was incurred as a result of the write-off of loans and advances.

National Treasury Instruction Note No. 4 of 2022/2023: PFMA Compliance and Reporting Framework

10. On 23 December 2022 National Treasury issued Instruction Note No. 4: PFMA Compliance and Reporting Framework of 2022-23 in terms of section 76(1)(b), (e) and (f), 2(e) and 4(a) and (c) of the PFMA, which came into effect on 3 January 2023. The PFMA Compliance and Reporting Framework also addresses the disclosure of unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure. Among the effects of this framework is that irregular and fruitless and wasteful expenditure incurred in previous financial years and not addressed is no longer disclosed in the disclosure notes of the annual



financial statements, only the current year and prior year figures are disclosed in notes 39 and 40 to the consolidated and separate financial statements. The movement in respect of irregular expenditure and fruitless and wasteful expenditure are no longer disclosed in the notes to the annual financial statements of Ithala Development Finance Corporation and its subsidiaries. The disclosure of these movements (e.g. condoned, recoverable, removed, written off, under assessment, under determination and under investigation) is now required to be included as part of the other information in the annual report of the auditees.

11. I do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

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

12. The accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with 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.
13. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group'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 group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements

14. 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 in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

15. 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

16. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected strategic outcomes presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.
17. I selected the following strategic outcomes presented in the annual performance report for the year ended 31 March 2023 for auditing. I selected outcomes that measure the entity's performance on its primary mandated functions.

Strategic outcomes	Page numbers	Purpose
Increased contribution of supported SMME's and co-operatives to socio-economic transformation and job creation	70 to 71	To ensure the optimal development of available funding to support the development, growth and sustainability of qualifying SMME's and Co-operatives



Strategic outcomes	Page numbers	Purpose
Increased access to economic opportunities for KZN residents and enterprises from designated groups	71	To provide strategic leadership and transversal support services required by the IDFC's core business units to implement IDFC's mandate successfully

18. I evaluated the reported performance information for the selected strategic outcomes against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the entity's planning and delivery on its mandate and objectives.

19. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the entity's mandate and the achievement of its planned outcomes.
- the indicators are well-defined and verifiable to ensure that they are easy to understand and apply consistently and that I can confirm the methods and processes to be used for measuring achievements.
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated.
- the indicators and targets reported on in the annual performance report are the same as what was committed to in the approved initial or revised planning documents.
- the reported performance information is presented in the annual performance report in the prescribed manner.

- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over or under achievement of targets.

20. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

21. I did not identify any material findings on the reported performance information of the selected strategic outcomes.

Other matters

22. I draw attention to the matter below.

Achievement of planned targets

23. The annual performance report includes information on reported achievements against planned targets and provides explanations for over and under achievements.

Report on compliance with legislation

24. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting authority is responsible for the entity's compliance with legislation.

25. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

26. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the entity, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.



The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual Financial Statements

27. The annual financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA. Material misstatements on non-current assets, current assets and disclosure items on investment property and operating leases identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Other information in the annual report

28. The accounting authority is responsible for the other information included in the annual report. The other information referred to does not include the consolidated and separate financial statements, the auditor's report and those selected outcomes presented in the annual performance report that has been specifically reported on in this auditor's report.
29. My opinion on the consolidated and separate financial statements, the report on the audit of the annual performance report and the report on compliance with legislation, do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
30. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected strategic outcomes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
31. If, based on the work I have performed, 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

32. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
33. The matters reported below are limited to the significant internal control deficiencies that resulted in material finding on compliance with legislation included in this report.
34. Management has not implemented adequate review controls to ensure the entity complied with the provisions of the IFRS, resulting in material adjustments to the financial statements.

Other reports

35. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the consolidated and separate financial statements of my findings on the reported performance information or compliance with legislation.
36. The group's internal audit and risk assurance services conducted 34 investigations covering the period 2020 to 2023. The investigations related to allegations of irregularities arising from supply chain management deviations, loans and advances and human resource processes. 18 investigations were completed, and the implementation of investigation recommendations was in progress at the date of this report.

Auditor-General

Pietermaritzburg
21 August 2023



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



Annexure to the auditor's report

The annexure includes the following:

- the auditor-general's responsibility for the audit
- the selected legislative requirements for compliance testing.

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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 strategic outcomes and on the entity's compliance with selected requirements in key legislation.

Financial statements

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 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.
- Conclude on the appropriateness of 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 relating to events or conditions that may cast significant doubt on the ability of the entity and its subsidiaries 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 my 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 group to cease operating as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

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.

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



Compliance with Legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Public Finance Management Act 1 of 1999 (PFMA)	PFMA 50(3)(a) and (b) PFMA 51(1)(a)(iii) PFMA 51(1)(a)(iv) PFMA 57(b) PFMA 57(d) PFMA 51(e)(iii) Section 52(b) PFMA 54(2)(c') PFMA 54(2)(d) PFMA 55(1)(a) PFMA 55(1)(b) PFMA 55(1)(c)(i) PFMA 51(1)(b)(ii)
Treasury Regulations	TR 29.1.1 TR 29.1.1(a) TR 29.1.1(c) TR 29.2.1 TR 29.2.2 TR 29.3.1 TR 30.2.1 TR 31.1.2(c) TR 33.1.1 TR 33.1.3
Prevention and Combating of Corrupt Activities Act No. 12 of 2004 (PRECCA)	PRECCA 34(1)
Construction Industry Development Board Act No. 30 of 2000 (CIDB)	CIDB Act 18(1)
CIDB Regulations	CIDB Regulation 17 CIDB Regulation 25(7A)
PPPFA	PPPFA (1) PPPFA 2.1(a) PPPFA 2.1(f)
2011 Preferential Procurement Regulations	Regulations 9(1)
2017 Preferential Procurement Regulations	Regulations 4(1), 4(2), 5(6), 5(7), 6(8), 7(8), 10(1) & (2), 8(2), 8(5), 9(1), & 11(1)
2022 Preferential Procurement Regulations	Regulations 4(4) and 5(4)
NT SCM Instruction Note 11 2020/21	IN 11 2020/21 Par.3.1 IN 11 2020/21 Par.3.4(b) IN 11 2020/21 Par.3.9
NT instruction note 4 of 2015/16	NT instruction note 4 of 2015/16 Par 3.4
Second amendment of NTI 05 of 2020/21	Second amendment of NTI 05 of 2020/21 Par 4.8 Second amendment of NTI 05 of 2020/21 Par 4.9 Second amendment of NTI 05 of 2020/21 Par 5.3
Erratum NTI 5 of 2020/21	Erratum NTI 5 of 2020/21 Par 1 Erratum NTI 5 of 2020/21 Par 2
NT instruction note 5 of 2020/21	NT instruction note 5 of 2020/21 Par 5.1 and 5.3



DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023

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 2023.

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 8, 13 and 29 of the AFS.

C. Financial Results

The results of the Corporation and the Group for the year ended 31 March 2023 are disclosed in the annual financial statements set out on pages 112 to 245.

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 8, 13 and 29 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:

Economic Development, Tourism and Environmental Affairs during the financial year ended 31 March 2023.

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

Land costing R4.9 million was purchased at Isithebe in the current financial year and the transfer had not yet taken place as at 31 March 2023. Subsequent to year end, the transfer was registered in the deeds registry on the 22 May 2023.

F. Fair value of investments

The fair value of investment property as disclosed in Note 3 is R3,25 billion at year end (2022: R3,16 billion). The other fair valued investments are investments held with SA Corp Real Estate valued at R7,66 million (2022: R9,4 million) and investment in Cell Captives, valued at R57,77 million (2022: R51,88 million). Please refer to notes 11 and 12 for further details on these investments.

G. 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 (2022: R1 billion).

H. 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.

I. Interests in Contracts

There were no contracts entered into in which Directors and Officers of the Corporation had an interest. Refer to note 29 for details on related party transactions.

J. Sources of Funding

The Corporation did not raise any new long-term borrowings during the year under review (2022: R nil). Refer to note 19 for details on existing Borrowings.

During the year under review, the Corporation received government grants of R65 million (2022: R94,7 million from EDTEA for Ithala SOC's capital injection. Refer to note 22 and 24 for details of grants and funds held on behalf of other entities.



K. 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 March 2023, 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 30 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 14 and 30 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 R11 million for the year ended 31 March 2023 (2022: R233 million) as disclosed in the annual financial statements. The Group is solvent and liquid - refer to the Chief Financial Officer's report on pages 20 to 23 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. The following subsidiaries' Annual Financial Statements were prepared on a liquidation basis:

- Ubuciko Fabrics and Twines (Pty)Ltd;
- Port Shepstone Quarries (Pty) Ltd;
- Sundumbili Plaza Limited;
- Nongoma Plaza Limited;
- Durban Wharf Side Trust;
- Sibaya Conservation Projects (Pty) Ltd; and
- KwaZulu-Natal Property Development Holding SOC Limited.

The above subsidiaries are under voluntary liquidation and their annual financial statements have been prepared on the liquidation basis. Refer to the subsidiary's individual Annual Financial Statements for details on the reporting basis adopted.

• Banking License exemption of Ithala SOC Limited

The Minister of Finance extended the banking licence exemption Ithala SOC Limited to 15 December 2023 subject to the entity fulfilling certain conditions.

As at 31 March 2023, Ithala SOC Ltd is fulfilling most of the conditions accept for having a fit and proper Board of Directors and obtaining one of the guarantee from Provincial or National government. Ithala SOC Ltd is in the process of appointing the CFO who will be appointed to the Board which will then ensure it meets the fit and proper requirement. In addition, Provincial Treasury has engaged with the Prudential Authority to obtain clarity on the guarantee required. At financial year end, there was no finalisation on this matter.

This Exemption Notice and the conditions thereof are subject matter of a legal review process currently. On the 8th of May 2023 the High Court in Pretoria ordered the mediation process be followed between the parties.

L. Board of Directors

Information pertaining to Board Members and Committees is covered from page 24 to 27 of the annual report.

Please refer to note 43 for details on any changes in the Board of Directors.

M. 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).

N. 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 Notes 39 and 40 of the AFS.
- In the ordinary course of business and in accordance with prevailing business rules, the Group wrote-off bad loans of R18,4 million (2022: R32 million), comprising a capital portion of R18 million (2022: R20,7 million), interest of R0,4 million (2022: R10,9 million) and non-realizable revenue (NRR) of nil (2022: nil).

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 R4,4 million (2022: R8 million) was recovered from bad debts previously written off.



STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2023

		Group			Company		
		2023	2022	2021	2023	2022	2021
	Note(s)	R'000	Restated R'000	Restated R'000	R'000	Restated R'000	Restated R'000
ASSETS							
NON-CURRENT ASSETS							
Loans and advances	2	2 350 902	2 185 738	2 192 460	286 641	273 118	397 783
Investment property	3	3 254 959	3 168 909	3 198 870	3 070 492	2 841 404	2 873 459
Property, plant and equipment	4	281 804	263 858	284 672	237 557	237 729	256 643
Intangible assets	5	10 430	10 541	11 621	6 610	7 242	7 842
Right-of-use assets	6	38 955	37 258	21 833	471	658	4 600
Straightlining of operating lease income	7	26 690	16 194	28 636	25 979	16 732	27 730
Investments in subsidiaries	8	-	-	-	508 172	476 905	492 825
Long term receivable	9	8 166	8 166	8 166	8 166	8 166	8 166
Investment in shares	11	7660	9 378	7 174	7 660	9 378	7 174
Investment in cell captives	12	57 773	51 884	45 910	57 773	51 884	45 910
Investments in associates	13	823	823	31	823	823	31
Statutory investments and reserves	14	245 928	272 401	244 990	-	-	-
		6 284 090	6 025 150	6 044 363	4 210 344	3 924 039	4 122 163
CURRENT ASSETS							
Loans and advances	2	231 813	206 708	240 671	77 332	61 952	74 561
Straightlining of operating leases income	7	3 033	2 643	4 546	2 971	1 428	3 651
Current portion of long term receivable	9	4 900	-	-	4 900	-	-
Cash and cash equivalents	14	1 278 990	1 398 519	1 527 861	674 165	705 962	635 118
Investments in subsidiaries	14	-	-	-	71 923	42 359	2 901
Right-of-use asset	6	14 563	15 042	11 112	-	-	-
Trade and other receivables	15	300 905	401 190	109 867	343 350	375 720	150 652
Finance lease receivables	10	-	173	1 137	-	-	-
Inventories	16	5 629	6 049	7 245	4 324	4 550	4 511
		1 839 833	2 030 324	1 902 439	1 178 965	1 191 971	871 394
Non-current assets held for sale	17	2 013	11 633	8 935	1 865	11 098	8 365
Total Assets		8 125 936	8 067 107	7 955 737	5 391 174	5 127 108	5 001 922
EQUITY AND LIABILITIES							
EQUITY							
EQUITY ATTRIBUTABLE TO							
EQUITY HOLDERS OF PARENT							
Share capital	18	1 008 582	1 008 582	1 008 582	1 008 582	1 008 582	1 008 582
Actuarial reserve		31 450	19 441	19 071	23 246	9 963	7 876
Retained income		3 653 830	3 656 380	3 436 724	3 628 552	3 415 387	3 272 982
Non-controlling interest	18	(139)	(448)	(426)	-	-	-
		4 693 723	4 683 955	4 463 951	4 660 380	4 433 932	4 289 440



STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2023 (Continued)

		Group			Company		
	Note(s)	2023	2022	2021	2023	2022	2021
		R'000	Restated R'000	Restated R'000	R'000	Restated R'000	Restated R'000
LIABILITIES							
NON-CURRENT LIABILITIES							
Borrowings	19	16 275	23 185	29 765	14 433	21 131	27 709
Deposits due to customers	20	37 750	35 142	31 750	-	-	-
Retirement benefit obligation	21	97 701	104 382	98 772	53 480	63 985	63 074
Long service obligations	21	18 148	20 339	20 576	15 227	17 117	17 243
Government grants	22	5 841	15 351	27 417	5 841	15 351	18 113
Deferred tax liability	33	29 562	44 743	45 496	-	-	-
Provisions	23	19 126	14 703	10 771	19 126	14 703	10 771
Lease Liabilities	25	59 861	33 078	23 173	12 214	12 716	12 194
		284 264	290 923	287 720	120 321	145 003	149 104
CURRENT LIABILITIES							
Borrowings	19	6 849	6 966	7 814	6 849	6 966	7 814
Retirement benefit obligation	21	7 480	7 379	6 872	4 872	5 348	5 193
Deposits due to customers	20	2 378 505	2 360 691	2 479 602	-	-	-
Long service obligations	21	2 778	4 649	3 072	1 939	3 716	1 308
Government grants	22	23 284	44 640	60 510	13 980	35 336	60 510
Provisions	23	13 049	14 557	14 883	5 931	5 803	5 632
Trade and other payables	24	693 817	607 322	600 165	576 521	490 632	482 655
Lease Liabilities	25	22 187	46 025	31 148	381	372	266
		3 147 949	3 092 229	3 204 066	610 473	548 173	563 378
Total Liabilities		3 432 213	3 383 152	3 491 786	730 794	693 176	712 482
Total Equity and Liabilities		8 125 936	8 067 107	7 955 737	5 391 174	5 127 108	5 001 922



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2023

	Note(s)	Group		Company	
		2023 R'000	2022 R'000	2023 R'000	2022 R'000
Interest income calculated using the effective interest rate	36	351 520	257 317	84 510	55 700
Other interest income	36	3	109	-	-
Total interest income	36	351 523	257 426	84 510	55 700
Interest expense calculated using the effective interest rate	37	(66 561)	(56 946)	(1 995)	(1 863)
Other interest expense	37	(18 601)	(18 352)	(10 288)	(11 027)
Total interest expense	37	(85 162)	(75 298)	(12 283)	(12 890)
Net interest income before credit impairment charges		266 361	182 128	72 227	42 810
		(107 546)	(29 292)	(88 618)	(22 710)
Net losses on derecognition of loans and advances	2	18 350	32 007	14 039	27 795
Expected credit loss-loans and advances	2	(90 390)	(3 935)	(74 156)	(6 728)
Expected credit loss-trade and other receivables	15	(35 506)	(57 364)	(28 501)	(43 777)
Net interest income after credit impairment charges		158 815	152 836	(16 391)	20 100
Other operating income	34	1 168 041	1 336 561	1 164 725	1 063 773
Operating income		1 326 856	1 489 397	1 148 334	1 083 873
Operating expenditure					
Other operating expenses	35	(1 310 861)	(1 187 833)	(877 970)	(811 766)
Impairment of non-current assets held for sale	17	1 015	(523)	583	(937)
Depreciation and amortisation	4, 5 & 6	(38 451)	(37 453)	(16 741)	(16 728)
Impairment of investments in subsidiaries	8	-	-	(48 163)	(70 956)
Impairment of investment in deposits with banks	14	3 223	4 464	-	-
ECL on straight lining of operating lease income reversed / (charged)	7	8 357	(12 836)	7 122	(12 381)
(Loss) / Profit before taxation		(9 861)	255 216	213 165	171 105
Taxation	38	9 180	(22 375)	-	-
(Loss) / Profit for the year		(681)	232 841	213 165	171 105
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Actuarial gains / (losses)	21	12 009	370	13 283	2 087
Actuarial gains / (losses)		12 009	370	13 283	2 087
Total comprehensive income for the year		11 328	233 211	226 448	173 192
(Loss) / Profit before actuarial gains / (losses) attributable to:					
Owners of the parent		(2 550)	232 863	213 165	171 105
Non-controlling interest		1 869	(22)	-	-
		(681)	232 841	213 165	171 105
Total comprehensive income / (loss) attributable to:					
Owners of the parent		9 459	233 233	226 448	173 192
Non-controlling interest		1 869	(22)	-	-
		11 328	233 211	226 448	173 192



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2023

	Share capital	Other Comprehensive Income	Retained income	Total attributable to equity holders of the Group / Company	Non-controlling interest	Total Equity
	R'000	R'000	R'000	R'000	R'000	R'000
Group						
Opening balance as previously reported	1 008 582	25 126	3 234 756	4 268 464	(47)	4 268 417
Prior period error	-	-	40 128	40 128	-	40 128
Profit for the year	-	-	161 840	161 840	(379)	161 461
Other comprehensive income	-	(6 055)	-	(6 055)	-	(6 055)
Balance at 01 April 2021 as restated	1 008 582	19 071	3 436 724	4 464 377	(426)	4 463 951
Prior period error	-	-	(13 207)	(13 207)	-	(13 207)
Profit for the year	-	-	232 863	232 863	(22)	232 841
Other comprehensive income	-	370	-	370	-	370
Total comprehensive income for the year	-	370	219 656	220 026	(22)	220 004
Balance at 01 April 2022 as restated	1 008 582	19 441	3 656 380	4 684 403	(448)	4 683 955
Loss for the year	-	-	(2 550)	(2 550)	1 869	(681)
Other comprehensive income	-	12 009	-	12 009	-	12 009
Total comprehensive income for the year	-	12 009	(2 550)	9 459	1 869	11 328
Dividends	-	-	-	-	(1 560)	(1 560)
Balance at 31 March 2023	1 008 582	31 450	3 653 830	4 693 862	(139)	4 693 723
Note(s)	18					
Company						
Opening balance as previously reported	1 008 582	12 665	3 086 477	4 107 724	-	4 107 724
Loss for the year	-	-	140 322	140 322	-	140 322
Prior period error	-	-	46 183	46 183	-	46 183
Other comprehensive income	-	(4 789)	-	(4 789)	-	(4 789)
Balance at 01 April 2021 as restated	1 008 582	2 112	3 272 982	4 236 311	-	4 236 311
Profit for the year	-	-	171 105	171 105	-	171 105
Prior period error	-	-	(28 700)	(28 700)	-	(28 700)
Other comprehensive income	-	2 087	-	2 087	-	2 087
Total comprehensive income for the year	-	2 087	142 405	144 492	-	144 492
Balance at 01 April 2022 as restated	1 008 582	9 963	3 415 387	4 433 932	-	4 433 932
Profit for the year	-	-	213 165	213 165	-	213 165
Other comprehensive income	-	13 283	-	13 283	-	13 283
Total comprehensive income for the year	-	13 283	213 165	226 448	-	226 448
Balance at 31 March 2023	1 008 582	23 246	3 628 552	4 660 380	-	4 660 380
Note(s)	18					

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2023**

		Group		Company	
	Note(s)	2023 R'000	2022 R'000	2023 R'000	2022 R'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	26	96 584	420 058	102 143	363 673
Decrease / (Increase) in working capital	26	141 466	(510 446)	75 071	(349 189)
Dividends received from investment in shares		765	843	29 951	843
Interest paid	26	(8 460)	(7 898)	(3 186)	(3 029)
Tax paid	27	(1 189)	(5 615)	-	-
Net cash generated from / (utilised in) operating activities		229 166	(103 058)	203 979	12 298
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment to promote economic development in KwaZulu-Natal:					
Loans and advances					
- granted		(687 402)	(551 804)	(207 603)	(115 527)
- repaid		405 555	561 038	103 356	214 896
Additions to property, plant and equipment (Note 4)	4	(39 795)	(11 745)	(13 977)	(4 397)
Proceeds from sale of property, plant and equipment		136	815	136	111
Additions to investment property	3	(90 822)	(72 365)	(89 630)	(67 474)
Additions to intangible assets	5	(2 441)	(1 024)	(1 515)	(920)
Proceeds on disposal of non-current assets held for sale		978	-	160	-
Proceeds / (payments) relating to liquid assets		26 411	(27 411)	-	-
Additions to land - prepayments		(4 900)	-	(4 900)	-
Increase in subsidiaries, associated companies and joint ventures		-	-	(79 430)	(55 036)
Net cash utilised by investing activities		(392 280)	(102 496)	(293 403)	(28 347)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of borrowings	19	(7 027)	(7 428)	(6 815)	(7 426)
Principal payment on lease liabilities	25	(12 977)	(10 728)	(557)	(49)
Dividends paid to NCI		(1 420)	-	-	-
Government grant received*	22	65 000	94 368	65 000	94 368
Net cash generated by financing activities*		43 576	76 212	57 628	86 893
Net (decrease) / increase in cash and cash equivalents		(119 538)	(129 342)	(31 796)	70 844
Cash at the beginning of the year		1 398 518	1 527 861	705 961	635 118
Cash and cash equivalents at end of year		1 278 980	1 398 519	674 165	705 962

Included in the cash generated by operations is interest received from clients of R351.5m (2022: R257.3m) and interest paid to clients of R85.2 m (2022: R75.2m).

*Government grants received relates to grants provided by the shareholder for financing purposes.



ACCOUNTING POLICIES

Corporate information

Ithala Development Finance Corporation is a Company incorporated and domiciled in 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 Development Finance Corporation (IDFC) for the year ended 31 March 2023 comprise of IDFC and its subsidiaries, together referred to as the Group and individually, referred to as the Company. The words "Group" and "Ithala" are used interchangeably throughout the Annual Financial Statements. For the holding Company, the words "IDFC" and "Company" are used interchangeably.

The subsidiaries comprise of the following entities:

- Ithala SOC Limited (referred to as SOC)
- Nongoma Plaza (Pty) Ltd (referred to as Nongoma)
- Sundumbili Plaza (Pty) Ltd (referred to as Sundumbili)
- Durban Wharfside Trust (referred to as Wharfside)
- Ubuciko Fabrics and Twines (Pty) Ltd (referred to as Ubuciko)
- Port Shepstone Quarries (Pty) Ltd (referred to as PSQ)
- Sibaya Conservation Projects (Pty) Ltd (referred to as Sibaya)
- KwaZulu-Natal Property Development Holdings (SOC) Ltd (referred to as KPDH)

The consolidated and separate financial statements for the year ended 31 March 2023 were authorised for issue in accordance with a resolution of the directors on Thursday, 31 August 2023.

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below.

1.1 BASIS OF PREPARATION

Basis of measurement

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 fair value.
- Investment properties are measured at fair value
- Non current assets held for sale are measured at the lower of fair value less costs to sell and carrying value
- Cell captives are measured at fair value through profit and loss

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.

1.2 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 asset, 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.



ACCOUNTING POLICIES

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.

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 by considering the current financial position, operational factors affecting the Group, the impact of current and anticipated economic conditions as well as reviewing the assumptions underlying the budget and forecasts and is satisfied that the Group has the resources to continue in business for the foreseeable future. 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.

With regards to Ithala SOC Ltd's Banking License Exemption Notice, the Prudential Authority with the approval of the Minister of Finance agreed to extend the banking licence exemption for Ithala SOC Ltd until 15 December 2023 (Gazette 47063, on 22 July 2022), subject to the Company fulfilling the following conditions:

- The Company is required to make an application to the South African Reserve Bank to establish a bank or a mutual bank;¹
- The Company is required to procure from the Provisional Government of KwaZulu-Natal or National Government an irrevocable and unconditional commitment and guarantee to protect depositors' interest;
- The Company is required to maintain the following performance standards in respect of its prudential requirements:
- Minimum required capital of the higher of 15% of risk-weight assets or R250 000 000 and;
- Leverage ratio of not less than 4%
- The Company shall maintain a fit and proper Board of Directors and governance arrangements as required in terms of the Banks Act and Directive 4/2018.

As at 31 March 2023, Ithala SOC Ltd is fulfilling most of the conditions accept for having a fit and proper Board of Directors and obtaining one of the guarantee from Provincial or National government. Ithala SOC Ltd is in the process of appointing the CFO who will be appointed to the Board which will then ensure it meets the fit and proper requirement. In addition, Provincial Treasury has engaged with the Prudential Authority to obtain clarity on the guarantee required. At financial year end, there was no finalisation on this matter.

This Exemption Notice and the conditions thereof are subject matter of a legal review process currently. On the 8th of May 2023 the High Court in Pretoria ordered the mediation process be followed between the parties.

Despite posting a net loss, a comparison to the prior years' trading results, reflects Ithala SOC Ltd is on a growth trajectory. Revenue has shown growth on both the net interest margin line and the non-interest revenue line. Although, expenses have shown an increase of 15%, mainly due to employing staff with extensive banking experience, the strategic implementation of the new operating model will enable Ithala SOC Ltd to improve efficiencies and customer service experience thus benefiting immensely from reduced costs. This will reduce the cost to income ratio bringing it to 71.3% by 2031. While the performance for the financial year has resulted in negative operating cash out flow, liquidity ratios continue to remain strong and well above prudential requirements. Ithala SOC Ltd has budgeted to reduce the operating outflows over the next year with the growth in the deposit book. These operating improvement are strengthened by KZN Department of Economic Development Tourism and Environmental Affairs (EDTEA's) capital funding commitments and support to avail further capital funding opportunities.

Ithala SOC Ltd has prepared a turnaround strategy which includes an eight-year financial forecast on how it plans to turnaround the business. Ithala SOC is expected to return to profitability in FY2026 and thereafter continue to grow the business based on the investment and foundation laid between FY2024 to FY2025. The achievement of the turnaround strategy is depended on Ithala SOC Ltd receiving capital funding over the next three years. Ithala SOC Ltd is currently exploring various option to raise these funds. The ultimate shareholder has pledged its support to continue to provide part of the funding to Ithala SOC Ltd over the next 3 years.



Ithala SOC Ltd is confident it can raise the balance of the funding required to implement its strategy.

Although there is material uncertainty on the banking licence beyond the expiry of the current exemption notice and that Ithala SOC Ltd continues to incur losses and is reliant on the continued support of its holding company and other government entities for the implementation of its turnaround plan, it is expected that all obligations will be settled in the normal course of business and either the s12 application to establish a bank will be successful or the banking license exemption will be extended beyond 15 December 2023 and accordingly the going concern basis of accounting has been adopted in the preparation of the Annual Financial Statements.

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 ECL is further detailed in the risk management note, 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 leased asset and leased liability - IFRS 16

Refer to 1.11 below for details on the measurement of the right-of-use asset and lease liability.

Extension and termination options

Some property leases contain extension options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. Factors such as the importance of the underlying assets to our operations, undertaking of significant leasehold improvements and our past practice were taken into account in the assessment of the probability of exercising these extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

Discount Rate

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The Group determines its incremental borrowing rate by applying its judgements and determining a suitable and observable risk-free rate that are denominated in the same currency of the lease. A credit spread is then added to the observable risk free rate to reflect the lessee's creditworthiness.

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 involves 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 the Post retirement obligations note for the assumptions used.



ACCOUNTING POLICIES

Fair value measurements

Fair values for investments properties and properties in possession are determined by independent valuers. 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.

- The capitalisation method which takes into account net rental income which is then capitalised using an appropriate capitalisation rate. The capitalisation rate is used to indicate the rate of return that is expected to be generated on the investment property. **Refer to the note for fair value information for 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.

Prepayment-Land

Assets such as property, plant and equipment are only capitalised when it is probable that future economic benefits associated with the item will flow to the entity and the cost thereof can be reliably measured. Where payments have been made for assets and transfer has not occurred at year end, such payments are accounted for as prepaid assets

Income tax and Deferred Tax

IAS 12, para 46 states that current tax liabilities (assets) for the current and prior period shall be measured at the amounts expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted, or substantively enacted, by the end of the reporting period.

Paragraph 9 of FRP1 states that the changes in tax rates and tax laws should be applied to the period to which they relate. Hence, for a change in tax rates announced during the current reporting period applicable to the following year, current tax in the balance sheet would be based on the previous tax rate, whereas the deferred tax balance in the balance sheet would be based on the new tax rate.

As such, the Group had measured their current taxation at 27% (2022: 28%) and deferred taxation at 27% (2022: 27%).

Investments in associates

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.

The recommendation from the KZN Rationalisation of Public Entities exercise that was received by Ithala in June 2017 was for the shares held by Ithala and DARD in Ntingwe Tea (Pty) Ltd to be transferred to the Agribusiness Development Agency (ADA). Plans are currently in progress to transfer Ntingwe to ADA. However, the administration function was transferred to ADA during the 2021/22 financial year.

We have determined that the Group still continues to have significant influence in the associate despite the transfer of the administration function and is hence treated as an associate. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of the associate, after adjustments to align the accounting policies of the associate with those of the Group where applicable, from the date that significant influence commences until the time that significant influence ceases.

Loans and advances

Refer to Note 29 Risk management, for disclosure of the inputs, assumptions and changes in the models and assumptions used to calculate the expected credit losses in the current financial year.



MATERIAL 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.

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 comprises of the initial investment and any subsequent loans made to the subsidiaries and are recognised at cost in the holding accounts. The investments are reviewed annually and written down for impairment where considered necessary. **Information about the subsidiaries' activities is set out in the investment in subsidiaries note.**

(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 the Investments in cell captives note.**

1.3 INVESTMENT PROPERTY

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

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 it.

Gains and losses arising from retirement or disposal of investment property are 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.

Fair value

Subsequent to initial measurement investment property is 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 are accounted for as investment property when the property is subleased.



ACCOUNTING POLICIES

1.4 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 work in progress are 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.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the group and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Subsequent Measurement

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

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 straight line 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 are 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.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Infrastructure and Buildings	Straight line	50 years
Leasehold improvements	Straight line	1-10 years
Plant and equipment	Straight line	3-25 years
Motor vehicles	Straight line	4-5 years

Each part 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 unless it is included in the carrying amount of another asset.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.



1.5 LANDFILL RESTORATION AND DISMANTLING COST

The Holding company holds landfill sites close to the industrial estates that it uses to dispose of waste. The Holding company has an obligation to restore the landfill sites 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.

1.6 INTANGIBLE ASSETS

An intangible asset is recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software, goodwill 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 straight-line 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.

The Group's significant intangible assets consists of computer software. Acquired computer software and licences are capitalized as assets on the basis of the costs incurred to acquire and bring the specific software into use. Capitalised computer software is amortised over 2 years and carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to write-down the cost of intangible assets to their residual values over their estimated useful lives from the date they are available for use.

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.

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.



ACCOUNTING POLICIES

1.7 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

The carrying amounts of the Group's property, plant and equipment, right-of use assets and intangible 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 CGU.

Irrespective of whether there is any indication of impairment, the group also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests investments in subsidiaries annually

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated on a pro- rata basis to reduce the carrying amounts of the assets in the CGU(group of CGUs).

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for cash generating units/assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those cash generating units assets are estimated.

The increased carrying amount of an asset/cash generating unit 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.

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

1.8 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

The group classifies its financial assets into the following measurement categories based on the group's assessment of the business model:

Amortised Cost which consists of the following classes:

- cash and cash equivalents;
- Loans and advances to customers;
- Loans to subsidiaries, joint ventures and associates;
- Deposits due to customers;
- Trade and other receivables; and
- Statutory liquid assets

Fair value through profit or loss (FVTPL) which consists of the below items:

- Investment in cell captives
- Investment in listed funds



Business Model

The business model reflects how the group manages the assets 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 is 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 were 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.

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. 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.



ACCOUNTING POLICIES

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 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 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 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 management practices 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;
- 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 judgment 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 where 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.

When loan commitments are below market value, they 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

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.

l) Financial liabilities

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 Nedbank and Khula Enterprise Finance Ltd.

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.



ACCOUNTING POLICIES

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.

1.9 GOVERNMENT GRANTS AND IMPLEMENTING AGENT PROJECTS

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.

During its course of business, IDFC may enter into binding arrangements where it undertakes transactions with third parties "on behalf of, and for the benefit of, other entities". The entity on whose behalf the activities are being undertaken and who ultimately benefits (or bears losses), is the principal in the arrangement. IDFC accounts for these in the balance sheet as projects and does not recognise any transactions in the income statement relating to the projects, nor does IDFC recognise any assets acquired for the purposes of fulfilling the conditions of the projects.

1.10 TAXATION

Current tax assets and liabilities

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 wholly owned are not subject to normal taxation except for Sundumbili, Nongoma, Wharfside and Sibaya.

Tax expense for subsidiaries that are not wholly owned comprises 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 assets and liabilities

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.

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.



1.11 RIGHT OF USE ASSETS AND LEASE LIABILITIES

Operating leases - lessor

Operating lease income is recognised as income on a straight-line 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 recognised under revenue in the statement of profit or loss.

Right of use of assets

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used.

The Group recognises a right-of-use asset and a lease liability at the initial application date at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The right-of-use asset is initially measured at cost, which comprises:

- a) the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date;
- b) plus any initial direct costs incurred by the lessee; and
- c) an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently amortised using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be amortised over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is assessed for impairment, where there is an indicator of impairment, and if the asset is found to be impaired, the carrying value of the right of use asset is reduced by impairment losses, and adjusted for certain remeasurements of the lease liability.

Termination / Cancellation of lease

In the event of cancellation / termination of the lease by either party (lessee or lessor), the right of use asset is derecognised and any difference is recognised in profit or loss on derecognition.

The right-of-use asset is derecognised to reflect the partial or full termination of the lease. The Group, as lessee, recognises in profit or loss any gain or loss relating to the partial or full termination of the lease. The lease liability is derecognised accordingly.



ACCOUNTING POLICIES

LEASE LIABILITIES

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability comprise the following:

- a) fixed payments (including substance fixed payments), less any lease incentives receivable
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- c) amounts expected to be payable by the lessee under residual value guarantees
- d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Lease liability shall be subsequently measured by:

- a) increasing the carrying amount to reflect interest on the lease liability;
- b) reducing the carrying amount to reflect the lease payments made;
- c) remeasuring the carrying amount to reflect any reassessment or lease modifications

Lease modifications and rental concessions

The Group assessed whether any rental concessions received were as a direct consequence of the covid 19 pandemic constituted lease modifications. In assessing whether concessions received are lease modifications, the below factors would need to be considered:

-whether or not the concessions resulted in a change to the scope of the lease i.e. if there had been changes in the right of use conveyed to the Group as lessee

-whether or not there has been a change in the consideration for the lease, considering the overall effect of any change in the lease payments

-whether or not the practical expedient as per IFRS 16 could be applied i.e. if the concessions did not

extend beyond June 2022, it would not need to be accounted for as a lease modification, provided that the concession did not result in a change either to the scope or consideration for the lease.

The Group received a reduction in lease payments and going forward, the yearly escalation rates will be applied on the reduced lease payments. As this has resulted in a change to the consideration for the lease, it has been accounted for as a lease modification. Refer to the right of use and finance lease liability notes, where the impact of the modification on the right of use asset and lease liability has been quantified. However, these reductions in payments were not as a result of the covid 19 pandemic. Lease payments were renegotiated with the landlords as the subsidiary company had ceased operations.

Finance leases - lessor

The Group recognises finance lease receivables in the statement of financial position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

1.12 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 of 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.

1.13 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 allowance, housing subsidy, cell phone allowance 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 (sundry debtor) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.
- as an expense.

c) Post-retirement medical aid benefit

The Group provides post-retirement medical aid benefits to substantially all employees who commenced employment prior to 1 August 2000. 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 for the post-retirement medical aid fund.

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 straight line 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 FSCA to give the go ahead to transfer the pensioners. Plan assets pertaining to the pensioners are therefore still currently held as at 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 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 FSCA as yet for use in the reduction of future contributions or as a refund.

For the pension and provident fund benefits, actuarial gains and losses are recognised in profit or loss in the year in which they arise. 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.



ACCOUNTING POLICIES

e) Long service award

For the long service award, the Group pays out the employee a certain percentage of the total cost to Group or a fixed amount. The payment is made based on the number of years the employee has rendered service to the group, which should be a minimum of 5 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.

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 straight line 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 they 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.

1.14 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 and disposal groups are classified as held for distribution to owners when the entity is committed to distribute the asset or disposal group to the owners. This condition is regarded as met only when the distribution is highly probable and the asset (or disposal group) is available for immediate distribution in its present condition, provided the distribution is expected to be completed within one year from the classification date.

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.

Non-current assets held for sale consists of immovable property, mainly comprising private residential dwellings, which have been repossessed by the Group and are being held as collateral for underlying lending arrangements that subsequent to origination, have defaulted.

These properties include properties registered and available for sale and properties sold for which transfer to a purchaser is in progress.

1.15 SHARE CAPITAL AND EQUITY

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity. Dividends are recognised as a liability in the Company in which they are declared.



1.16 PROVISIONS AND CONTINGENCIES

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 reasonably 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.

Contingent assets are reasonably possible assets whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events that are not wholly within the control of the entity. Contingent assets are not recognised, but they are disclosed when it is more likely than not, that an inflow of economic benefits will occur. However, when the inflow of economic benefits is virtually certain, as asset is recognised in the statement of financial position because that asset is no longer considered to be contingent.

1.17 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is recognised in accordance with IFRS 15, Revenue from contracts with customers, when the performance obligation with the customer has been satisfied by transferring the goods or services to the customer as promised in the contract.

Revenue is measured based on the consideration specified in the contracts with customers, net of VAT and excludes amounts collected on behalf of third parties.

The Group's revenues are earned mainly from the following services and goods as disclosed in the other operating income note:

Rental received

Rental income from investment property is recognised in profit/loss on a straightline basis over the lease term in accordance with the leases standard. Lease incentives granted are recognised as part of the total rental income over the lease term.

Sale of electricity, water, refuse and sewage

Sale of goods is recognised when control over the goods is transferred to the customer and the collectability is probable. Revenue from the sale of electricity, water, refuse and sewage are recognised when consumed by the customer, to the extent that is probable that the consideration due to the Group, in exchange for the sale of utilities will be received. The transaction price will be based on the stand-alone selling prices and usage of the utilities by the tenant. When assessing the probability of the consideration being received from the entity, the payment history on the tenants' accounts are analysed as well as the status of their account for example, if the account is in dispute, under legal proceedings, tenant is insolvent, or has absconded, etc.

Fees earned

Fee income includes services fees, binder fees and investment fees and is recognised as the related services are performed.

Services Recovered

Recoveries include items such as rates, refuse removal, cleaning and security. Recoveries do not represent revenue from a contract with a customer as defined by IFRS 15. The monies received are a re-imbursement by clients to the Group for payments made to the municipality on their behalf. The payments made on behalf of the clients and the recovery should net off. Any remaining portion is recognised as an expense in the statement of profit or loss and other comprehensive income.

Commission

Commission earned from contracts with customers is recognised when the performance obligation (banking and delivery agency services) has been satisfied by transferring control of the services to the customer. The amount of the consideration that is expected to be transferred in exchange for the services is the transaction price per the contract.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
2. Loans and Advances				
Sectoral analysis				
Housing and commercial property	1 600 547	1 595 724	-	-
Micro finance - secured	710 551	539 832	-	-
Micro finance - unsecured	15 050	11 967	15 050	11 615
Agri Finance	290 339	266 480	290 339	266 480
Franchise finance	47 957	55 623	47 957	55 623
Procurement finance	68 711	52 072	68 711	52 072
Commercial property finance	131 662	114 474	131 662	114 474
Asset finance	160 264	126 392	160 264	126 392
Structured Finance	65 439	63 745	65 439	63 745
Gross carrying amount	3 090 520	2 826 309	779 422	690 401
Credit impairment for loans and advances	(507 344)	(431 768)	(414 988)	(353 236)
Expected credit loss (Loan commitments)	(461)	(2 095)	(461)	(2 095)
Less: Credit impairment balance	(507 805)	(433 863)	(415 449)	(355 331)
Net loans and advances including current portion	2 582 715	2 392 446	363 973	335 070
Less: Current Portion included under current assets	(231 813)	(206 708)	(77 332)	(61 952)
Net loans and advances***	2 350 902	2 185 738	286 641	273 118
Non- performing loans	744 172	658 215	539 278	490 174
Impaired portion of the non-performing loan	(461 484)	(392 544)	(400 760)	(347 070)
Unimpaired portion of non- performing loans	282 688	265 671	138 518	143 104
Included in loans and advances above are day one losses of R46.8m (2022: R43.6m).				
*The day 1 loss arises as a result of loans from the Enterprise Development Fund issued at below market rates. The agreement between the shareholder and IDFC is that these loans will be advanced at interest rates between 2% - 7%.				
Day one losses*				
Opening balance	43 569	38 234	43 569	38 234
Day one loss recognised	12 560	261	12 560	261
Amortised	(9 325)	(22 158)	(9 325)	(22 158)
Prior period error	-	27 232	-	27 232
Closing balance	46 804	43 569	46 804	43 569
Maturity analysis				
Maturing:				
Up to 1 month	465 305	396 269	373 476	323 800
From 1 month to 6 months	137 713	122 597	64 570	51 470
From 6 months to 1 year	134 537	119 611	52 672	39 919
From 1 year to 5 years	748 555	738 509	175 628	158 346
After 5 years	1 604 410	1 449 323	113 076	116 866
	3 090 520	2 826 309	779 422	690 401

The maturity analysis is based on the remaining period to contractual maturity date as determined at the end of the year.

*** The loans and advances have been restated for Group and Company for the 2021/22 financial year. Refer to Note 47 for details.



2. Loans and Advances (continued)

Expected credit loss for loans and advances

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Balance at beginning of the year	(433 863)	(448 811)	(355 331)	(366 675)
Charge to income statement				
Bad debt written off*	18 350	32 007	14 039	27 795
Expected credit loss adjustment	(1 902)	(2 944)	-	-
Expected credit loss**	(92 024)	(13 658)	(75 790)	(15 994)
ECL on loan commitments	1 634	(457)	1 634	(457)
Balance at end of the year	(507 805)	(433 863)	(415 448)	(355 331)

*Bad debt written off represent losses made on the derecognition of loans and advances measured at amortised cost.

** In the prior year, the difference of R9.7 million between the R16.5 million disclosed in the reconciliation above and the R6,7 million disclosed on the statement of profit and loss and other comprehensive income is the ECL reversal on deferred interest.

Comprising:

Impairment for performing loans Stage 1 and 2	(45 860)	(39 224)	(14 228)	(6 166)
Impairment for non-performing loans- Stage 3	(461 484)	(392 544)	(400 760)	(347 070)
Expected credit loss (Loan commitments)	(461)	(2 095)	(461)	(2 095)
Impairment for loans and advances	(507 805)	(433 863)	(415 449)	(355 331)

The information disclosed below relating to the impairment losses 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 30 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-month 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. Refer to note 30 for 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 off during the period.

Movement in Gross carrying amount and expected credit loss allowance

Both the gross carrying amount and ECL have increased year-on-year, with the ECL coverages also increasing, particularly on stage 3 loans. The increase in ECL is primarily driven by a combination of the following factors:

- The time to collateral recovery assumption applied within the LGD model was adjusted to 24 months based on historical sales information.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2. Loans and Advances (continued)

- Adjusted the provisioning model so that loans that have been in default for more than 60 months are fully provided for.
- The continued ageing of defaulted loans has resulted in reduced recovery expectations, whilst the gross carrying amount on such loans have increased with additional accrued interest.

At Company level, there has been a slight decline in the NPL ratio, from 71% in the prior year, to 69% in the current financial year. At Group level, there has been a slight increase in the NPL ratio, from 23% in the prior year, to 24% in the current financial year.

At Group level, balances and impairments decreased in absolute terms over the financial year and we experienced a slight decrease in the NPL ratio from 25% in the prior financial year to 23% in the current financial year.

In terms of forward looking information, macroeconomic indicators such as GDP which were stressed during the COVID-19 period have rebounded to near pre-2020 levels in real terms. However, additional risks are posed by inflation and interest rate risk, which were not stressed to the same extent or driving defaults over the Covid-19 period. In the prior year, the macroeconomic model was adjusted to cater for these risks by incorporating CPI and real extension to firms. The macroeconomic model has been recalibrated based on updated information, but these variables as well as GDP have again been included in the model to ensure that such risks are allowed for. The absolute impact of this adjustment is relatively small due to the impairments being concentrated in stage 3.

In the prior year, elevated defaults were experienced due to the impacts of COVID-19. Combining the latest curing rules with default rates having peaked in Q2 of 2021, a higher NPL ratio was observed year-on-year for Company. The NPL ratio increased from 64% to 71% from the 2021 financial year. Additionally, the ageing NPL population and a more prudent assumption of the average time to collateral recovery had resulted in higher stage 3 coverage ratios. Therefore, despite balances and impairments decreasing in absolute terms over the financial year, coverage ratios had increased due to the greater concentration of the portfolio in NPL and the higher coverage applied to these stage 3 exposures. At Group level in the prior year, balances and impairments decreased in absolute terms over the financial year and we experienced a slight decrease in the NPL ratio from 25% in the 2021 financial year, to 23% in the 2022 financial year.

Payment Holidays

The COVID-19 pandemic as well as the civil unrest which took place in KwaZulu-Natal in July 2021, had a significant impact on the macroeconomic environment and the ability of borrowers to meet their obligations. The Prudential Authority (PA) supported COVID-19 related relief initiatives, such as payment holidays offered by financial institutions to support the local economy. Consequently, the Prudential Authority issued D3/2020 published 6 April 2020, to enable financial institutions to continue to extend to the real economy during the period of financial stress, without the need for inappropriate higher capital requirements. The intention of PA was to reinstate the requirements of D7/2015 in full after the impact of Covid-19 has subsided.

D3/2020 was withdrawn effective 1 April 2022 by notification from the PA - going forward, there will be no specific COVID-19 related debt relief, all requests for debt relief will be treated in line with prior existing directives. In line with this directive, no COVID-19 debt relief instances exist in the loan book as at 31 March 2023 for Group and Company.

In the prior year, payment holidays were granted to clients by the Group in the form of suspended loan instalments to the value of R1m. As the suspended loan instalments did not result in an overall change to the total loan amounts repaid, i.e. there was only a change to the timing of the payments, the payment holiday was not factored into account in the ECL calculation.



2. Loans and Advances (continued)

Loss Allowance: 2023	ITHALA SOC LIMITED				CORPORATION							TOTAL
	Housing and commercial	Micro finance secured	Micro finance unsecured	TOTAL SOC LIMITED	Micro Finance	Agri Finance	Franchise Finance	Procurement Finance	Commercial Finance	Assets Finance	Structured Finance	TOTAL CORP
Opening balance												
Stage 1	2 351	2 143	-	4 494	37	79	727	74	192	774	931	2 814
Stage 2	19 587	8 831	146	28 564	141	237	1 267	1 288	-	418	-	3 351
Stage 3	38 639	6 664	171	45 474	3 506	121 176	22 349	34 552	41 968	75 104	48 416	347 071
Opening balance 1 April 2022	60 577	17 638	317	78 532	3 684	121 492	24 343	35 914	42 160	76 296	49 347	353 236
Recalibration of model**	(5 368)	(2 907)	(20)	(8 295)	-	-	-	-	-	-	-	(8 295)
Recalibrated opening balance	55 209	14 731	297	70 237	3 684	121 492	24 343	35 914	42 160	76 296	49 347	353 236
Excluding manual overrides as at 31 March 2022	-	-	-	-	(56)	(1 001)	1 096	(183)	(471)	424	(1 086)	(806)
Financial assets derecognised during the period*	(3 685)	(959)	(193)	(4 837)	(269)	(7)	(6 273)	(4 349)	(40)	(5 135)	(179)	(16 252)
Stage 1 net transfers	792	180	-	972	8	(21)	(268)	(37)	(52)	(4)	(792)	(1 166)
Stage 2 net transfers	(2 432)	(1 533)	-	(3 965)	(28)	136	(335)	(38)	221	(63)	2 515	2 408
Stage 3 net transfers	7 784	5 174	-	12 958	146	76	2 502	2 458	-	450	(1 545)	4 087
New financial asset originated or purchased	2 346	4 602	-	6 948	951	1 241	114	5 264	364	6 609	-	14 543
												21 491



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2. Loans and Advances (continued)

Loss Allowance: 2023	Housing and commercial	Micro finance secured	Micro finance unsecured	TOTAL SOC LIMITED	Micro Finance	Agri Finance	Franchise Finance	Procurement Finance	Commercial Finance	Assets Finance	Structured Finance	TOTAL CORP	TOTAL
ITHALA SOC LIMITED													
CORPORATION													
Changes in PDs/LGDs/EADs	14 725	5 650	(104)	20 271	451	25 536	25	4 646	5 268	4 171	4 604	44 701	64 972
Changes to model assumptions and methodologies	(6 171)	(3 822)	-	(9 993)	-	6 731	428	4 225	434	893	55	12 766	2 773
Macro economic forecasts	(218)	14	-	(204)	14	(923)	17	127	467	708	(494)	(84)	(288)
Applying overrides as at 31 March 2023	-	(31)	-	(31)	-	1 519	-	-	(471)	-	507	1 555	1 524
Total net P&L charge during the period	13 141	9 275	(297)	22 119	1 217	33 287	(2 694)	12 113	6 191	8 053	3 585	61 752	83 871
Other movements with no P&L impact Transfers:													
Stages closing balances	68 350	24 006	-	92 356	4 901	154 779	21 649	48 027	48 351	84 349	52 932	414 988	507 344
Stage 1	1 804	2 357	-	4 161	64	220	286	652	295	1 763	-	3 280	7 441
Stage 2	19 686	7 783	-	27 469	233	1 732	34	1 084	615	5 851	1 399	10 948	38 417
Stage 3	46 860	13 866	-	60 726	4 604	152 827	21 329	46 291	47 441	76 735	51 533	400 760	461 486
	68 350	24 006	-	92 356	4 901	154 779	21 649	48 027	48 351	84 349	52 932	414 988	507 344



2. Loans and Advances (continued)

Gross Carrying Amount: 2023	Housing and commercial	Micro finance secured	Micro finance unsecured	TOTAL SOC LIMITED	CORPORATION							TOTAL CORP	TOTAL
					Micro Finance	Agri Finance	Franchise Finance	Procurement Finance	Commercial Finance	Assets Finance	Structured Finance		
Opening balance													
Stage 1	975 219	424 802	-	1 400 021	2 341	37 724	19 807	2 018	41 607	33 619	8 409	145 525	1 545 546
Stage 2	473 362	94 308	175	567 845	5 516	18 082	10 514	9 842	4 325	6 435	-	54 714	622 559
Stage 3	147 143	20 722	176	168 041	3 758	210 684	25 302	40 212	68 543	86 339	55 335	490 173	658 214
Opening balance													
01 April 2022	1 595 724	539 832	351	2 135 907	11 615	266 490	55 623	52 072	114 475	126 393	63 744	690 412	2 826 319
Stage 1 net transfers	(74 549)	(24 429)	-	(98 978)	355	(526)	2 331	(494)	(23 589)	751	(5 996)	(27 168)	(126 146)
Stage 2 net transfers	42 257	10 876	-	53 133	(543)	(10 751)	(5 182)	(2 428)	22 534	(1 939)	7 769	9 460	62 593
Stage 3 net transfers	32 294	13 554	-	45 848	187	11 277	2 851	2 923	1 055	1 188	(1 772)	17 709	63 557
Financial assets derecognised during the period*	(70 095)	(39 417)	(218)	(109 730)	(6 093)	(4 076)	(6 577)	(12 110)	(6 746)	(17 236)	(2 418)	(55 256)	(164 986)
Financial asset originated or purchased	130 931	240 444	-	371 375	9 886	17 935	4 641	25 143	15 919	55 702	-	129 227	500 602
Interest accruals and payments received	(56 015)	(30 309)	(133)	(86 457)	(357)	9 990	(5 730)	3 605	8 014	(4 595)	4 112	15 038	(71 419)
Stages closing balance	1 600 547	710 551	-	2 311 098	15 050	290 339	47 957	68 711	131 662	160 264	65 439	779 422	3 090 520
Stage 1	932 279	565 257	-	1 497 536	5 227	33 661	21 102	9 215	19 412	42 874	-	131 491	1 629 027
Stage 2	497 133	111 534	-	608 667	4 862	18 566	3 319	11 697	36 242	27 468	6 499	108 653	717 320
Stage 3	171 135	33 760	-	204 895	4 961	238 112	23 536	47 799	76 008	89 922	58 940	539 278	744 173
Stages closing balance	1 600 547	710 551	-	2 311 098	15 050	290 339	47 957	68 711	131 662	160 264	65 439	779 422	3 090 520



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2. Loans and Advances (continued)

Loss Allowance: 2022	Housing and commercial	Micro finance secured	Micro finance unsecured	TOTAL SOC LIMITED	Micro Finance	Agri Finance	Franchise Finance	Procurement Finance	Commercial Finance	Assets Finance	Structured Finance	TOTAL CORP	TOTAL
ITHALA SOC LIMITED													
CORPORATION													
Opening balance													
Stage 1	2 680	988	-	3 668	110	793	1 221	850	147	1 871	1 068	6 060	9 728
Stage 2	22 749	7 025	138	29 912	109	1 299	-	353	2 369	798	-	4 928	34 840
Stage 3	40 207	7 124	301	47 632	7 298	128 233	16 165	30 473	36 661	62 842	72 377	354 049	401 681
Opening balance 1 April 2021	65 636	15 137	439	81 212	7 517	130 325	17 386	31 676	39 177	65 511	73 445	365 037	446 249
Recalibration of model*	(11 458)	89	-	(11 369)	-	-	-	-	-	-	-	-	(11 369)
Recalibrated opening balance	54 178	15 226	439	69 843	7 517	130 325	17 386	31 676	39 177	65 511	73 445	365 037	434 880
Financial assets	(4 068)	(779)	(152)	(4 999)	(279)	(3 407)	(7)	(1 329)	(138)	(793)	(28 245)	(34 198)	(39 197)
derecognised during the period*													
Stage 1 net transfers	602	383	-	985	25	(194)	145	55	31	(366)	2 420	2 116	3 101
Stage 2 net transfers	(3 260)	208	-	(3 052)	(88)	(1 298)	(249)	(323)	(431)	(651)	(2 687)	(5 727)	(8 779)
Stage 3 net transfers	4 639	780	-	5 419	393	3 140	-	818	58	7 373	(7 852)	3 930	9 349
New financial asset originated or purchased	2 604	4 916	-	7 520	572	236	-	2 988	-	373	-	4 169	11 689
Changes in PDs/LGDs/EADs	6 550	(2 955)	30	3 625	(4 572)	(4 332)	6 497	1 275	6 404	3 346	7 085	15 703	19 328
Changes to model	(1 981)	(1 372)	-	(3 353)	180	(2 960)	835	1 271	(2 927)	1 749	5 321	3 469	116
assumptions and methodologies Macro-economic forecasts	1 313	1 231	-	2 544	(64)	(18)	(264)	(517)	(14)	(246)	(140)	(1 263)	1 281
Total net P&L charge during the period	6 399	2 412	(122)	8 689	(3 833)	(8 833)	6 957	4 238	2 983	10 785	(24 098)	(11 801)	(3 112)



2. Loans and Advances (continued)

Loss Allowance: 2022	Housing and commercial	Micro finance secured	Micro finance unsecured	TOTAL SOC LIMITED	Micro Finance	Agri Finance	Franchise Finance	Procurement Finance	Commercial Finance	Assets Finance	Structured Finance	TOTAL CORP	TOTAL
ITHALA SOC LIMITED													
CORPORATION													
Other movements with no P&L impact													
Transfers:													
Stages closing balance													
Stage 1	2 351	2 143	-	4 494	37	79	727	74	192	774	931	2 814	7 308
Stage 2	19 587	8 831	146	28 564	141	237	1 267	1 288	-	418	-	3 351	31 915
Stage 3	38 639	6 664	171	45 474	3 506	121 176	22 349	34 552	41 968	75 104	48 416	347 071	392 545
	60 577	17 638	317	78 532	3 684	121 492	24 343	35 914	42 160	76 296	49 347	353 236	431 768



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2. Loans and Advances (continued)

Gross Carrying Amount: 2022	Housing and commercial	Micro finance secured	Micro finance unsecured	TOTAL SOC LIMITED	Micro Finance	Agri Finance	Franchise Finance	Procurement Finance	Commercial Finance	Assets Finance	Structured Finance	TOTAL CORP	TOTAL
	ITHALA SOC LIMITED												
	CORPORATION												
Opening balance													
Stage 1	1 030 997	317 981	-	1 348 978	6 102	76 063	38 827	16 562	30 061	63 706	14 950	246 271	1 595 249
Stage 2	449 469	68 368	227	518 064	4 322	8 607	-	3 082	28 889	8 395	-	53 295	571 359
Stage 3	155 268	19 486	309	175 063	7 990	220 482	18 387	37 056	65 910	73 882	115 746	539 453	714 516
Opening balance 01 April 2021	1 635 734	405 835	536	2 042 105	18 414	305 152	57 214	56 700	124 860	145 983	130 696	839 019	2 881 124
Stage 1 net transfers	(44 524)	(5 562)	-	(50 086)	(923)	(26 438)	(13 705)	350	24 909	(11 137)	35 768	8 824	(41 262)
Stage 2 net transfers	39 834	891	-	40 725	421	8 492	13 705	(1 324)	(25 814)	184	-	(4 336)	36 389
Stage 3 net transfers	4 690	4 671	-	9 361	502	17 945	-	974	905	10 954	(35 768)	(4 488)	4 873
Financial assets derecognised during the period*	(85 672)	(37 093)	(165)	(122 930)	(7 471)	(12 974)	(248)	(15 798)	(3 555)	(1 906)	(4 538)	(46 490)	(169 420)
Financial asset originated or purchased	130 606	(37 093)	-	332 336	7 092	1 529	1	11 950	2 806	10 491	-	33 869	366 205
Interest accruals and payments received	(84 944)	(30 640)	(20)	(115 604)	(6 420)	(27 226)	(1 345)	(780)	(9 636)	(28 176)	(62 414)	(135 997)	(251 601)
Stages closing balance	1 595 724	539 832	351	2 135 907	11 615	266 480	55 622	52 072	114 475	126 393	63 744	690 401	2 826 308
Stage 1	975 219	424 802	-	1 400 021	2 341	37 714	19 807	2 018	41 607	33 619	8 409	145 515	1 545 536
Stage 2	473 362	94 308	175	567 845	5 516	18 082	10 514	9 842	4 325	6 435	-	54 714	622 559
Stage 3	147 143	20 722	176	168 041	3 758	210 684	25 302	40 212	68 543	86 339	55 335	490 173	658 214
	1 595 724	539 832	351	2 135 907	11 615	266 480	55 623	52 072	114 475	126 393	63 744	690 402	2 826 309

*Included in the financial assets derecognised, is the bad write off for Group of R18.4m (2022: R32.0m) and Company of R14.0m (2022: R27.8m)

**Ithala SOC Ltd does the credit impairment model half yearly and then the annual recalibrations. The results of the recalibrations are the changes in the ECL output of the model.



2. Loans and Advances (continued)

Modifications of loans and advances measured at amortised cost that did not result in derecognition:

Group

	2023			2022		
	Stage 1 & 2		Stage 3	Stage 1 & 2		Stage 3
	Gross amortised cost before the modification R'000	Net modification gain or loss R'000	Gross amortised cost before the modification R'000	Net modification gain or loss R'000	Gross amortised cost before the modification R'000	Net modification gain or loss R'000
Housing and commercial property	12 917	-	1 678	-	11 311	-
Micro finance - secured	1 876	-	2 626	-	2 773	-
Micro finance - unsecured	-	-	-	-	22	-
Agri-finance	1 415	-	-	-	-	-
Procurement finance	940	-	-	-	-	-
Commercial Property	21 476	-	3 966	-	-	-
Asset finance	1 946	-	12 775	-	-	-
Franchise finance	-	-	-	-	-	-
Structured finance	-	-	1 772	-	4 975	-
Total	40 570	-	22 817	-	19 081	6 666



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2. Loans and Advances (continued)

Company

	2023			2022		
	Stage 1 & 2		Stage 3		Stage 1 & 2	
	Gross amortised cost before the modification R'000	Net modification gain or loss R'000	Gross amortised cost before the modification R'000	Net modification gain or loss R'000	Gross amortised cost before the modification R'000	Net modification gain or loss R'000
Micro finance - unsecured	-	-	-	-	22	-
Agri-finance	1 415	-	-	-	-	-
Procurement finance	940	-	-	-	-	-
Commercial Property	21 476	-	3 966	-	-	-
Asset finance	1 946	-	12 775	-	-	-
Franchise finance	-	-	-	-	-	2 284
Structured finance	-	-	1 772	-	4 975	-
Total	25 777	-	18 513	-	4 997	2 284



2. Loans and Advances (continued)

The nature of the modification that did not result in derecognition was the extension of the loan terms. As the extension was not considered to be significant, it would not warrant a change from being measured at lifetime expected credit losses to 12 month expected credit losses.

*Stage 1 and 2 modifications as noted in the table above is split as follows:

Housing and commercial property - Ithala SOC Ltd

2023: R12 917 000 - Stage 2

2022: R11 311 000 - Stage 2

Micro finance - secured - Ithala SOC Ltd

2023: Nil

2022: R2 773 000 - Stage 2

Micro-finance - unsecured - Company

2023: Nil

2022: R22 000 - Stage 2

Agri Finance - Company

2023: R1 415 000 - Stage 2

2022: Nil

Procurement finance - Company

2023: R940 000 - Stage 2

2022: Nil

Commercial finance - Company

2023: R21 476 000 - Stage 2

2022: Nil

Asset finance - Company

2023: R1 946 000 - Stage 1

2022: Nil

Structured finance - Company

2022: R4 975 000 - Stage 2

The tables below reflects the credit quality and maximum exposure to credit risk based on Empirical scores, 12 month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the credit scoring methodology and impairment assessment and measurement approach are explained in Note 29.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2. Loans and Advances (continued)

Mortgage and Housing Loans - Ithala SOC Limited - 31 March 2023

	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
12 Month PD Range				
Performing				
0.00%-0.50%	90	3	-	93
0.51%-11.70%	932 189	419 007	-	1 351 196
11.71%-29.50%	-	52 394	-	52 394
29.51%-100%	-	25 729	-	25 729
Non-performing				
100%	-	-	171 135	171 135
Gross Carrying Amount	932 279	497 133	171 135	1 600 547

Mortgage and Housing Loans - Ithala SOC Ltd - 31 March 2022

	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
12 Month PD Range				
Performing				
0.00%-0.50%	77	1	-	78
0.51%-11.70%	974 611	400 816	-	1 375 427
11.71%-29.50%	-	42 575	-	42 575
29.51%-100%	532	29 971	-	30 503
Non-performing				
100%	-	-	147 141	147 141
Gross Carrying Amount	975 220	473 363	147 141	1 595 724

Micro finance secured - Ithala SOC Limited - 31 March 2023

	Stage 1	Stage 2	Stage 3	Total
	R'000	R'000	R'000	R'000
12 Month PD Range				
Performing				
0.00%-0.50%	19 040	815	-	19 855
0.51%-11.70%	545 843	67 256	-	613 099
11.71%-29.50%	-	11 348	-	11 348
29.51%-100%	373	32 117	-	32 490
Non-performing				
100%	-	-	33 759	33 759
Gross Carrying Amount	565 256	111 536	33 759	710 551



2. Loans and Advances (continued)

Micro finance secured - Ithala SOC Limited - 31 March 2022

12 Month PD Range

Performing

0.00%-0.50%	20 074	6	-	20 080
0.51%-11.70%	404 726	67 523	-	472 249
11.71%-29.50%	-	9 737	-	9 737
29.51%-100%	-	17 042	-	17 042

Non-performing

100%	-	-	20 724	20 724
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Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
20 074	6	-	20 080
404 726	67 523	-	472 249
-	9 737	-	9 737
-	17 042	-	17 042
-	-	20 724	20 724
424 800	94 308	20 724	539 832

Micro finance unsecured - Company - 31 March 2023

12 Month PD Range

Performing

0.00%-0.50%	55	-	-	55
0.51%-11.70%	5 172	4 365	-	9 537
11.71%-29.50%	-	115	-	115
29.51%-100%	-	382	-	382

Non-performing

100%	-	-	4 961	4 961
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Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
55	-	-	55
5 172	4 365	-	9 537
-	115	-	115
-	382	-	382
-	-	4 961	4 961
5 227	4 862	4 961	15 050

Micro finance unsecured - Company - 31 March 2022

12 Month PD Range

Performing

0.00%-0.50%	260	185	-	445
0.51%-11.70%	2 081	5 316	-	7 397
11.71%-29.50%	-	1	-	1
29.51%-100%	-	14	-	14

Non-performing

100%	-	-	3 758	3 758
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Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
260	185	-	445
2 081	5 316	-	7 397
-	1	-	1
-	14	-	14
-	-	3 758	3 758
2 341	5 516	3 758	11 615



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2. Loans and Advances (continued)

Micro finance unsecured - Ithala SOC Limited - 31 March 2022

12 Month PD Range

11.71%-29.50%

29.51%-100%

Non-performing

100%

Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
-	87	-	87
-	89	-	89
-	-	176	176
-	176	176	352

Agri Finance - Company - 31 March 2023

12 Month PD Range

Performing

0.00%-0.50%

0.51%-11.70%

11.71%-29.50%

29.51%-100%

Non-performing

100%

Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
-	545	-	545
31 460	2 165	-	33 625
2 201	10 862	-	13 063
-	4 994	-	4 994
-	-	238 112	238 112
33 661	18 566	238 112	290 339

Agri Finance - Company - 31 March 2022

12 Month PD Range

Performing

0.51%-11.70%

11.71%-29.50%

29.51%-100%

Non-performing

100%

Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
31 876	-	-	31 876
5 848	1 391	-	7 239
-	16 681	-	16 681
-	-	210 684	210 684
37 724	18 072	210 684	266 480

Franchise Finance - Company - 31 March 2023

12 Month PD Range

Performing

0.51%-11.70%

Non-performing

100%

Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
21 102	3 319	-	24 421
-	-	23 536	23 536
21 102	3 319	23 536	47 957



2. Loans and Advances (continued)

Franchise Finance - Company - 31 March 2022

12 Month PD Range

Performing

0.51%-11.70%	19 807	7 663	-	27 470
29.51%-100%	-	2 851	-	2 851

Non-performing

100%	-	-	25 302	25 302
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Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
19 807	7 663	-	27 470
-	2 851	-	2 851
-	-	25 302	25 302
19 807	10 514	25 302	55 623

Procurement Finance - Company - 31 March 2023

12 Month PD Range

Performing

0.51%-11.70%	6 622	7 295	-	13 917
11.71%-29.50%	703	3 626	-	4 329
29.51%-100%	1 891	775	-	2 666

Non-performing

100%	-	-	47 799	47 799
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Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
6 622	7 295	-	13 917
703	3 626	-	4 329
1 891	775	-	2 666
-	-	47 799	47 799
9 216	11 696	47 799	68 711

Procurement Finance - Company - 31 March 2022

12 Month PD Range

Performing

0.51%-11.70%	691	7 026	-	7 717
11.71%-29.50%	1 326	820	-	2 146
29.51%-100%	-	1 995	-	1 995

Non-performing

100%	-	-	40 214	40 214
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Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
691	7 026	-	7 717
1 326	820	-	2 146
-	1 995	-	1 995
-	-	40 214	40 214
2 017	9 841	40 214	52 072



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2. Loans and Advances (continued)

Commercial Property Finance - Company - 31 March 2023

12 Month PD Range

Performing

0.51%-11.70%

11.71%-29.50%

29.51%-100%

Non-performing

100%

Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
			-
15 581	35 278	-	50 859
3 831	-	-	3 831
-	964	-	964
-	-	76 008	76 008
19 412	36 242	76 008	131 662

Commercial Property Finance - Company - 31 March 2022

12 Month PD Range

Performing

0.51%-11.70%

11.71%-29.50%

Non-performing

100%

Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
41 607	1 553	-	43 160
-	2 772	-	2 772
-	-	68 542	68 542
41 607	4 325	68 542	114 474

Asset Finance - Company - 31 March 2023

12 Month PD Range

Performing

0.51%-11.70%

11.71%-29.50%

29.51%-100%

Non-performing

100%

Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
39 357	10 391	-	49 748
3 517	12 491	-	16 008
-	4 586	-	4 586
-	-	89 922	89 922
42 874	27 468	89 922	160 264



2. Loans and Advances (continued)

Asset Finance - Company - 31 March 2022

12 Month PD Range

Performing

0.51%-11.70%	31 931	3 135	-	35 066
11.71%-29.50%	1 688	-	-	1 688
29.51%-100%	-	3 300	-	3 300

Non-performing

100%	-	-	86 338	86 338
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Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
31 931	3 135	-	35 066
1 688	-	-	1 688
-	3 300	-	3 300
-	-	86 338	86 338
33 619	6 435	86 338	126 392

Structured Finance - Company - 31 March 2023

12 Month PD Range

Performing

11.71%-29.50%	-	6 499	-	6 499
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Non-performing

100%	-	-	58 940	58 940
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Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
-	6 499	-	6 499
-	-	58 940	58 940
-	6 499	58 940	65 439

Structured Finance - Company - 31 March 2022

12 Month PD Range

Performing

11.71%-29.50%	8 409	-	-	8 409
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Non-performing

100%	-	-	55 336	55 336
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Gross Carrying Amount

Stage 1	Stage 2	Stage 3	Total
R'000	R'000	R'000	R'000
8 409	-	-	8 409
-	-	55 336	55 336
8 409	-	55 336	63 745



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

3. Investment Property

Reconciliation of investment property -
Group - 2023

	Opening balance Restated***	Additions****	Transfers*	Fair value adjustments	Total
Investment property	3 168 909	90 822	11 218	(15 990)	3 254 959

Reconciliation of investment property -
Group - 2022

Investment property	3 198 870	72 365	11 259	(113 585)	3 168 909
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Reconciliation of investment property -
Company - 2023

Investment property	2 841 404	89 630	136 509	2 949	3 070 492
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Reconciliation of investment property -
Company - 2022

Investment property	2 873 459	67 474	12 894	(112 423)	2 841 404
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Other disclosures

The valuation of the investment property has been performed by independent qualified valuers, registered with The South African Council For The Properties Valuers Profession (SACPVP). Refer to **Note 31** for fair value disclosures.

* The transfer for Company comprises of the dividend in specie from Sundumbili Plaza (Pty) Ltd and the transfer from non-current assets held for sale to investment property, as disclosed in Note 17. The transfer for Group comprises of the transfer from non-current assets held for sale to investment properties, net of the transfer of investment property to property, plant and equipment, as detailed in **Note 4**.

**** Additions include work managed by SASRIA on the damaged properties to the value of R21.8m for Group and R18.4m for Company in the current financial year.

Comparative Adjustments

**The prior year transfers relate to transfers between the different categories of assets i.e. Investment property, property plant and equipment and intangible assets. Included in the total transfers is an amount of R6.7 million relating to the correction of a misclassification between property, plant and equipment and investment property and the transfer from right-of use assets to investment property.

***The prior year balance at Group and Company has been restated for the reclassification of R4.5m from right-of use assets to investment property.



Group

Company

2023 R'000	2022 R'000	2023 R'000	2022 R'000
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3. Investment Property (continued)

Details of property

Amounts recognised in profit and loss for the year

Rental income from investment property	345 455	330 529	322 253	302 403
Direct operating expenses from rental generating property	(376 171)	(412 276)	(359 443)	(372 656)
Direct operating expenses from non-rental generating property	(16 832)	(1 563)	(16 832)	(1 563)

4. Property, Plant and Equipment

Group

	2023			2022		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Infrastructure and buildings	305 274	(97 207)	208 067	297 934	(92 020)	205 914
Leasehold improvements	63 235	(55 645)	7 590	59 839	(55 188)	4 651
Plant and equipment	232 364	(168 309)	64 055	240 571	(189 283)	51 288
Motor vehicles	14 115	(12 023)	2 092	13 612	(11 607)	2 005
Total	614 988	(333 184)	281 804	611 956	(348 098)	263 858

Company

	2023			2022		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Infrastructure and buildings	305 274	(97 207)	208 067	297 826	(91 954)	205 872
Leasehold improvements	12 665	(12 665)	-	12 665	(12 665)	-
Plant and equipment	98 675	(70 523)	28 152	94 408	(64 455)	29 953
Motor vehicles	13 089	(11 751)	1 338	13 299	(11 395)	1 904
Total	429 703	(192 146)	237 557	418 198	(180 469)	237 729

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023****4. Property, Plant and Equipment (continued)****Reconciliation of property, plant and equipment - Group - 2023**

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Infrastructure and buildings	205 914	6 171	-	1 235	(5 253)	208 067
Leasehold improvements	4 651	4 590	(311)	-	(1 340)	7 590
Plant and equipment	51 288	28 321	(1 402)	-	(14 152)	64 055
Motor vehicles	2 005	713	-	-	(626)	2 092
	263 858	39 795	(1 713)	1 235	(21 371)	281 804

Reconciliation of property, plant and equipment - Group - 2022

	Opening balance	Additions	Disposals	Transfers**	Depreciation	Total
Infrastructure and buildings	216 599	1 412	(12)	(6 851)	(5 234)	205 914
Leasehold improvements	4 514	1 573	(215)	-	(1 221)	4 651
Plant and equipment	62 519	7 263	(2 660)	(930)	(14 904)	51 288
Motor vehicles	1 040	1 497	-	-	(532)	2 005
	284 672	11 745	(2 887)	(7 781)	(21 891)	263 858

Reconciliation of property, plant and equipment - Company - 2023

	Opening balance	Additions	Disposals	Transfers*	Depreciation	Total
Infrastructure and buildings	205 872	6 213	-	1 235	(5 253)	208 067
Plant and equipment	29 953	7 764	(961)	94	(8 698)	28 152
Motor vehicles	1 904	-	-	-	(566)	1 338
	237 729	13 977	(961)	1 329	(14 517)	237 557

Reconciliation of property, plant and equipment - Company - 2022

	Opening balance	Additions	Disposals	Transfers**	Depreciation	Total
Infrastructure and Buildings	216 448	1 521	(12)	(6 851)	(5 234)	205 872
Plant and equipment	39 318	1 379	(809)	(930)	(9 005)	29 953
Motor vehicles	877	1 497	-	-	(470)	1 904
	256 643	4 397	(821)	(7 781)	(14 709)	237 729



	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
4. Property, Plant and Equipment (continued)				
Net carrying amounts of leased assets				
Leasehold improvements	7 590	4 651	-	-
Other information				
Fully depreciated property, plant and equipment still in use	24 721	24 723	24 721	24 723

Property, plant and equipment with nil book values represents property, plant and equipment that are still in use and have a nil book value and to assets with a cost of R5000 and below that have been fully depreciated in line with the Group's policy. These assets do not have significant useful lives remaining thus reassessment of useful lives and adjustments to carrying amounts would be immaterial.

The reassessment of useful life is performed at each balance sheet date except for assets with costs that is below R5000.

* The transfer above for Company comprises of the dividend in specie from Sundumbili Plaza (Pty) Ltd and the transfer from investment property to property, plant and equipment. The transfer for Group relates to the transfer of investment property to property, plant and equipment, as detailed in **Note 3**.

Comparative Adjustments

**The prior year transfers relate to transfers between the different categories of assets i.e. Investment property, property plant and equipment and intangible assets. Included in the total transfers is an amount of R7.1 million relating to the correction of a misclassification between property, plant and equipment, investment property and intangible assets.

5. Intangible Assets

Group	2023			2022		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Licenses	3 747	(3 460)	287	3 747	(3 326)	421
Computer software	49 511	(44 388)	5 123	54 631	(47 296)	7 335
Other intangible assets*	15 252	(10 232)	5 020	12 985	(10 200)	2 785
Total	68 510	(58 080)	10 430	71 363	(60 822)	10 541

Company	2023			2022		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Licenses	3 747	(3 460)	287	3 747	(3 326)	421
Computer software	32 997	(28 384)	4 613	37 081	(30 663)	6 418
Other intangible assets*	3 263	(1 553)	1 710	1 924	(1 521)	403
Total	40 007	(33 397)	6 610	42 752	(35 510)	7 242



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

5. Intangible Assets (continued)

Reconciliation of intangible assets - Group - 2023

	Opening balance	Additions	Derecognition	Amortisation	Total
Licenses	421	-	-	(134)	287
Computer software	7 335	1	-	(2 213)	5 123
Goodwill	324	-	(173)	-	151
Other intangible assets	2 461	2 440	-	(32)	4 869
	10 541	2 441	(173)	(2 379)	10 430

Reconciliation of intangible assets - Group - 2022

	Opening balance	Additions	Derecognition	Amortisation	Total
Licenses	555	-	-	(134)	421
Computer software	8 334	920	413	(2 332)	7 335
Goodwill	320	4	-	-	324
Other intangible assets	2 412	104	-	(55)	2 461
	11 621	1 028	413	(2 521)	10 541

Reconciliation of intangible assets - Company - 2023

	Opening balance	Additions	Derecognition	Amortisation	Total
Licenses	421	-	-	(134)	287
Computer software	6 418	2	-	(1 807)	4 613
Goodwill	324	-	(173)	-	151
Other intangible assets	79	1 512	-	(32)	1 559
	7 242	1 514	(173)	(1 973)	6 610

Reconciliation of intangible assets - Company - 2022

	Opening balance	Additions	Transfers**	Amortisation	Total
Licenses	555	-	-	(134)	421
Computer software	6 832	920	413	(1 747)	6 418
Goodwill	320	4	-	-	324
Other intangible assets	135	-	-	(56)	79
	7 842	924	413	(1 937)	7 242



Group		Company	
2023 R'000	2022 R'000	2023 R'000	2022 R'000

5. Intangible Assets (continued)

Other information

Cost of intangible assets with NIL book value	16 255	20 341	16 255	20 341
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Intangible assets with nil book values represents assets that are still in use and have a nil book value and assets with a cost of R5 000 and below that have been fully depreciated in line with the Group's policy. These assets do not have significant useful lives remaining thus reassessment of useful lives and adjustments to carrying amounts would be immaterial.

The remaining useful lives for intangible assets of the Group as at 31 March 2023

Software	1 - 2 Years	1 - 6 Years
Licences and warranties	1 - 4 Years	1 - 4 Years
Other	1 - 50 Years	1 - 50 Years

*The Group's other intangible assets comprises the banking and insurance system and the electricity connection rights.

An amount of R32,4 million was recognised as an intangible asset impairment provision during the 2011 year. This impaired asset relates to the banking system project (Temenos MCB) which was scheduled to be commissioned in June 2010.

In 2018 the Group initiated a new banking system project for implementation of an integrated enterprise-wide core banking platform with a digital customer centric paradigm expected to modernise the Group's technology as well as close various risk and compliance exceptions. Work-in-progress incurred was funded by a R40 million grant received from the KZN government for the purpose of funding the project. System development has been halted and legal action taken against the service provider. Refer to **Note 28** and **Note 42**.

Comparative Adjustments

** The prior year transfer relates to the correction of a misclassification between intangible assets and property, plant and equipment.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
6. Right- of- Use of Assets				
Net carrying amounts of right-of-use assets				
Land, buildings and equipment - Non current asset	38 955	37 258	471	658
Land and buildings - Current asset*	14 563	15 042	-	-
Total Right- of- use Asset*	53 518	52 300	471	658

Reconciliation of Right-of-use assets - Land, buildings and equipment

Opening Balance	52 300	28 409	658	64
Additions	15 919	32 322	65	677
Depreciation	(14 701)	(11 619)	(252)	(83)
Derecognition	(3)	-	-	-
Modifications	-	3 188	-	-
	53 518	52 300	471	658

Depreciation recognised on right-of-use assets

Depreciation recognised on each class of right- of- use asset which has been expensed in the total depreciation charge in profit or loss, is presented below.

Land and buildings	12 355	9 664	252	83
Equipment	2 346	1 955	-	-
	14 701	11 619	252	83

* Right-of-use asset balance for Corporation and Group has been restated for the prior year, for the reclassification of R4.5m to Investment property. Refer to **Note 3**.

Details pertaining to leasing arrangements, where the group is lessee are presented below:

Group

The right- of- use asset relates to land where Port Shepstone Quarries carries out its mining activities. The lease is for 30 years and commenced on 1 August 2013 with an expiry date of 1 July 2043. The remaining lease period is 21 years as at 31 March 2023 . The escalation rate of rental is 7% on 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.

*Included in the Land and buildings-current asset in the table above, is the right-of-use asset for Port Shepstone Quarries Pty Ltd. The total of the right-of-use asset has been classified as current, as the subsidiary has ceased operations and the Board of the subsidiary took a decision to prepare the financial statements under the liquidation basis.



6. Right-of-Use of Assets (continued)

Lease Contract

	No. of leases	Fixed Payments (%)	Variable Payments	Discount rate (%)
Property Leases with fixed payments	2	100	-	8.00 - 10.45

Ithala SOC Ltd lease portfolio primarily consists of property which includes branch and ATM space. The leases typically run for a period of 3 to 5 years, with an option to renew the lease after that date. Lease payments are renegotiated on expiry of the lease to reflect market rentals. The branch and ATM space leases were entered into many years ago.

Company

Leases with Fixed Payments

The Company has leases for land either directly with the owners of the land or permission to occupy. IDFC has erected buildings and leases those buildings to various tenants in exchange for monthly rental payments. The rental escalation rates for the permission to occupy vary, however the majority do not escalate. All PTO's have a 50 year lease period with varying remaining lease periods, as their commencement dates vary, however the range of remaining period is between 8 to 37 years. These leases have no renewal options nor do they allow the transfer of land to IDFC.

There is also a lease for staff parking which commenced on 1 May 2018. The lease period was 3 years and the initial lease expired on 30 April 2021. The lease was renewed with revised lower lease payments based on the number of parking bays that are now required. The lease term is 36 months and has 35 months remaining. These leases have no covenants.

Lease with Variable Payments

IDFC entered into a lease that has a variable payment portion based on turnover. The lease escalates at a higher of 12% on 1 September of each year, or turnover rental taking into consideration the market conditions. Historically, the rental has escalated based on turnover rental and economic conditions, hence this lease is considered to have variable lease payments linked to the turnover of the building. The lease commenced in 1997 and is expected to terminate in 2047. The lease term is for 50 years and the remaining lease period as at 31 March 2023 is 24 years. The lease has no renewal options nor does it allow the transfer of land to the Company. The variable lease payments are not part of the lease liability and were not included on the initial recognition of the lease liability and the right-of-use of asset. To date, variable lease payments of R2 062 026 have been paid to the lessor as the turnover rental. The lease has no covenants.

Other disclosures

Short-term leases and leases of low-value assets

The Group has applied the recognition exemption in IFRS 16 to short-term leases and low value assets. The Group recognised the lease payments of R6.8m (2022: R5.7m) associated with these leases as an expense on a straight-line basis over the lease term.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

6. Right- of- Use of Assets (continued)

Extension options

Some property leases contain extension options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses, at lease commencement date, whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

Discount rates used

The discount rates used are based on the borrowing rates that IDFC would have been charged had funds been borrowed to purchase the right to use the underlying assets. This is based on historical information. It should be noted that the rates vary, as the leases were concluded in different periods, hence averages are being disclosed below.

Lease information

	No. of leases	Fixed payments (%)	Variable Payments (%)	Discount rate (%)
Property Leases with fixed payments	18	100	-	4.95 - 11.70
Property Leases with variable payments	1	83	17	19,50

7. Straightlining of Operating Lease Income

Non-current assets	26 690	16 194	25 979	16 732
Current assets	3 033	2 643	2 971	1 428
	29 723	18 837	28 950	18 160
Opening balance	18 837	33 182	18 160	31 381
Straight line accrual / (reversal) during the year	2 529	(1 509)	3 668	(840)
Expected credit loss reversed / (charged) to income statement*	8 357	(12 836)	7 122	(12 381)
Closing balance	29 723	18 837	28 950	18 160
Current portion of long term debtor	(3 033)	(2 643)	(2 971)	(1 428)
Non-current portion of long term debtor	26 690	16 194	25 979	16 732

Minimum future rental receivable under non-cancellable operating leases are as follows:

Next 12 months	3 034	2 643	2 971	1 428
From 2 to 5 years	28 657	25 322	27 661	24 373
Later than 5 years	21 519	22 716	21 521	22 684
	53 210	50 681	52 153	48 485
Expected credit loss	(23 487)	(31 844)	(23 203)	(30 325)
	29 723	18 837	28 950	18 160



	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000

7. Straightlining of Operating Lease Income (continued)

Analysis of ECL

Balance at the beginning of the year	31 844	19 008	30 325	17 944
(Reversal) / charge to income statement	(8 357)	12 836	(7 122)	12 381
Balance at end of the year	23 487	31 844	23 203	30 325

Operating leases relate to investment property owned by the Group with lease terms of between 3 to 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.

*Refer to **note 15** for the inputs and assumptions used in determining the expected credit loss on trade and other receivables.

Maturity analysis - lease payments to be received

Next 12 months	161 586	151 999	154 201	144 621
From 2 to 5 years	293 925	284 567	282 028	283 451
Later than 5 years	101 319	114 704	101 319	114 704
	556 830	551 270	537 548	542 776

8. Subsidiaries

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)
	-	-	-	-

Subsidiaries

Shares at cost *	-	-	788 632	723 632
Less impairment of investments**	-	-	(413 537)	(353 027)
	-	-	375 095	370 605

Net loans

Loans to subsidiaries***	-	-	348 890	304 896
Less impairment of loans****	-	-	(143 890)	(156 237)
	-	-	205 000	148 659
Total investment in subsidiaries	-	-	580 095	519 264

Current assets	-	-	71 923	42 359
Non-current assets	-	-	508 172	476 905
	-	-	580 095	519 264



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

8. Subsidiaries (continued)

*Increase in shares at cost relate to the capital injection of R65.0m (2022: R65.0m) for the purchase of shares at Ithala SOC Limited. This movement has been accounted for under investing activities under Statement of Cash Flows.

Investments in subsidiaries include loans to subsidiaries extended on acquisition when IDFC bought shares from minorities and intercompany transactions that haven't been paid as at year end. All subsidiaries are wholly owned by Ithala Development Finance Corporation, except for Nongoma Plaza. IDFC has impaired the loans to subsidiaries by R143.9m (2022: R156.2m) and these are eliminated at Group level

**The movement in impairment charge relate to the impairment of investment held in Ithala SOC Limited recognised at the reporting date. Refer to the reconciliation table below.

***The loans comprises the following:

- PSQ R56m (2022: R53m)
- Ubuciko R83m (2022: R83m)
- Nongoma R60m (2022: R61m)
- Wharfside R67m (2022: R62m)
- Sundumbili R15m (2022: R24m). The loan for the current financial year relates to the dividend declared upon dissolution of Sundumbili Plaza. This amount has been settled subsequent to financial year end.
- Sibaya R4m (2022: R4m)
- Ithala SOC Limited R57m (2022: R18m)

The loans owing by Ithala SOC Ltd and Sundumbili Plaza have been classified as current in the current and prior financial years. Refer to **Note 48**.

****The impairment charge relate to impairment of loans issued to subsidiaries where the recoverability of these loans is not probable. Included in the impairment reversal is the prior year impairment raised for Nongoma Plaza (Pty) Ltd of R15.8m. The recoverable amount is the value in use, determined using the discounted cash flow method. The cash flows were discounted using the weighted average cost of capital of 10.32%. In assessing impairment for the current financial year, the value of collateral held, i.e. the investment property, was also factored into account when determining the recoverable amount. As the value of the collateral held exceeded the loan balance owing by Nongoma, no impairment was considered necessary. Refer to the reconciliation table below.

The new impairments raised relates to loans advanced to PSQ and Ubuciko where the recoverability of these loans is not probable as PSQ has ceased operation and Ubuciko is the process of liquidation. The loans to PSQ and Ubuciko have hence been fully impaired. The values disclosed in these subsidiaries' financial statements approximate fair values.

Cowslip Investment Properties (Pty) Ltd was established solely to facilitate the funding of the Inkosi Albert Luthuli Central Hospital. Grant funds are provided by the KwaZulu-Natal Department of Health (DOH) to fund the operations of Cowslip. This is achieved by utilising grants received from the DOH to acquire shares in Cowslip, whose sole function is to act as a conduit for the grant funding provided by the DOH to fund the acquisition of assets by Impilo Consortium (Pty) Ltd.



8. Subsidiaries (continued)

Impairment reconciliation - 2023

	Impairment raised on Investment in shares	Impairment raised on loans to subsidiaries	Total
Opening balance	353 027	156 237	509 264
Impairment charge / (reversal) in the current year****	60 510	(12 347)	48 163
Closing balance	413 537	143 890	557 427

Impairment reconciliation - 2022

	Impairment raised on investment in shares	Impairment raised on loans to subsidiaries	Total
Opening balance	301 054	137 254	438 308
Impairment charge in the current year	51 973	18 983	70 956
Closing balance	353 027	156 237	509 264

Dissolution of Nongoma and Sundumbili and dilution of shareholding in Port Shepstone Quarries

On 9 November 2021, approval was obtained from the MECs of EDTEA, Provincial Treasury and all relevant officials for the dissolution of Sundumbili and Nongoma. Upon dissolution, IDFC will receive the property as a dividend in specie whilst minority shareholders will receive a dividend in cash. The dissolution will have no impact on the financial statements at Group level. The process of dissolving Sundumbili has been completed as at March 2023, except for administrative matters which are still to be finalised. Nongoma is anticipated to be dissolved within the next 12 months.

Approval was sought and obtained from the MEC of EDTEA and all relevant officials for the dilution of shareholding in Port Shepstone Quarries and acquisition of a third party Investor to revive the operations of Port Shepstone Quarries. At the time of preparation and issue of these financial statements, the percentage of dilution was unknown.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Non - current asset*	8 166	8 166	8 166	8 166
Current asset**	4 900	-	4 900	-
	13 066	8 166	13 066	8 166

*The long term receivable relates to the prepayment for the purchase of land that has not yet been finalised. It is expected that the acquisition process will be finalised once all requirements are satisfied. Payment has been made for the land upon which the Kwa-Mashu Shopping Centre has been built. The shopping centre was constructed after obtaining "Permission-to-occupy". However, the transfer of the land is yet to be finalised.

**Additional land (R4.9m) was purchased at Isithebe in the current financial year and the transfer had not yet taken place as at 31 March 2023. Subsequent to year end, the transfer was registered in the deeds registry on the 22 May 2023.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000

9. Long Term Receivable (continued)

As IAS 40.16 recognition criteria refers to "owned" investment property, management has in its judgement determined that the land has not yet met the ownership criterion for recognition and the payment is therefore treated as a prepayment.

10. Finance Lease Receivables

Gross Investments in Lease Receivable	-	175	-	-
Unearned Finance Income	-	(2)	-	-
Present Value of Minimum Lease Payments Receivable	-	173	-	-
Current portion of Minimum Lease Payments Receivable	-	(173)	-	-
Long term portion of Minimum Lease Payments Receivable	-	-	-	-

The Group had a 5 year finance lease agreement for its equipment with Megabags (Pty) Ltd. The lease agreement ended on 31 May 2022, ownership has now passed 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	-	173	-	-
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11. Investment In Shares**Mandatory at fair value through profit or loss:**

Investment in SA Corp Real Estate	7 660	9 378	7 660	9 378
	7 660	9 378	7 660	9 378

Reconciliation of Investment in SA Corp Real Estate

Balance at the beginning of the year	9 378	7 174	9 378	7 174
Fair value (loss) / gain recognised in profit and loss	(1 718)	2 204	(1 718)	2 204
	7 660	9 378	7 660	9 378

Fair value information

Refer to **Note 31** Fair value information for details of valuation policies and processes.



Group		Company	
2023 R'000	2022 R'000	2023 R'000	2022 R'000

12. Investment in Cell Captives

Balance at beginning of the year	51 884	45 910	51 884	45 910
Movements:				
Fair value gain recognised in profit and loss	5 889	5 974	5 889	5 974
Balance at end of the year	57 773	51 884	57 773	51 884

Ithala has investments in 2 cell captives that allow the Group use of insurance licenses for short term and long term insurance. The cell captives are with Guardrisk and Mutual and Federal, who are both registered insurers. The group owns 100% of the cells. The Group has agreements with the insurers which outlines the responsibilities. The insurers are responsible for financial management and provide monthly information to IDFC on the performance of the cells. The fair value of the cell captive is equivalent to its net asset value.

The cells are both financially sound as at 31 March 2023.

Ithala SOC Ltd is responsible for the operations of the cell captive through a binder and intermediary agreement.

13. Associated Companies

Unlisted Investments

Shares at cost	2	2	2	2
Less: provisions	(2)	(2)	(2)	(2)
Group carrying value	-	-	-	-

Net loans

Loans to associates	56 225	56 225	56 225	56 225
Less: provisions	(55 402)	(55 402)	(55 402)	(55 402)
	823	823	823	823
Total interest in associated companies	823	823	823	823

The impairment charge relate to impairment of loans and investments issued to associates where the recovery of these loans is not probable. There has been no movement in the ECL balance for the year.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Group

Company

2023 R'000	2022 R'000	2023 R'000	2022 R'000
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13. Associated Companies (continued)

Investments in associates and joint ventures are equity accounted for. Summary of significant financial information can be found below.

Significant financial information of associated companies**Total assets**

Total Non-current assets

Total Current Assets

10 329	6 609	10 329	6 609
745	2 157	745	2 157
11 074	8 766	11 074	8 766

Total Liabilities

Total Non-current liabilities

Total Current liabilities

209 122	180 600	209 122	180 600
11 588	14 814	11 588	14 814
220 710	195 414	220 710	195 414

Net Liabilities

(209 636)	(186 648)	(209 636)	(186 648)
------------------	------------------	------------------	------------------

Group's share of net liabilities of associates

(75 714)	(67 829)	(75 714)	(67 829)
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Total Revenue

2 496	2 368	2 496	2 368
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Total Losses

(24 030)	(9 945)	(24 030)	(9 945)
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Unrecognised share of losses:

- Current Period

(7 813)	(2 881)	(7 813)	(2 881)
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- Cumulative

(75 715)	(67 831)	(75 715)	(67 831)
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No associates are considered to be individually material and therefore the financial information has been presented on an aggregate basis.

The Group has a joint arrangement with ZAN Family Trust in Ulundi Shopping Centre where operating and financial decisions are made by mutual consent. As the shopping centre is yet to be built and to commence trading, there are no equity accounted profits or losses accounted for to date. The loan to Ulundi Shopping Centre is as reported in the related parties note. As Ulundi Shopping Centre is not a material joint arrangement, the financial information of the entity has not been disclosed.



14. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Coin and bank notes	70 637	62 873	9	16
Bank balances	674 584	706 384	674 156	705 946
Investment and Balance with banks**	533 769	629 262	-	-
	1 278 990	1 398 519	674 165	705 962
Cash and cash equivalents held by the entity that are not available for use by the group.	576 500	624 700	576 500	624 700

Included in cash is an amount of R16.0m (2022: R13.8m) relating to cash in transit at year-end to be delivered by security company to branches.

Cash not available for use by the Group includes an amount of R221m (2022: R293m) relating to ring-fenced collections derived from advances made from the Enterprise Development Fund as well as funds held by the Group on behalf of other entities for various projects, as disclosed in **Note 24**.

The Group 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 Group. 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.

**Included in investments and balances with banks above, are Ithala SOC Limited's investments and deposits with banks of R226.7m (2022: R194.2m), analysed as per below. Included in the analysis, is the credit risk exposure of investments based on the internal credit risk rating grades and year-end stage classification. The gross carrying amount also represents Ithala SOC Ltd's maximum exposure to credit risk on these investments.

**The impairment reversal below relates mainly to the investment in Land Bank. Ithala SOC Limited raised ECL on the investment when Land Bank was experiencing liquidity constraints and defaulted on interest and capital obligations. Since then, Land Bank has honoured all interest payments, including arrear interest due. In addition, Land Bank has also settled capital balances of R8.5m (2022: R10.3m) during the financial year. The capital reduction and improved prospects of recovering the investment has reduced the ECL by R3.3m from R13.8m as at March 2022 to R10.5m as at March 2023.

** The modification loss has been recognised on the Landbank instrument due to Landbank defaulting on the settlement of the investment and paying interest at a lower rate than when the investment was initially purchased.

The difference of R132 000 (2022: R114 000), between the impairment reversals of R3.0m (2022: R4.5m) below and the figures as disclosed on statement of profit or loss and other comprehensive income relates to the impairment on other cash balances and is considered immaterial.

	Ithala SOC Limited 2023 R'000	Ithala SOC Limited 2022 R'000
Fixed term funds	204 318	165 213
Balances in State Owned Institutions	34 478	42 995
	238 796	208 208
Impairment of investments	(10 926)	(14 017)
Modification of investments**	(1 331)	-
Balance at the end of the year	226 539	194 191



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

14. Cash and Cash Equivalents (continued)

Credit impairments for investments and deposits

Balance at the beginning of the year

Impairments (reversed) / raised**

Balance at the end of the year

Ithala SOC Limited 2023 R'000	Ithala SOC Limited 2022 R'000
14 017	18 595
(3 091)	(4 578)
10 926	14 017

Investments - 2023

Standard Grade

Low Grade

Gross Carrying Amount

Modification Loss**

Loss Allowance

Carrying amount

Stage 1: 12 month ECL R'000	Stage 2: Lifetime ECL R'000	Stage 3: Lifetime ECL R'000	Total
204 318	-	-	204 318
-	34 478	-	34 478
204 318	34 478	-	238 796
-	(1 331)	-	(1 331)
(432)	(10 494)	-	(10 926)
203 886	22 653	-	226 539

Investments - 2022

Standard Grade

Low Grade

Gross Carrying Amount

Loss Allowance

Carrying amount

Stage 1: 12 month ECL R'000	Stage 2: Lifetime ECL R'000	Stage 3: Lifetime ECL R'000	Total
165 213	-	-	165 213
-	42 995	-	42 995
165 213	42 995	-	208 208
(264)	(13 753)	-	(14 017)
164 949	29 242	-	194 191

Group

Company

2023 R'000	2022 R'000	2023 R'000	2022 R'000
2023 R'000	2022 R'000	2023 R'000	2022 R'000

Statutory liquid assets

Treasury bills***

Treasury bill***

245 928	272 401	-	-
71 923	42 359	71 923	42 359
317 851	314 760	71 923	42 359

Undrawn facilities available for Company are as follows:

ABSA Bank

Overdraft Facility

Financial Guarantees

Letter of credit

45 238	43 100	45 238	43 100
54 762	50 900	54 762	50 900
-	6 000	-	6 000
100 000	100 000	100 000	100 000

***The Group invests in statutory investment (recognised as non-current assets) to ensure that the minimum reserve requirements are met. These funds are not available for use in operational activities. Amounts held as at 31 March 2023 exceed the minimum reserve requirements by R16.8m (2022: R52.5m), and are invested in terms of the Group's capital management policy.

The balance on treasury bills is stated after taking into account impairment of R62 000 (2022: R195 000). The impairment is quantitatively immaterial.



15. Trade and Other Receivables

Financial instruments:

	Group		Company	
	2023	2022	2023	2022
	R'000	R'000	R'000	R'000
Trade receivables	337 653	273 822	302 250	228 325
Other receivables*	235 759	364 369	281 533	348 587
Gross Trade and other receivables	573 412	638 191	583 783	576 912
Credit Impairment:				
Trade receivables	(249 744)	(214 236)	(217 670)	(178 427)
Other receivables**	(22 763)	(22 765)	(22 763)	(22 765)
Total trade and other receivables	300 905	401 190	343 350	375 720

*Other receivables consists primarily of sundry debtors raised for the rebuild of investment properties due by SASRIA of R146.5m for the Group and R140.4m for the Company (2022: R275.7m for Group and R214.1m for Company), in respect of the properties which were damaged during the civil unrest which broke out in KZN during July 2021. It also includes rental deposits received from tenants and retention monies held on projects which have been re-invested of R69.2m for the Group (2022: R72.1m) and R67.4m for the Company (2022: R69.3m).

Other receivables in respect of current tax payable and sundry debtors has been restated for Group and Company for the prior year. Refer to **Note 47** for details.

**Included in the ECL for other receivables is an advance to Ntingwe which has been fully impaired. The sundry debtor raised relating to the rebuild work to be done by SASRIA was assessed for impairment and no impairment was considered necessary as SASRIA had commenced with the process of rebuilding the damaged properties. ECL for the remainder of the other receivables is not material. The sundry debtor raised relating to the rebuild work to be done by SASRIA

Exposure to credit risk

Trade receivables inherently expose the Group to credit risk, being the risk that the Group will incur financial loss if customers fail to make payments as they fall due.

A loss allowance is recognised for all trade receivables, in accordance with IFRS 9 Financial Instruments, and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation.

The Group measures the loss allowance for trade receivables by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime expected credit losses on trade receivables. These lifetime expected credit losses are estimated using a provision matrix, which is presented below. The resultant loss rates are calibrated based on historical credit loss experiences, taking into account both the time value of money and previous write-offs and recoveries.

Historical loss rates are calculated as a product of the monthly roll rates across buckets using real outstanding debtors, taking into account the time value of money component. Historical loss rates are then adjusted for forward looking information to derive the expected credit loss as at the measurement date. The loss rate is the average rate per time bucket. A total provision as at the valuation date can thus be calculated by summing all the provisions for the different ageing buckets.

The assessment of the ECL rates is performed per portfolio, being small, medium and micro (SMME) enterprises, retail, light, large industrial estates and subsidiaries individually, as reflected in the below provision matrix. The assessment is carried out in April as the information is considered forward looking. The ECL rates obtained from the April analysis is then applied to the March ageing.

The Group's loss allowance (ECL) as a percentage of the gross carrying amount, decreased by 5% from 79% in the 2021/2022 financial year, to 74% in the 2022/2023 financial year. The Company's loss allowance (ECL) as a percentage of the gross carrying amount, decreased by 7% from 78% in the 2021/22 financial year, to 71% in the 2022/23 financial year. Although this is a slight improvement from the prior year, tenants continue to experience challenges with honouring their rental payments. This is mainly due to the prevailing tough economic conditions. Further to this, South Africa's economy, especially the KwaZulu-Natal area, was negatively impacted by the civil unrest that took place in July 2021, resulting in damage to properties and some tenants not being able to trade, therefore not meeting their lease obligations.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023****15. Trade and Other Receivables (continued)****Provision Matrix**

2023	0-30 days (%)	31-60 days (%)	61-90 days (%)	91-120 days (%)	121-150 days (%)	>151 days (%)
Large and Light Industrial	49	51	67	83	83	83
Small Medium and Micro Enterprises	88	88	93	98	98	98
Retail	53	53	75	100	100	100
Nongoma Plaza	54	57	77	98	98	98
The Durban Wharfside Trust	92	92	95	98	98	98
2022	0-30 days (%)	31-60 days (%)	61-90 days (%)	91-120 days (%)	121-150 days (%)	>151 days (%)
Large and Light Industrial	69	90	94	98	100	100
Small Medium and Micro Enterprises	100	100	100	100	100	100
Retail	45	72	85	90	100	100
Sundumbili Plaza	76	91	100	100	100	100
Nongoma Plaza	47	69	74	76	80	80
The Durban Wharfside Trust	84	87	100	100	100	100

There has been no change in the estimation techniques or significant assumptions made during the current reporting period. The carrying value of trade and other receivables approximates the fair value.



15. Trade and Other Receivables (continued)

The Group's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles. The loss allowance provision is as follows:

Group	2023	2023	2022	2022
	Estimated gross carrying amount at default	Loss allowance (Lifetime expected credit loss)	Estimated gross carrying amount at default	Loss allowance (Lifetime expected credit loss)
Expected credit loss:				
Less than 30 days past due	59 385	23 996	55 257	32 027
31 - 60 days past due	30 002	15 456	25 963	21 436
61 - 90 days past due	21 832	15 398	15 149	13 481
91 - 120 days past due	17 360	15 415	12 089	10 996
More than 120 days past due	209 074	191 884	165 364	150 748
Deposits	-	(12 405)	-	(14 452)
Total	337 653	249 744	273 822	214 236

Company	2023	2023	2022	2022
	Estimated gross carrying amount at default	Loss allowance (Lifetime expected credit loss)	Estimated gross carrying amount at default	Loss allowance (Lifetime expected credit loss)
Expected credit loss:				
Less than 30 days past due	55 158	21 371	50 453	28 628
31 - 60 days past due	28 493	14 325	22 195	18 532
61 - 90 days past due	20 455	14 161	12 319	11 017
91 - 120 days past due	16 155	14 233	9 962	9 131
More than 120 days past due	181 989	165 384	133 396	124 842
Deposits	-	(11 804)	-	(13 723)
Total	302 250	217 670	228 325	178 427

Reconciliation of loss allowances

The following table shows the movement in the loss allowance (lifetime expected credit losses):

	Group		Company	
	2023	2022	2023	2022
	R'000	R'000	R'000	R'000
Opening balance	(237 001)	(180 074)	(201 192)	(157 415)
Loss allowance recognised during the year	(35 506)	(56 927)	(28 501)	(43 777)
Transfer	-	-	(10 740)	-
Closing balance	(272 507)	(237 001)	(240 433)	(201 192)



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

	Group		Company	
	2023	2022	2023	2022
	R'000	R'000	R'000	R'000
16. Inventories				
Land	1 498	1 498	1 498	1 498
Consumables	4 131	4 551	2 826	3 052
	5 629	6 049	4 324	4 550

Land included in inventories relates to residential sites that were held for development and selling. These do not meet the criteria for investment property and property, plant and equipment.

17. Non-current Assets Held for Sale**Non-current assets held for sale**

Balance at beginning of the year	13 462	10 725	12 495	8 825
Acquisitions	1 188	3 671	1 188	3 670
Disposals	(978)	(449)	(159)	-
Other movements	-	(485)	-	-
Transfers*	(10 845)	-	(10 845)	-
Carrying amount before impairment	2 827	13 462	2 679	12 495
Accumulated impairment loss	(814)	(1 829)	(814)	(1 397)
Net carrying amount	2 013	11 633	1 865	11 098
Accumulated Impairment loss				
Balance at beginning of the year	1 829	1 790	1 397	460
Charge / (Reversal of) impairment to income statement	(1 015)	523	(583)	937
Other movements	-	(484)	-	-
Balance of accumulated impairment loss at end of the year	814	1 829	814	1 397

Non-current Assets held for sale relate to immovable properties that have been repossessed by the group. The intention of management is to sell these assets within the next 12 months. However, due to market conditions it is not always possible to sell properties.

*The transfer mainly relates to properties in possession which have been transferred to Investment Property.



18. Share Capital

Authorised

1 008 582 361 Ordinary shares of R1 each

Issued

Ordinary

Group		Company	
2023	2022	2023	2022
R'000	R'000	R'000	R'000

1 008 582	1 008 582	1 008 582	1 008 582
1 008 582	1 008 582	1 008 582	1 008 582

Non-controlling interest arises as a result of minority shares in Nongoma Plaza.

Balance at the beginning of the year

Movement in non-controlling interests: Shares of loss / (profit)

Movement in non-controlling interests: Dividends declared

Closing balance as at 31 March 2023

(448)	(426)	-	-
1 869	(22)	-	-
(1 560)	-	-	-
(139)	(448)	-	-



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

	Group		Company	
	2023	2022	2023	2022
	R'000	R'000	R'000	R'000
19. Borrowings				
At amortised cost				
Total borrowings	23 124	30 151	21 282	28 097
Portion repayable within 12 months	(6 849)	(6 966)	(6 849)	(6 966)
Non - current	16 275	23 185	14 433	21 131

	Instalment R'000	Year of final repayment	Interest rate %	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Nedbank							
Repayable in monthly instalments	630	March 2026	10,0%	19 673	25 174	19 673	25 174
Khula Enterprise Finance Ltd / SEFA							
Repayable in monthly instalments	85	December 2025	6,7%	1 609	2 923	1 609	2 923
Loans from minority shareholders							
No fixed terms of repayment	-		-	1 842	2 054	-	-
Total borrowings				23 124	30 151	21 282	28 097

The interest rate applicable on the borrowings is variable.

The movement in borrowings is reflected in the below table:

Opening balance	30 151	37 579	28 097	35 523
Repayments- cash flow movement	(5 007)	(5 543)	(4 820)	(5 565)
Interest	(2 020)	(1 885)	(1 995)	(1 861)
Closing balance	23 124	30 151	21 282	28 097



19. Borrowings (continued)

Held at amortised cost

Nedbank

The loan is secured and repayment is by way of equal monthly instalments of part capital and interest over the loan term. These repayments will change with the variation in the variable rate .

Khula Enterprise Finance Ltd/Sefa

The loan is repayable in monthly instalments repayment and the interest rate is variable.

Loan from minority shareholders

There are no fixed terms of repayment.

20. Deposits due to Customers

Call deposit accounts

Savings accounts

Term deposits

Maturity analysis repayable*:

On demand

Up to 1 month

From 1 month to 6 months

From 6 months to 1 year

From 1 year to 5 years

Savings accounts are further analysed as follows:

Pass Book*

Trust accounts

Debit Card

Corporate

Total Savings

	Group		Company	
	2023	2022	2023	2022
	R'000	R'000	R'000	R'000
Nedbank	19 673	25 174	19 673	25 174
Khula Enterprise Finance Ltd/Sefa	1 609	2 923	1 609	2 923
Loan from minority shareholders	1 842	2 056	-	-
	23 124	30 151	21 282	28 097
Call deposit accounts	77 004	82 240	-	-
Savings accounts	996 035	1 059 426	-	-
Term deposits	1 343 216	1 254 167	-	-
	2 416 255	2 395 833	-	-
On demand	1 075 690	1 145 588	-	-
Up to 1 month	186 303	120 669	-	-
From 1 month to 6 months	701 393	717 970	-	-
From 6 months to 1 year	415 119	376 464	-	-
From 1 year to 5 years	37 750	35 142	-	-
	2 416 255	2 395 833	-	-
Pass Book*	656 876	730 583	-	-
Trust accounts	53 922	54 999	-	-
Debit Card	270 520	257 609	-	-
Corporate	14 717	16 235	-	-
Total Savings	996 035	1 059 426	-	-



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

	Group		Company	
	2023	2022	2023	2022
	R'000	R'000	R'000	R'000
20. Deposits due to Customers (continued)				
Term deposits are further analysed as follows:				
Retail accounts	844 249	877 990	-	-
Corporate accounts	498 967	376 177	-	-
Total Term deposits	1 343 216	1 254 167	-	-
Non-current liabilities	37 750	35 142	-	-
Current Liabilities	2 378 505	2 360 691	-	-
	2 416 255	2 395 833	-	-

*The maturity analysis reflected above is the discounted maturity, as the balance reported as at 31 March 2023 is the balance due to the client (no future interest is included in this value).

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.

**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.

21. Retirement Benefits

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 2023 quantified the present value of unfunded obligations at R105.2m (2022: R111.8m) for Group and R58.4m (2022: R69.3m) for Company. These actuarial valuations are conducted annually, at balance sheet date. The principal actuarial assumptions used included a discount rate of 12.20% (2022: 11.10%), and a health care cost inflation rate of 8.10% (2022: 8.20%). The valuations are performed by independent, qualified experts.



21. Retirement Benefits (continued)

Movement in the defined benefit obligation, is as follows:

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Balance at beginning of the year	111 761	105 644	69 333	68 267
Current service costs	1 221	1 158	548	502
Interest costs	11 952	12 571	7 366	8 124
Net actuarial (gain) / loss recognised during the year	(12 009)	(370)	(13 283)	(2 087)
Benefit payment	(7 744)	(7 242)	(5 612)	(5 473)
Balance at end of the year	105 181	111 761	58 352	69 333

Amounts recognised in the statement of financial position are as follows:

Present value of unfunded obligations	105 181	111 761	58 352	69 333
Liability- Non-current portion	97 701	104 382	53 480	63 985
Liability- Current portion	7 480	7 379	4 872	5 348
Liability at end of year	105 181	111 761	58 352	69 333

Post retirement medical benefits

Actuarial gain

The actuarial gains arose as a result of the following :

Change in Real Discount Rate	(7 116)	(230)	(3 441)	(113)
Lower than expected Rand / Cap subsidy Inflation	(2 617)	(5 475)	(3 759)	(4 722)
Unexpected Changes in Membership	(2 260)	5 543	(6 080)	2 933
Lower than expected healthcare cost inflation including changes in members' benefit options	(16)	(29)	(3)	(6)
Lower than expected salaries	-	(179)	-	(179)
Total	(12 009)	(370)	(13 283)	(2 087)



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

21. Retirement Benefits (continued)

Group

Actuarial assumptions used and sensitivity analysis
Sensitivity Analysis - unfunded accrued liability

	Assumptions	Change	2023 R'000	2022 R'000
Present value of obligation			105 181	111 761
Health care cost inflation	8.10%	+1%	115 955	124 013
		-1%	95 937	101 339
Discount rate	12.20%	+1%	96 263	101 659
		-1%	115 687	124 561
Average expected retirement age	60 years	+1 year	102 518	108 765
		-1 year	107 549	114 021

Company

Actuarial assumptions used and sensitivity analysis
Sensitivity Analysis - unfunded accrued liability

	Assumptions	Change	2023 R'000	2022 R'000
Present value of obligation			58 352	69 333
Health care cost inflation	8.10%	+1%	63 527	75 960
		-1%	53 840	63 601
Discount rate	12.20	+1%	53 988	63 764
		-1%	63 414	75 849
Average expected retirement age	60 years	+1 year	57 012	67 946
		-1 year	58 930	70 847

We have assessed the impact of CPI increasing / decreasing by 3% and the results are as follows:

- An increase of 3% will result in an increase of the liability to R143.6m (2022: R155.9m) for Group, and R76.7m (2022: R92.7m) for Company.
- A decrease of 3% will result in a decrease of the liability to R81.0m (2022: R84.7m) for Group, and R46.6m (2022: R54.2m) for Company.



	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
21. Retirement Benefits (continued)				
Amounts recognised in the Statement of profit or loss and other comprehensive income are as follows:				
Current service cost recognised in profit / loss	1 221	1 159	548	502
Interest cost recognised in profit / loss	11 952	12 571	7 366	8 124
Net actuarial (gain) / loss for the year recognised in other comprehensive income	(12 009)	(370)	(13 283)	(2 087)

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 2023 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 independent, qualified experts. The present value of the defined benefits obligations and the related current service cost were measured using the Projected Unit Credit Method.

Defined benefit pension fund

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 utilize 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 2023.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
21. Retirement Benefits (continued)				
Defined benefit provident fund				
Fair value of plan assets	(11 347)	(10 524)	(6 588)	(6 118)
Surplus	(11 347)	(10 524)	(6 588)	(6 118)
Amount allocated to employer surplus account	11 347	10 524	6 588	6 118
Asset not recognized due to asset ceiling	-	-	-	-

The movement in the fair value of plan assets over the year, is as follows:

Balance at beginning of the year	10 524	9 313	6 118	5 407
Interest income	841	841	488	494
Actuarial gain / (loss)	(18)	370	(18)	217
Balance at end of the year*	11 347	10 524	6 588	6 118

Actuarial gain / (loss)**The actuarial gain / (loss) arose as a result of the following:**

Actuarial gain / (loss) arising from investment returns being higher than expected

(18)	370	(18)	217
------	-----	------	-----

The Group expects to make no contribution to the Old Mutual Superfund Defined Benefit Provident fund during the next financial year due to a surplus of R11.4m in the provident fund (Company: R6.6m) (2022: Group: R10.5m, Company: R6.1m).

* The planned assets can be disaggregated into the following categories. The balance of R11.3m for Group (2022: R10.6m) and R6.6m for Company (2022: R6.1m) is included under other receivables and this is expected to be utilised within the next 12 months.

Investment Assets	11 210	10 393	6 508	6 042
Current Assets / Liabilities	136	131	79	76
	11 346	10 524	6 587	6 118

Long service obligation

The company provides long service awards to permanent employees in the form of cash from five years of continuous service and every five years thereafter. An actuarial valuation of the provision for long service awards is conducted annually. The principal actuarial assumptions used included a discount rate of 10.20% (2022: 9.30%) an average salary inflation of 6.80% (2022: 6.10%).

The most recent actuarial valuation of the long service awards was carried out for the current financial year by experts. The present value of the liability was measured using the Projected Unit Credit Method.



21. Retirement Benefits (continued)

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Balance at beginning of the year	24 988	23 648	20 833	18 551
Expensed during the year	4 564	4 509	3 804	3 656
Contributions paid	(4 811)	(3 201)	(3 843)	(1 360)
Actuarial (gain) / loss	(3 815)	32	(3 628)	(14)
Balance at end of the year	20 926	24 988	17 166	20 833
Amounts recognised in the balance sheet are as follows:				
Present value of unfunded obligations	20 926	24 988	17 166	20 833
Current portion	2 778	4 649	1 939	3 716
Non-current portion	18 148	20 339	15 227	17 117
Liability at end of year	20 926	24 988	17 166	20 833
Amounts recognised in the Statement of profit or loss and other comprehensive income are as follows:				
Current service cost	2 512	2 507	2 086	2 034
Interest cost	2 053	2 000	1 719	1 620
Net actuarial loss / (gain) recognised in the year	(3 815)	32	(3 628)	(14)
Membership statistics:				
In-service members	679	672	302	297



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Group		Corporation	
2023 R'000	2022 R'000	2023 R'000	2022 R'000

21. Retirement Benefits (continued)**Sensitivity analysis – unfunded accrued liability**

Assumptions	Change	2023 R	2022 R	2023 R'000	2022 R'000
Central assumptions:		20 927	24 986	17 167	20 832
CPI Inflation	+1%	26 411	26 411	22 256	22 256
	-1%	23 693	23 693	19 538	19 538
Average retirement age	-2 years	21 613	21 613	17 654	17 654
	+2 years	28 133	28 133	23 842	23 842
Discount rate	+1%	23 654	23 654	19 660	19 660
	-1%	26 473	26 473	22 143	22 143

Actuarial loss / (gain)

The actuarial losses / (gains) arose as a result of the following:

Change in benefit arrangement	-	-	-	-
Change in real discount rate	(1 939)	653	(1 797)	686
Lower than expected salary inflation	(764)	(632)	(764)	(631)
Unexpected change in membership	(1 112)	(676)	(1 067)	(688)
Change in expected retirement age	-	687	-	619
	(3 815)	32	(3 628)	(14)

We have assessed the impact of CPI increasing / decreasing by 3% and the results are as follows:

- An increase of 3% will result in an increase of the liability to R24.7m (2022: R29.7m) for Group, and R30.0m (2022: R25.6m) for Company.
- A decrease of 3% will result in a decrease of the liability to R18.0m (2022: R21.4m) for Group, and R14.3m (2022: R17.3m) for Company.



22. Government Grants

The figures for 2022 for Group and Company below have been restated in respect of the Maritime Transport and Manufacture and the Ndumo Project Fund. Refer to **Note 47** for further details pertaining to the restatement.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Government grants - deferred income				
BEE Risk Fund*	4 789	6 599	4 789	6 599
Share participation*	-	7 097	-	7 097
DTI Grant	928	928	928	928
Banking system**	9 304	9 304	-	-
SMME Covid 19 - 2020/2021*	-	31 203	-	31 203
SMME Support Grant	-	500	-	500
Maritime Transport and Manufacture	-	3 633	-	3 633
Other - Ndumo Retail Project	-	603	-	603
Business support funds*	13 980	-	13 980	-
	29 001	59 867	19 697	50 563
Government grants - Other				
EDTEA Equity Fund	124	124	124	124
Total government grants	29 125	59 991	19 821	50 687
Non-current liabilities	5 841	15 351	5 841	15 351
Current liabilities	23 284	44 640	13 980	35 336
	29 125	59 991	19 821	50 687

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 onlending 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. Details of the significant grants received are as per below:

*Business Support Funds

The following grants have been reprioritised to fund the projects initiated by Business Finance to improve its performance and address challenges faced by clients. These funds have been classified as current:

- BEE Risk Fund: R1.8m
- Share Participation Fund: R7.1m
- SMME Covid 19- 2020/2021: R5.1m

The funds will be utilised for the assessment and rehabilitation of distressed farms (R4.3m), business management skills training (R1.0m), design and employment of SMME Funding toolkit (R1.0m), establishment of SMMEs and co-operatives incubation centres in district municipalities (R2.0m), establishment and implementation of business support services programme (R5.0m) and due diligence studies of informal markets (R0.7m).



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

22. Government Grants (continued)

**Banking system

This grant was received by Ithala SOC Ltd for the purposes of assisting in the development of the new banking system. System development has been halted and the full grant funding was not utilised. These funds have been classified as a current liability as the funds are expected to be utilised within the next 12 months.

The movement in the grants has been accounted for as part of financing activities in the Statement of Cash Flows.

Grant Reconciliation - 2023

	Opening Balance Restated	Grant Received	Grant Applied	Reclassified to Other Payables / Reprioritised	Interest earned on funds	Closing Balance
BEE Risk Fund	6 599	-	-	(1 810)	-	4 789
Share participation	7 097	-	-	(7 097)	-	-
DTI Grant	928	-	-	-	-	928
Banking System	9 304	-	-	-	-	9 304
SMME Covid 19 support- 2020/2021	31 202	-	(26 130)	(5 072)	-	-
Ithala SOC Capital Injection	-	65 000	(65 000)	-	-	-
Maritime Transport and Manufacture	3 633	-	(798)	(3 035)	200	-
Other - Ndumo Retail Project	1 104	-	(500)	(604)	-	-
Business Support Funds	-	-	-	13 980	-	13 980
Subtotal***	59 867	65 000	(92 428)	(3 638)	200	29 001
EDTEA Equity Fund	124	-	-	-	-	124
	59 991	65 000	(92 428)	(3 638)	200	29 125



22. Government Grants (continued)

Grant Reconciliation - 2022 Restated	Opening balance	Grant Received	Grant Applied	Reclassified to Other Payables	Interest earned on funds	Closing Balance
BEE Risk Fund	6 599	-	-	-	-	6 599
Share participation	7 097	-	-	-	-	7 097
DTI Grant	928	-	-	-	-	928
Banking System	9 304	-	-	-	-	9 304
SMME Covid 19 support - 2020/2021	60 000	-	(28 798)	-	-	31 202
Ithala SOC Capital Injection	-	65 123	(65 123)	-	-	-
SMME EDF	-	28 509	(28 509)	-	-	-
Support Grant - 2021/2022	-	-	-	-	-	-
Maritime Transport and Manufacture	3 364	-	-	-	269	3 633
COVID-19 Relief fund	360	-	(360)	-	-	-
Other	-	1 085	-	-	19	1 104
Subtotal***	87 652	94 717	(122 790)	-	288	59 867
EDTEA Equity Fund	124	-	-	-	-	124
	87 776	94 717	(122 790)	-	288	59 991

***The difference between the closing balances per the grants reconciliation above and the balance for Corporation in the summary table of R9.3m (2022: R9.3m), relates to the Ithala SOC Ltd's banking system.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

23. Provisions

Reconciliation of provisions - Group - 2023

	Opening balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	17 756	-	-	4 710	22 466
Provision for audit fees	11 066	9 271	(11 066)	-	9 271
Other provisions	438	-	-	-	438
	29 260	9 271	(11 066)	4 710	32 175

Reconciliation of provisions - Group - 2022

	Opening balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	13 644	-	-	4 112	17 756
Provision for audit fees	11 573	11 066	(11 573)	-	11 066
Other provisions	438	-	-	-	438
	25 655	11 066	(11 573)	4 112	29 260

Reconciliation of provisions - Company - 2023

	Opening balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	14 703	-	-	4 423	19 126
Provision for audit fees	5 365	5 493	(5 365)	-	5 493
Other provisions	438	-	-	-	438
	20 506	5 493	(5 365)	4 423	25 057

Reconciliation of provisions - Company - 2022

	Opening balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	10 771	-	-	3 932	14 703
Provision for audit fees	5 194	5 365	(5 194)	-	5 365
Other provisions	438	-	-	-	438
	16 403	5 365	(5 194)	3 932	20 506

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Non-current liabilities	19 126	14 703	19 126	14 703
Current liabilities	13 049	14 557	5 931	5 803
	32 175	29 260	25 057	20 506



23. Provisions (continued)

Provision for landfill site

The landfill rehabilitation provision is created for rehabilitation of the sites that have now been closed down. The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date using CPI. The entity has an obligation to rehabilitate these landfill sites.

Provision for rehabilitation

A provision for the rehabilitation costs arising from the mining activities has been recognised. The entity has an obligation to rehabilitate these mining sites. The prior year provision has been reclassified from non current to current liabilities.

Provision for audit fees

The provision is for statutory audit fees and is in line with the audit strategy document. Audit fees are invoiced on a monthly basis between April and September. There are no expected reimbursements.

Other provisions

The other provisions relate to legal claims against Ithala. The claims relate to non-installation of a security door as well as painting claim laid by the body corporate. The provision is for a short term, hence there was no discounting.

24. Trade and Other Payables

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Financial instruments:				
Trade payables	26 272	18 293	15 036	7 608
Sundry creditors*	481 177	432 146	454 682	395 090
Non-financial instruments:				
Accrued leave pay	28 090	26 502	16 958	18 249
Accrued bonus	4 087	3 956	2 045	1 908
Accruals	124 932	102 447	84 362	69 323
South African Revenue Services	29 259	23 978	3 438	(1 546)
	693 817	607 322	576 521	490 632

*Included in the sundry creditors are funds held by the Group on behalf of other government entities and for EDTEA projects where the entity plays an agency role, as well as rental deposits received from tenants and retention monies held on projects which have been re-invested, as detailed in **Note 15**.

The balances on these projects have been restated for the 2021/22 financial year. Refer to **Note 47 for details pertaining to the restatement.

The carrying amount of trade and other payables approximates fair value.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
24. Trade and Other Payables (continued)				
Balances held by the Group on behalf of other entities for various projects				
Human Settlements Project	145 716	104 551	145 716	104 551
Vulindlela Development Agency Project	2 602	5 237	2 602	5 237
Bulk Buying	21 601	27 684	21 601	27 684
RASET Project	4 051	10 579	4 051	10 579
Operation Vula**	10 511	12 081	10 511	12 081
Storm Disaster	1 069	3 929	1 069	3 929
Shared Infrastructure SMME and Co-operatives Incubation	36 110	37 516	36 110	37 516
Zimele Traders Fund**	17 602	17 571	17 602	17 571
Thokazi Royal Lodge**	10 317	10 019	10 317	10 019
Imbokodo Iyazenzela**	132	205	132	205
Clothing and Textile Hubs**	22 128	17 099	22 128	17 099
Edendale Auto Service Hub**	14 118	10 354	14 118	10 354
Bakery Incubation	5 031	-	5 031	-
Paper and pulp manufacturing	13 418	-	13 418	-
Inkunzi Isematholeni	1 234	-	1 234	-
Ndumo Retail Project	3 406	-	3 406	-
Maritime Transport and Manufacture**	3 035	-	3 035	-
	312 081	256 825	312 081	256 825



24. Trade and Other Payables (continued)

Projects Reconciliation 2023

	Opening balance Restated	Received or reclassified during the year / interest earned	Spent during the year / Funds Reallocated	Management fees	Closing balance
Human settlements Project	104 551	46 407	(4 811)	(431)	145 716
Vulindlela Development Agency	5 237	283	(2 918)	-	2 602
Bulk Buying	27 684	1 470	(6 346)	(1 207)	21 601
RASET Project	10 579	565	(2 091)	(5 002)	4 051
Operation Vula	12 081	555	(2 125)	-	10 511
Storm Disaster	3 929	154	(3 014)	-	1 069
Shared Infrastructure SMME and Co- operatives Incubation	37 516	24 404	(23 012)	(2 798)	36 110
Zimele Traders Fund	17 571	1 009	-	(978)	17 602
Thokazi Royal Lodge	10 019	298	-	-	10 317
Imbokodo Iyazenzela	205	10	(83)	-	132
Clothing and Textile Hubs	17 099	6 128	(477)	(622)	22 128
Edendale Auto Service Hub	10 354	9 495	(5 206)	(525)	14 118
Bakery Incubation	-	5 031	-	-	5 031
Paper and pulp manufacturing	-	13 418	-	-	13 418
Inkunzi Isematholeni	-	1 787	(553)	-	1 234
Ndumo Retail Project	-	10 949	(6 591)	(952)	3 406
Maritime Transport and Manufacture**	-	3 833	(798)	-	3 035
	256 825	125 796	(58 025)	(12 515)	312 081

Projects Reconciliation - 2022

	Opening balance Restated	Received during the year / interest earned	Spent during the year	Closing balance Restated
Human Settlements Project	103 071	2 962	(1 482)	104 551
Vulindlela Development Agency Project	5 104	168	(35)	5 237
Bulk Buying	27 978	901	(1 195)	27 684
RASET Project	32 797	744	(22 962)	10 579
Operation Vula**	18 837	527	(7 283)	12 081
Storm Disaster	7 885	179	(4 135)	3 929
Shared Infrastructure SMME and Co-operatives incubation	15 910	39 000	(17 394)	37 516
Zimele Traders Fund**	16 995	576	-	17 571
Thokazi Royal Lodge**	9 849	170	-	10 019
Imbokodo Iyazenzela**	322	14	(131)	205
Clothing and Textile Hubs**	13 818	5 447	(2 166)	17 099
Edendale Auto Service Hub**	10 015	339	-	10 354
	262 581	51 027	(56 783)	256 825



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
25. Lease Liabilities				
Non-current liabilities	59 861	33 078	12 214	12 716
Current liabilities*	22 187	46 025	381	372
	82 048	79 103	12 595	13 088

*Included in the current liabilities above, is the lease liability for Port Shepstone Quarries (Pty) Ltd. The total of the lease liability has been classified as current, as the subsidiary has ceased operations and the Board of the subsidiary took a decision to prepare the financial statements under the liquidation basis.

**The lease payments reflected in the table below represents the gross payments, including interest. The lease payments on the cash flow reflects the payment of the capital portion only.

Balance as at the beginning of the period	79 103	54 321	13 088	12 460
Additions	15 921	32 322	64	677
Interest Expense	6 440	6 013	1 191	1 168
Lease payments**	(19 416)	(16 741)	(1 748)	(1 217)
Modifications	-	3 188	-	-
	82 048	79 103	12 595	13 088

Maturity Analysis - Undiscounted amounts

With 1 year	22 187	24 289	1 552	1 590
Two to five years	57 157	36 760	5 373	5 505
After 5 years	72 639	73 983	24 597	25 939
Interest	(69 935)	(55 929)	(18 927)	(19 946)
	82 048	79 103	12 595	13 088



26. Cash Generated from Operating Activities

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Net (loss) / income before taxation	(9 861)	255 216	213 165	171 105
Adjustment for non-cash items:				
Expected credit loss - loans and advances	72 040	14 115	60 117	16 908
Expected credit loss - trade and other receivables	35 506	57 364	28 501	43 777
Impairment of non-current assets held for sale	(1 015)	523	(583)	937
Depreciation and amortisation	38 451	37 453	16 741	16 728
Movement in straightlining of operating lease income (Note 7)	(10 886)	14 345	(10 790)	13 221
Movement in NCI	(1 869)	22	-	-
Fair value movements in:				
- Investment Property (Note 3)	15 991	113 585	(2 949)	112 423
- Investments in cell captives (Note 12)	(5 889)	(5 974)	(5 889)	(5 974)
- Investment in listed shares (Note 12)	1 718	(2 204)	1 718	(2 204)
Loss / (Profit) on disposal of assets	1 455	149	703	703
Government grants applied (Note 22)	(65 000)	(93 932)	(65 000)	(93 932)
Impairment of deposits with banks	(3 223)	(4 464)	-	-
Impairment of deposits with banks	3 223	4 464	-	-
Impairment of investment in subsidiaries	-	-	48 163	70 956
Properties in possession costs transfer	1 367	-	1 367	-
Movement in retirement benefit obligation (Note 21)	13 173	13 729	7 914	8 626
Long service obligations (Note 21)	750	4 541	177	3 643
Movement in provisions:				
- Provision for rehabilitation (Note 23)	4 710	4 112	4 423	3 933
- Movement in audit fees (Note 23)	(1 795)	(507)	128	171
Interest from borrowings and lease liability (Note 19 and 25)	8 460	7 898	3 186	3 029
Dividends accrued	(722)	(377)	(722)	(377)
Dividend accrued - Sundumbili	-	-	(198 227)	-
Net cash generated from operating activities	96 584	420 058	102 143	363 673
Changes in working capital:				
Increase in trade and other payables	89 547	3 682	85 675	5 917
Decrease / (increase) in trade and other receivables	43 633	(389 362)	28 190	(308 776)
Decrease / (Increase) in inventories	420	1 196	226	(39)
Employee benefits	(12 556)	(10 443)	(9 456)	(6 833)
Deposits received from / (paid to) customers	20 422	(115 519)	-	-
Current portion of loans to subsidiaries	-	-	(29 564)	(39 458)
	141 466	(510 446)	75 071	(349 189)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023**

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
27. Tax Paid				
Balance at beginning of the year	(15 105)	2 182	-	-
Current tax for the year recognised in profit or loss	(6 000)	(22 902)	-	-
Prior year overprovision	16 910	-	-	-
Balance at end of the year	3 006	15 105	-	-
	(1 189)	(5 615)	-	-
28. Commitments				
Capital commitment				
• Authorised and contracted	48 413	111 782	40 474	55 568

The capital commitments at Group has decreased significantly as Ithala SOC Ltd will not be continuing with the banking system contract as it does not meet the requirements, therefore there is no commitment for the completion of this project in the current year.

29. Related Parties

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.

Relationships

Holding Company	KZN Department of Economic Development, Tourism and Environmental Affairs
Subsidiaries	Ithala SOC Limited (100% owned) Nongoma Plaza (Pty) Ltd (99% owned) Durban Wharfside Trust (100% owned) Ubuciko Fabrics and Twines (Pty) Ltd (100% owned) Port Shepstone Quarries (Pty) Ltd (100% owned) Sibaya Conservation Project (Pty) Ltd (100% owned) KwaZulu-Natal Property Development Holdings (SOC) Ltd (100% owned)
Associates	Rocktail Bay Dev Co. (Pty) Ltd Mabibi Development Company (Pty) Ltd Banzi Pan Development Company (Pty) Ltd Ntingwe Tea Farming (Pty) Ltd
Joint venture	Ulundi Shopping Centre Pty Ltd
Members of key management	PS Bengu B Mapisa (Resigned 31 March 2023) Dr M Muthusamy (Appointed 1 July 2022) B Shangase XE Mkhize TN Mthethwa K Cele AR Malope (Appointed 9 October 2022)

Compensation paid to key management is disclosed under **note 43**.



29. Related Parties (continued)

Related party balances and transactions with subsidiaries

Loans owing by subsidiaries to IDFC

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Ithala SOC Limited	-	-	56 493	17 899
Nongoma Plaza	-	-	60 329	61 232
Sundumbili Plaza	-	-	15 430	24 460
Durban Wharfside Trust	-	-	66 287	62 404
Sibaya Conservation	-	-	4 183	4 183
Port Shepstone Quarries	-	-	56 036	53 035
Ubuciko Twines and Fabrics	-	-	82 660	82 525
	-	-	341 418	305 738

Transactions and balances with subsidiaries and IDFC

Ithala SOC Limited

Interest paid on customer deposits and retention accounts	-	-	384	397
Shared services	-	-	6 677	6 763
Rental income	-	-	4 903	4 712
Recovery of operating expenses	-	-	439	406
Funds transferred to Ithala SOC Limited	-	-	65 000	65 123
Deposits due to properties tenants	-	-	53 884	50 807
Outstanding balance on savings and fixed deposits	-	-	13 537	17 652

Nongoma Plaza

Management fees earned	-	-	806	612
Interest income from loans	-	-	2 727	1 990
Insurance	-	-	135	295
Other	-	-	2	2

Sundumbili Plaza

Sale of refuse	-	-	168	294
Management fees earned	-	-	689	601
Interest income from loans	-	-	1 549	1 558
Insurance	-	-	-	347
Other	-	-	-	2
Dividends	-	-	198 227	-

Durban Wharfside Trust

Distribution received	-	-	3 724	9 300
Management fees earned	-	-	485	229
Insurance	-	-	60	207

Port Shepstone Quarries

Directors' fees	-	-	476	460
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	-	-	353 872	161 297
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Group

Company

2023 R'000	2022 R'000	2023 R'000	2022 R'000
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29. Related Parties (continued)**Related party balances and transactions with associates****Loans owing by associates to IDFC*****

Rocktail Bay Dev Co. (Pty) Ltd	595	569	595	569
Mabibi Development Company (Pty) Ltd	1 736	1 611	1 736	1 611
Banzi Plan Development Company (Pty) Ltd	6 931	6 931	6 931	6 931
Ntingwe Tea (Pty) Ltd***	65 694	65 694	65 694	65 694
	74 956	74 805	74 956	74 805

Loan owing by joint venture to IDFC

Ulundi Shopping Centre	4 039	4 152	4 039	4 152
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Balances held on behalf of associates

Ntingwe Tea Farming (Pty) Ltd	23 767	23 993	23 767	23 993
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Transactions with associates and IDFC

Management fee - Rocktail Bay Dev. Co (Pty) Ltd	26		26	
Management fee - Mabibi Development Company (Pty) Ltd	125	112	125	112

Transactions with joint venture and IDFC**Ulundi Shopping Centre**

Interest income	113	255	113	255
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Group		Company	
2023 R'000	2022 R'000	2023 R'000	2022 R'000

29. Related Parties (continued)

Related party balances and transactions with other related parties

Balances between IDFC and other Government Departments and EDTEA

Department of Human Settlements	145 716	104 551	145 716	104 551
Vulindlela Development Agency	2 602	5 237	2 602	5 237
Bulk Buying Project	21 601	27 684	21 601	27 684
Storm Disaster	1 069	3 929	1 069	3 929
RASET Project	4 051	10 579	4 051	10 579
Operation Vula**	10 511	12 081	10 511	12 081
Clothing and Textile Hubs**	22 128	17 099	22 128	17 099
Edendale Auto Service Hub**	14 118	10 354	14 118	10 354
Thokazi Royal Lodge**	10 317	10 019	10 317	10 019
Zimele Traders**	17 602	17 571	17 602	17 571
Imbokodo Iyazenzela**	132	205	132	205
Shared Infrastructure SMME and Co-operatives	36 110	37 516	36 110	37 516
Maritime Transport and Manufactured**	3 035	3 633	3 035	3 633
SMME Support	-	500	-	500
Other - Ndumo Retail Project**	3 406	603	3 406	603
Bakery Incubation	5 031	-	5 031	-
Paper and pulp manufacturing	13 418	-	13 418	-
Inkunzi Isematholeni	1 234	-	1 234	-
Business support funds	13 980	-	13 980	-
Banking system	9 304	9 304	9 304	9 304
SMME Covid 19 Support - 2020/2021	-	31 202	-	31 202
BEE Risk Fund	-	6 599	-	6 599
Share participation	-	7 097	-	7 097
DTI Grant	928	928	928	928
	336 293	307 387	336 293	307 387

Transactions between Corporation and other EDTEA subsidiaries

Rental income	4 609	4 460	4 609	4 460
Parking	717	775	717	775
Recovery of operating expenses	816	679	816	679
	6 142	5 914	6 142	5 914



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Group

Company

2023 R'000	2022 R'000	2023 R'000	2022 R'000
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29. Related Parties (continued)

The following funds were received from EDTEA and other KZN Government Departments

Ithala SOC Capital injection	65 000	65 123	65 000	65 123
Inkunzi Isematholeni	1 750	-	1 750	-
Bakery Incubation	5 000	-	5 000	-
Ndumo Retail project	10 500	-	10 500	-
Clothing and Textile Hub	5 000	5 000	5 000	5 000
Edendale Autoservice Hub	9 000	-	9 000	-
Paper and pulp manufacturing	13 410	-	13 410	-
SMME EDF Support Grant - 2021/2022	-	28 509	-	28 509
Shared Infrastructure SMME and Co-operatives	23 500	39 000	23 500	39 000
Human settlements - Emergency transition housing	41 346	-	41 346	-
	174 506	137 632	174 506	137 632

Transactions between Ithala SOC Limited and other IDFC subsidiaries**Rental**

Nongoma Plaza (Pty) Ltd	503	470	-	-
Sundumbili Plaza (Pty) Ltd	297	342	-	-
Rental Deposits Held by Ithala SOC Limited				
Nongoma Plaza (Pty) Ltd	878	638	-	-
Sundumbili Plaza (Pty) Ltd	-	1 420	-	-
Wharfside Trust	915	754	-	-
	2 593	3 624	-	-



	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
29. Related Parties (continued)				
Directors' emoluments for other subsidiaries				
ZB Zwane	132	103	-	-
CS Gina	417	414	-	-
Transactions between Ithala SOC Limited and entities owned by EDTEA				
Deposits due to customers held by Ithala SOC Limited for KZN Growth Fund	107 590	83 846	-	-
Interest expense on KZN Growth Fund Deposits	7 493	5 079	-	-
Loans to members of Provincial Legislature, EDTEA and IDFC Board Members				
Loans Granted	53 345	75 738	53 345	75 738
Outstanding Balance	35 735	47 209	35 735	47 209
Arrears	9 106	7 580	9 106	7 580
Specific Impairment Charge	11 739	6 974	11 739	6 974
Security Amount	80 935	26 907	80 935	26 907
Interest received	2 763	1 672	2 763	1 672
Loans to key management personnel - Ithala SOC Limited				
Outstanding balance	12 465	8 665	-	-
Security amount	17 325	10 253	-	-
Interest received	734	299	-	-
Loans granted by Ithala SOC Limited to executive management of the Company				
Outstanding Balance	1 563	2 287	-	-
Security amount	2 630	4 930	-	-
Interest received	124	136	-	-
Transactions between fellow IDFC Subsidiaries				
Nongoma and Sundumbili	-	190	-	-

*Refer to Note 9 for impairments raised as at 31 March 2023 on these loans and the movement in the impairments from the prior year.

**The balances on these projects have been restated for the 2021/22 financial year. Refer to Note 47 for details pertaining to the restatement.

***The difference between the loan balances owing by associates above and the balance per the investment in associates note (**Note 13**), relates to Ntingwe that is included in other sundry debtors.

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.

29. Related Parties (continued)

Below is a list of Companies and affected employees.

Directors associations

2023 and 2022

Subsidiaries , Associates, and Joint ventures

Subsidiaries , Associates, and Joint ventures	Ms P Bengu	Ms Farhana Abdool Kader	Dr M Muthusamy	Mr B Shangase	Mr SD Khwela	Mrs R Sompersadh	Mr T Moumakwa	Mr M Malishe
Nongoma Plaza (Pty) Ltd		x			x			
Sundumbili Plaza (Pty) Ltd		x			x			
The Durban Wharfside Trust		x						
Sibaya Conservation Projects (Pty) Ltd		x						
Rocktail Bay Dev Co (Pty) Ltd					x			
Banzi Pan Development Company (Pty) Ltd		x						
Mabibi Development Company Pty Ltd		x						
Ubuciko Twines & Fabrics (Pty) Ltd			x					
Port Shepstone Quarries (Pty) Ltd Ntingwe Tea (Pty) Ltd		x	x	x			x	
KwaZulu-Natal Property Development Holding (KPDH)				x		x		x
Ulundi Shopping Centre		x			x			
Cowslip (Pty) Ltd	x							



30. Financial Risk Management

Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for the year 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.

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 group. 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.

Credit risk

Credit risk is the risk of potential loss from the failure of customers, clients or counter parties to fulfil obligations to the group. In order to minimise the potential for loss, the group 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 company'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, maybe 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 company while ensuring compliance with credit policies set by the Board.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

30. Financial Risk Management (continued)

Problem exposures, when they arise, are initially dealt with by Line Management unless further degeneration occurs whereupon they are attended to by the company'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 counter-party is under judicial management or declared insolvent and management believes that further recoveries are no longer probable.

Credit risk measurement

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 varies 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 company 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.

Credit risk grading

The company uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The company 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.

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 company.
- 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 the next note for a description of how the company determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'stage 3'. Please refer to next note for a description of how the company 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 the next note 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 company incorporates both forward-looking as well as historical information in determining whether such deterioration has occurred.



30. Financial Risk Management (continued)

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) Lifetime expected credit loss	(Credit-impaired assets) Lifetime expected credit losses
8 581	35 720	461 441

The key judgements and assumptions adopted by the group in addressing the requirements of the standard are discussed below:

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 criteria have been met:

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-annually basis at a portfolio level for all financial instruments held by the company. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

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 company has not used the low credit risk exemption for any financial instruments in the year ended 31 March 2023.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

30. Financial Risk Management (continued)

The following table shows the impact on the 31 March 2023 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 R'000	Lower threshold R'000	Higher threshold R'000
Housing loans 31 March 2023				
<=545	<=545	47	22 383	22 430
545-570	545-570	130	8 380	8 510
570-605	570-605	837	16 082	16 919
605-625	605-625	507	10 981	11 488
625-650	625-650	809	5 619	6 428
650-675	650-675	302	2 574	2 875
675-999	675-999	827	2 223	3 050
31 March 2022				
<=545	<=545		17 329	17 329
545-570	545-570		6 304	6 304
570-605	570-605		17 519	17 519
605-625	605-625		6 849	6 849
625-650	625-650		6 020	6 020
650-675	650-675		3 070	3 070
675-999	675-999		3 377	3 377
Micro-finance unsecured loans 31 March 2023				
550-590	550-590		-	-
590-625	590-625		-	-
625-999	625-999		-	-
31 March 2022				
<=550	<=550		149	149
550-590	550-590		-	-
590-625	590-625		19	19
625-999	625-999		149	149
Micro-finance secured loans 31 March 2023				
<=600	<=600	1 265	13 483	14 748
600-699	600-699	1 653	10 522	12 176
31 March 2022				
<=600	<=600	46	11 426	11 472
600-699	600-699	60	6 210	6 270



30. Financial Risk Management (continued)

Company 2023

Product Type	Arrears Status	12 - Months PD	Absolute Increase	Relative Increase
Agri- Finance	Performing	19,0%	34,1%	179,8%
	Partial Arrears	53,1%		
Asset Finance	Performing	13,1%	43,9%	336,1%
	Partial Arrears	57,0%		
Commercial Property	Performing	10,6%	55,5%	523,2%
	Partial Arrears	66,1%		
Franchise Finance	Performing	6,0%	25,6%	426,1%
	Partial Arrears	31,6%		
Micro Finance	Performing	6,1%	22,6%	367,7%
	Partial Arrears	28,7%		
Procurement Finance	Performing	29,8%	27,5%	92,2%
	Partial Arrears	57,3%		
Structured finance	Performing	15,4%	73,2%	475,4%
	Partial Arrears	88,7%		

2022

Product Type	Arrears Status	12 - Months PD	Absolute Increase	Relative Increase
Agri - Finance	Performing	18,3%	44,8%	245.3%
	Partial Arrears	63,1%		
Asset Finance	Performing	13.8%	44.2%	319.4%
	Partial Arrears	58.0%		
Commercial Property	Performing	11,0%	54,0%	492.2%
	Partial Arrears	65,0%		
Franchise Finance	Performing	6,1%	29,3%	484,6%
	Partial Arrears	35,4%		
Micro Finance	Performing	6,3%	22,5%	358,9%
	Partial Arrears	28,8%		
Procurement Finance	Performing	31,8%	27.8%	87,3%
	Partial Arrears	59.6%		
Structured Finance	Performing	15,8%	42,7%	270,0%
	Partial Arrears	58.5%		

Definition of default and credit-impaired assets

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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

30. Financial Risk Management (continued)

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 company 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 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 company 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 company's expected loss calculation.

A back stop 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.



30. Financial Risk Management (continued)

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 (LGD), 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 company 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 company 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 (LGD) represents the company’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.

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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

30. Financial Risk Management (continued)

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group 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 judgment has also been applied in this process.

Forecasts of these economic variables are sourced from various trusted economic sources such as Statistic 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.

Changes in the model and assumptions used to calculate ECL for the current year

The model has been recalibrated for the financial year-end to include data up to January 2023. Model parameters and PD segments were recalculated to incorporate this information which resulted in shifts in the parameters.

Additional model and assumption changes are listed below:

- The time to collateral recovery assumption applied within the LGD model was adjusted to 24 months based on historical sales information.
- Adjusted the provisioning model so that loans that have been in default for more than 60 months are fully provided for,
- A new macroeconomic model was introduced which uses GDP, CPI and real credit extension to firms as predictors for transforming through-the-cycle PDs to point-in-time PDs.



30. Financial Risk Management (continued)

The most significant period-end assumptions used for the ECL estimate as at 31 March 2023 are set out below. The scenario 'Base', 'Optimistic' and 'Downturn' were used for all portfolios.

Company

		2024	2025	2026	2027
Gross Domestic Product (GDP) (Rbn)	Base	4 674	4 770	4 876	4 986
	Optimistic	4 767	4 920	5 087	5 243
	Downturn	4 536	4 655	4 772	4 876
Real Credit Extension to Firms (%)	Base	0,73 %	2,44 %	3,39 %	4,05 %
	Optimistic	1,79%	3,77 %	5,28 %	5,97 %
	Downturn	(2,15)%	1,31 %	2,68 %	3,30 %
Consumer Price Index	Base	115	121	126	132
	Optimistic	115	120	126	132
	Downturn	116	122	127	133

Ithala SOC Limited

		2024	2025	2026
Household income to disposal income	Base	64	65	65
	Optimistic	67	66	65
	Downturn	61	60	58
Unemployment (%)	Base	35,00 %	35,50 %	35,80 %
	Optimistic	31,40 %	31,50 %	29,50 %
	Downturn	38,30 %	39,20 %	40,20 %
Gross Domestic Product (GDP) (Rbn)	Base	4 733	4 825	4 916
	Optimistic	5 019	5 207	5 395
	Downturn	4 203	4 171	4 153
Consumer Price Index (CPI)	Base	117	122	127
	Optimistic	115	120	123
	Downturn	119	126	134
Repo rate	Base	6,75 %	6,00 %	5,75 %
	Optimistic	6,00 %	5,50 %	5,25 %
	Downturn	8,25 %	8,50 %	8,50 %

The weightings assigned to each economic scenario at 31 March 2023 were as follows:

	Base	Optimistic	Downturn
All portfolios (Company)	50 %	15 %	35 %
All portfolios (Ithala SOC Ltd)	77 %	5 %	18 %

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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

30. Financial Risk Management (continued)

Scenario Sensitivity

The most significant assumptions affecting the ECL allowance are as follows:

- Domestic GDP
- Prime rate; or CPI
- Unemployment

Set out below are the changes to the ECL as at 31 March 2023 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).

Ithala SOC Limited

2023	Unemployment rate (R'000)	Gross Domestic Products (GDP) R'000	Consumer Price Index R'000	REPO R'000
[-0.50%]	92 356	92 356	92 352	92 356
No change	92 356	92 356	92 356	92 356
[+0.50%]	92 356	92 356	92 351	92 356

2022	Unemployment Rate (R'000)	Household Debt to Nett Disposable income R'000	Gross Domestic Product (GDP) R'000	Consumer Price Index R'000	REPO R'000
[-0.50%]	78 532	78 533	78 529	78 536	78 508
No change	78 532	78 532	78 532	78 532	78 532
[+0.50%]	78 535	78 533	78 534	78 537	78 532

Company

2023	GDP R'000	Real credit extension to firms R'000	CPI R'000
[-1%]	413 202	413 208	413 191
No change	413 209	413 209	413 209
[+1%]	413 206	413 209	413 226

2022	GDP R'000	Real Credit extension to Firms R'000	CPI R'000
[-1%]	353 165	355 761	344 230
No change	135 138	353 138	353 138
[+1%]	353 111	350 516	359 921



30. Financial Risk Management (continued)

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 company to be statistically credible.

Where sufficient information is not available internally, the company 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 reviews on a periodic basis by the Credit Risk team.

Maximum exposure to credit - Financial instruments subject to impairment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

30. Financial Risk Management (continued)

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 loans and advances below also represents the company's maximum exposure to credit risk on these financial assets.

Housing and Commercial Property - Ithala SOC Limited

	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	R'000	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	R'000
Current	932 279	419 010	15 929	1 367 218	975 220	400 805	15 413	1 391 438
30 days	-	39 145	2 504	41 649	-	48 061	4 326	52 387
60 days	-	38 978	14 294	53 272	-	24 497	7 333	31 830
90 days and above	-	-	138 408	138 408	-	-	120 072	120 072
Loss allowance	932 279 (1 804)	497 133 (19 686)	171 135 (46 859)	1 600 547 (68 349)	975 220 (2 351)	473 363 (19 587)	147 144 (38 423)	1 595 727 (60 361)
Carrying amount	930 475	477 447	124 276	1 532 198	972 869	453 776	108 721	1 535 366

Micro finance - secured - Ithala SOC Limited

	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	R'000	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	R'000
Current	561 966	47 323	4 719	614 008	421 010	61 571	5 106	487 687
30 days	3 290	43 076	1 126	47 492	3 791	18 228	771	22 790
60 days	-	21 137	3 243	24 380	-	14 508	3 369	17 877
90 days and above	-	-	24 671	24 671	-	-	11 475	11 475
Loss allowance	565 256 (2 357)	111 536 (7 783)	33 759 (13 865)	710 551 (24 005)	424 801 (2 143)	94 307 (8 831)	20 721 (6 664)	539 829 (17 638)
Carrying amount	562 899	103 753	19 894	686 546	422 658	85 476	14 057	522 191





30. Financial Risk Management (continued)

Micro finance - unsecured loans - Ithala SOC Limited

	2023			2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000
Current	-	-	-	-	87	65
60 days	-	-	-	-	89	-
90 days and above	-	-	-	-	-	111
Loss allowance	-	-	-	-	176	176
	-	-	-	-	(145)	(172)
Carrying amount	-	-	-	-	31	4
						35

Micro finance - unsecured loans- Company

	2023			2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000
Current	5 228	4 365	-	2 341	5 501	60
30 days	-	114	-	-	1	-
60 days	-	382	156	-	14	-
90 days and above	-	-	4 805	-	-	3 698
Loss allowance	5 228	4 861	4 961	2 341	5 516	3 758
	(64)	(233)	(4 604)	(37)	(141)	(3 506)
Carrying amount	5 164	4 628	357	2 304	5 375	252
			10 149			7 931



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

30. Financial Risk Management (continued)

Agri Finance - Company

	2023				2022			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	Total R'000	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	Total R'000
Current	33 661	13 572	35	47 268	37 724	1 391	5 000	44 115
30 days	-	3 879	-	3 879	-	-	-	-
60 days	-	1 115	6 612	7 727	-	16 681	4 084	20 765
90 days and above	-	-	231 465	231 465	-	-	201 600	201 600
Loss allowance	33 661 (221)	14 687 (1 732)	238 112 (152 827)	290 339 (154 780)	37 724 (79)	18 072 (237)	210 684 (121 176)	266 480 (121 492)
Carrying amount	33 440	12 955	85 285	135 559	37 645	17 835	89 508	144 988

Franchise Finance - Company

	2023				2022			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	Total R'000	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	Total R'000
Current	21 102	3 319	-	24 421	19 807	7 663	440	27 910
30 days	-	-	-	-	-	2 851	-	2 851
60 days	-	-	-	-	-	-	1 924	1 924
90 days and above	-	-	23 536	23 536	-	-	22 938	22 938
Loss allowance	21 102 (285)	3 319 (35)	23 536 (21 329)	47 957 (21 649)	19 807 (727)	10 514 (1 268)	25 302 (22 349)	55 623 (24 344)
Carrying amount	20 817	3 284	2 207	26 308	19 080	9 246	2 953	31 279



30. Financial Risk Management (continued)

Procurement Finance - Company

	2023			2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000
Current	9 215	10 604	-	2 018	7 443	38
30 days	-	829	-	-	1 995	-
60 days	-	264	937	-	403	307
90 days and above	-	-	46 862	-	-	39 867
Loss allowance	9 215 (652)	11 697 (1 084)	47 799 (46 291)	2 018 (74)	9 841 (1 288)	40 212 (34 552)
Carrying amount	8 563	10 613	1 508	1 944	8 553	5 660
			20 684			16 157

Commercial Property Finance - Company

	2023			2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000
Current	19 412	35 278	-	41 606	4 325	34
30 days	-	-	931	-	-	-
60 days	-	964	-	-	-	-
90 days and above	-	-	75 077	-	-	68 509
Loss allowance	19 412 (295)	36 242 (615)	76 008 (47 441)	41 606 (192)	4 325 -	68 543 (41 968)
Carrying amount	19 117	35 627	28 567	41 414	4 325	26 575
			83 311			72 314



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

30. Financial Risk Management (continued)

Asset Finance - Company

	2023				2022			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	Total R'000	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	Total R'000
Current	42 874	22 883	12 744	78 501	33 619	3 135	87	36 841
30 days	-	4 586	-	4 586	-	3 300	-	3 300
60 days	-	-	-	-	-	-	-	-
90 days and above	-	-	77 177	77 177	-	-	86 251	86 251
Loss allowance	42 874	27 469	89 921	160 264	33 619	6 435	86 338	126 392
	1 764	5 851	76 735	84 350	(774)	(418)	(75 104)	(76 296)
Carrying amount	44 638	33 320	166 656	244 614	32 845	6 017	11 234	50 096

Structured Finance - Company

	2023				2022			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	Total R'000	12-month ECL R'000	Lifetime ECL R'000	Lifetime ECL R'000	Total R'000
Current	-	6 499	9 712	16 211	8 409	-	9 104	17 513
30 days	-	-	-	-	-	-	-	-
60 days	-	-	-	-	-	-	-	-
90 days and above	-	-	49 228	49 228	-	-	46 232	46 232
Loss allowance	-	6 499	58 940	65 439	8 409	-	55 336	63 745
	-	1 399	51 533	52 932	(931)	-	(48 416)	(49 347)
Carrying amount	-	7 898	110 473	118 371	7 478	-	6 920	14 398



30. Financial Risk Management (continued)

Maximum exposure to credit risk - loans and advances

The Group'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 Group 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:

The Group's collateral held against the loans amount to R4.0bn (2022:R4,0bn) , made up of mortgage bonds linked to properties valued at year end, cash, credit agreements, notarial bonds, pledged investments, pension and provident fund assets, cession of income, term deposits and moveable assets, suretyships and where appropriate, key policies.

	2023				2022			
	Gross exposure R'000	Impairment allowance R'000	Carrying amount R'000	Fair value of collateral held R'000	Gross exposure R'000	Impairment allowance R'000	Carrying amount R'000	Fair value of collateral held R'000
Loans and advances								
Housing and commercial property	1 584 567	(65 350)	1 519 217	2 682 755	1 576 199	(57 062)	1 519 137	2 831 104
Micro finance - secured	710 551	(24 005)	686 546	954 650	539 829	(17 638)	522 191	817 210
Micro finance - unsecured	15 050	(4 901)	10 149	18	18 414	(7 516)	10 898	66
Agri-finance	290 339	(154 779)	135 560	186 110	266 490	(121 492)	144 998	205 750
Franchise finance	47 957	(21 649)	26 308	25 223	55 623	(24 343)	31 280	19 357
Procurement finance	68 711	(48 027)	20 684	5 591	52 072	(35 915)	16 157	6 283
Commercial property	131 662	(48 351)	83 311	96 606	114 474	(42 160)	72 314	101 382
finance Asset finance	160 264	(84 349)	75 915	38 393	126 392	(76 295)	50 097	56 150
Structured finance	65 439	(52 932)	12 507	2 350	63 745	(49 347)	14 398	3 264
Total loans and advances	3 074 540	(504 343)	2 570 197	3 991 696	2 813 238	(431 768)	2 381 470	4 040 566

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023****30. Financial Risk Management (continued)**

Below is the credit impaired (Stage 3) loans and advances with their collateral

	2023				2022			
	Gross exposure R'000	Impairment allowance R'000	Carrying amount R'000	Fair value of collateral held R'000	Gross exposure R'000	Impairment allowance R'000	Carrying amount R'000	Fair value of collateral held R'000
Credit impaired loans and advances								
Housing and commercial property	171 135	(46 860)	124 275	272 326	147 145	(38 639)	108 506	250 745
Micro finance - secured	33 759	(13 865)	19 894	40 044	20 721	(6 664)	14 057	28 061
Micro finance - unsecured	4 961	(4 604)	357	18	3 934	(3 678)	256	19
Agri-finance	238 112	(152 826)	85 286	115 603	210 685	(121 176)	89 509	112 293
Franchise finance	23 536	(21 329)	2 207	1 011	25 302	(22 349)	2 953	1 519
Procurement finance	47 799	(46 291)	1 508	4 843	40 213	(34 552)	5 661	4 847
Commercial property finance	76 008	(47 441)	28 567	32 346	68 543	(41 968)	26 575	28 028
Asset finance	89 922	(76 735)	13 187	9 711	86 338	(75 104)	11 234	16 590
Structured finance	58 940	(51 533)	7 407	2 350	55 336	(48 416)	6 920	2 166
Total credit-impaired loans and advances	744 172	(461 484)	282 688	478 252	658 217	(392 546)	265 671	444 268

Write-off policy

The 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 2023 for Group was R18.3m (2022: R32.2m) and Company was R14.0m (2022: R27.8m).



30. Financial Risk Management (continued)

The tables below reflect accounts by product wherein no expected credit loss was raised / recognised due to the value of collateral being more than the loan balance.

Group 2023	Loan Balances (R'000)	Security Held (R'000)
Cash Loans	7 808	45 117
Pension Backed Loans	68 075	160 732
Mortgage	221 088	913 406
Vehicle Finance	2 328	10 889
Taxi Finance	1 022	4 808
Agri Finance	8 789	14 641
Asset Finance	2 803	14 130
Com / Prop Finance	4 687	4 881
Franchise Finance	2 079	125
	318 679	1 168 729
Group 2022	Loan Balances (R'000)	Security Held (R'000)
Cash Loans	11 020	48 249
Pension Backed Loans	85 832	183 919
Mortgage	263 570	1 049 576
Vehicle Finance	1 341	8 052
Taxi Finance	87	2 269
Agri Finance	63 453	118 023
Asset Finance	5 813	10 309
Com / Prop Finance	18 843	49 084
Franchise Finance	8 371	15 711
Procurement Finance	123	748
Structured finance	1 004	1 239
	459 457	1 487 179
Company 2023	Loan Balances (R'000)	Security Held (R'000)
Agri Finance	8 789	14 641
Asset Finance	2 803	14 130
Com/Prop Finance	4 687	4 881
Franchise Finance	2 079	125
	18 358	33 777
Company 2022	Loan Balances (R'000)	Security Held (R'000)
Agri Finance	63 453	118 023
Asset Finance	5 813	10 309
Com/Prop Finance	18 843	49 084
Franchise Finance	8 371	15 711
Procurement Finance	123	748
Structured Finance	1 004	1 239
	97 607	195 114



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Group		Company	
2023 R'000	2022 R'000	2023 R'000	2022 R'000

30. Financial Risk Management (continued)**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:

- The risk of a default occurring at the reporting date (based on the modified contractual terms); and
- 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 conditions that are more favourable for the borrower than the group has provided initially.

Rescheduled / renegotiated loans include extended payment arrangements, modification and deferral of payments:

Continuing to be impaired after rescheduling:

Franchise Finance	-	2 363	-	2 363
Commercial Property Finance	5 597	-	5 597	-
Asset Finance	12 579	-	12 579	-
Housing Loans	1 678	2 233	-	-
Micro Finance - secured	2 626	2 149	-	-
Structured Finance	1 415	-	1 415	-

**Non-impaired after rescheduling
– would otherwise have been impaired:**

Commercial Property Finance	20 499	-	20 499	-
Asset Finance	-	4 465	-	4 465
Housing Loans	-	11 311	-	-
Micro Finance - secured	-	2 773	-	-

**Non-impaired after rescheduling
– would otherwise not have been impaired:**

Agri Finance	1 382	-	1 382	-
Asset Finance	1 245	-	1 245	-
	47 021	25 294	42 717	6 828



30. Financial Risk Management (continued)

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 risk of a default occurring at the reporting date (based on the modified contractual terms);

- 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 of 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 assets and 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

2023

	One year	From two to five years	After Five Years
Financial liabilities			
Borrowings	8 641	15 872	-
Deposits due to customers	2 378 505	37 750	-
Trade and other payables	507 933	-	-
Lease liabilities	22 187	57 157	72 639
	2 917 266	110 779	72 639



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

30. Financial Risk Management (continued)

2022	One year	From two to five years	After Five Years
Financial liabilities			
Borrowings	8 593	23 330	-
Deposits due to customers	2 360 691	35 142	-
Trade and other payables	450 435	-	-
Lease liabilities	24 289	36 760	73 984
	2 844 008	95 232	73 984

Company

2023	One year	From two to five years	After Five Years
Financial Liabilities			
Borrowings	8 641	15 872	-
Trade and other payables	469 718	-	-
Lease liabilities	1 552	5 373	24 597
	481 463	26 618	24 597

2022	One year	From two to five years	After Five Years
Financial liabilities			
Borrowings	8 593	23 330	-
Trade and other payables	402 698	-	-
Lease liabilities	1 590	5 505	25 939
	412 881	28 835	25 939

The Group has sufficient financial resources to meet all payments as they fall due. 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 R683.0 million (2022: R479 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.



30. Financial Risk Management (continued)

The Groups' 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 an undrawn credit facility of R100 million at the end of the reporting period.

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.

Management has developed an enterprise risk management framework, which is used to manage the Group's exposure to interest rate and equity price risk. Management reports to the Board on a quarterly basis on its efforts to mitigate the exposure of the Group. The objectives are defined as per below.

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 are 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 and assets 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% lower / higher and all other variables were held constant, the Group's Loss for the year ended 31 March 2023 would decrease by R 14.0m million (2022: Group's profit would increase by R15,4 million) or Group's loss would increase by R 14.3m million (2022: Group's profit would decrease by R 15,4 million). This is mainly attributable to the Group's exposure to interest on its variable financial instruments.

Interest rate forecasts are reviewed monthly taking into account market and economic data available. Pricing of assets are informed by the trends emerging from the review of interest rates and maturity profiles of assets and liabilities.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

30. Financial Risk Management (continued)

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 2023. The Group applies a critical judgment of 5% on the valuation of these investments. If the valuation of the investment at year end had been higher or lower while other variables were held constant, the fair value of investment and fair value gains would have increased or decreased by R 3.2m (2022: R 3.1m).

Foreign exchange risks

The group has no exposure to transactions or balances traded or denominated in foreign currencies.

Operational risk

Operational risk arises from human or system error within daily product and service delivery. It transcends to 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 and Risk Committee.

31. Fair Value Information

Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the group can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.



31. Fair Value Information (continued)

Assets measured at fair value

Group

	2023				2022			
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Assets								
Measured on a recurring basis								
Investment property	-	-	3 284 681	3 284 681	-	-	3 187 570	3 187 570
Investment in Cell Captives*	-	57 773	-	57 773	-	51 884	-	51 884
Investment in SA Corp Real Estate	7 660	-	-	7 660	9 378	-	-	9 378
Total	7 660	57 773	3 284 681	3 350 114	9 378	51 884	3 187 570	3 248 832
Liabilities								
Borrowings **	-	23 124	-	23 124	-	30 151	-	30 151

(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 12.

**The amortised cost of borrowings is equivalent to the fair value. For further details, refer to note 19.



31. Fair Value Information (continued)

Level 3 financial assets

Reconciliation of level 3 assets

Investment property

2023

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).

	Group	Corporation
	2023	2023
	Investment property R'000	Investment property R'000
Balance at 01 April 2022 Restated	3 187 570	2 859 421
Total gains included in profit/loss	(15 990)	2 949
Issuances and purchases	90 997	89 772
Straight line rental	10 886	10 790
Transfers	11 218	136 509
Balance at 31 March 2023	3 284 681	3 099 441

Unrealised gains/(losses) for the period included in profit or loss for level 3 assets held at the end of the reporting period.

	Group	Corporation
	2023	2023
	Investment property R'000	Investment property R'000
Other income	(15 990)	2 949



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

31. Fair Value Information (continued)

2022

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).

	Group	Corporation
	2023	2023
	Investment property R'000	Investment property R'000
Balance at 01 April 2021	3 238 585	2 910 312
Total gains included in profit/loss	(113 585)	(112 423)
Issuances and purchases	72 379	70 217
Straight line rental	(14 345)	(13 221)
Transfer from ROUA	4 536	4 536
Balance at 31 March 2022	3 187 570	2 859 421

Unrealised gains/(losses) for the period included in profit or loss for level 3 assets held at the end of the reporting period.

	Group	Corporation
	2023	2023
	Investment property R'000	Investment property R'000
Other losses	(113 585)	(112 423)

Sensitivity and interrelationships 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).



31. Fair Value Information (continued)

Valuation techniques and inputs for level two and level three assets

Group

Description	Fair value	Valuation technique	Unobservable input	Range (weighted average)
	R'000			%
Investment property	3 284 681	Income capitalisation	Rental escalation	7%
			Expenditure rate	8%
			Capitalisation rate	13,00%
			Vacancy rate	5,00%

Sensitivity and interrelationships of inputs

Description	Fair value	Change in significant unobservable input from (1%) to 1%			
		Effect on profit or loss			
	Cap rate	Favourable		(Unfavourable)	
	%	%	R'000	%	R'000
Investment property	3 284 681	13,00%	12,00%	273 723	14,00% (234 620)

Company

Description	Fair value	Valuation technique	Unobservable input	Range (weighted average)
	R'000			%
Investment property	3 099 441	Income capitalisation	Rental escalation	7%
			Expenditure rate	8%
			Capitalisation rate	13,00%
			Vacancy rate	5,00%

Sensitivity and interrelationships of inputs

Description	Fair value	Change in significant unobservable input from (1%) to 1%			
		Effect on profit or loss			
	Cap rate	Favourable		(Unfavourable)	
	%	%	R'000	%	R'000
Investment property	3 099 441	13,00%	12,00%	258 287	14,00% (221 389)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023****31. Fair Value Information (continued)****Fair Value of Financial Instruments**

	Group		Corporation	
	2023		2023	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	R'000	R'000	R'000	R'000
Financial assets				
Loans and advances	3 090 520	2 630 755	779 422	319 657

	2023			2022		
	Level 2 R'000	Level 3 R'000	Total R'000	Level 2 R'000	Level 3 R'000	Total R'000
Company						
Loans and advances Fair value	-	319 657	319 657	-	252 162	252 162
Group						
Loans and advances Fair value	-	2 630 755	2 630 755	-	2 308 593	2 308 593

IDFC manages an enterprise development fund on behalf of Kwa-Zulu Natal Department of Economic Development, Tourism and Environmental Affairs governed through a funding agreement. The purpose of this 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 the 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	Range (weighted average)
	R'000			%	%

2023

Loans and advances	319 657	Discounting of future cash flows	Risk based rate and prime rate	0,0%-11,1%	4,0% to 15,1%
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2022

Loans and advances	252 162	Discounting of future cash flows	Risk based rate and prime rate	1,0%-7,0%	7% to 13,75%
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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.

Ithala SOC loans and advances carrying amount approximates fair value.

Level 2 financial assets

The fair value of the investment in cell captives is determined based on the net asset value at the end of the reporting period.



32. New Standards and Interpretations

32.1 STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT YEAR

The Group has considered the impact of the following standards and interpretations that are effective for the current financial year:

Amendments to IAS 16: Property, plant and equipment - Proceeds before intended use

The amendments prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced whilst bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items and the operating cost of producing these items, in profit or loss.

The effective date of the standard is for annual periods beginning on or after 1 January 2022. **The standard has not had any impact on the Group in the current financial year as we are not in the business of manufacturing products.**

Amendment to IAS 37: Onerous Contracts - Costs of fulfilling a contract

The amendments specify which costs should be included in an entity's assessment of whether a contract will be loss-making.

The effective date of the standard is for annual periods beginning on or after 1 January 2022. **The standard has not had any impact on the Group in the current financial year, as we do not have onerous contracts.**

Amendments to IFRS 3: Reference to the Conceptual Framework

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets of IFRIC 21 Levies, if incurred separately.

The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

At the same time, the amendments add a new paragraph to IFRS 3, to clarify that contingent assets do not qualify for recognition at the acquisition date.

The effective date of the standard is for annual reporting periods beginning on or after 1 January 2022. **The standard has not had any impact on the Group in the current financial year, as there were no new acquisitions.**

Improvements to IFRS 9: Financial Instruments - Fees in the "10 percent test" for de-recognition of financial liabilities

The amendment clarifies which fees an entity includes when it applies the "10 percent" test in assessing whether to derecognise a financial liability.

The effective date of the standard is for annual periods beginning on or after 1 January 2022. **The standard has not had any impact on the Group in the current financial year, as no financial liabilities were derecognised.**



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

32. New Standards and Interpretations (continued)

32.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The Group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after 01 April 2023 or later periods. The Group has assessed the impact of the following Standards, as detailed below:

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

IAS 1 requires an entity that has an unconditional right to delay settlement of a liability for at least 12 months from the end of the reporting period, then it can be classified as non-current, if not it is classified as current.

If an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. **The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender test for compliance as that date or later.**

The effective date of the amendment is for years beginning on or after 01 January 2024. **The amendment is not expected to have any impact on the Group as the entity currently does not have a right to delay settlement of liabilities.**

Amendments to IAS 1: Non-Current Liabilities with Covenants

The new amendments aim to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within twelve months after the reporting period.

The amendments state that at the reporting date, the entity does not consider covenants that will need to be complied with in the future, when considering classification of the debt as current or non-current. Instead, the entity should disclose information about these covenants in the notes to the financial statements.

The effective date of the amendment is for years beginning on or after 01 January 2024. **The amendment is not expected to have any impact on the Group as the entity currently does not have any loans with covenants.**

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

The amendment to IFRS 16 Leases, specifies requirements for seller-lessees to measure the lease liability in a sale and leaseback transaction.

IFRS 16 now specifies that, in subsequently measuring the lease liability, the seller-lessee determines the "lease payments" and "revised lease payments" in a way that does not result in the seller-lessee recognising any amount of the gain or loss that relates to the right of use it retains.

The effective date of the standard is for years beginning on or after 01 January 2024. **The amendment is not expected to have any impact on the Group as the entity currently does not have any sale and leaseback transactions.**



32. New Standards and Interpretations (continued)

Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a single transaction

The amendments require an entity to recognise deferred tax on certain transactions (e.g. leases and decommissioning liabilities) that give rise to equal amounts of taxable and deductible temporary differences on initial recognition. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations.

The amendment requires companies, at the beginning of the earliest comparative period presented:

- (a) to recognise a deferred tax asset - to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, and a deferred tax liability for all taxable temporary differences associated with right-of-use assets and lease liabilities, and decommissioning restoration and similar liabilities, and the corresponding amounts recognised as part of the costs of the related asset; and
- (b) to recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The effect date of the amendment is for years beginning on or after 01 January 2023. **The impact is not considered to be material at Group level. The Company is exempt from normal tax in terms of Section 10(1)(cA)(ii) of the Income Tax.**

Amendments to IAS 8: Definition of Accounting Estimates

The amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.

Accounting estimates are now defined as "monetary amounts in financial statements that are subject to measurement uncertainty". Paragraph 32 of IAS 8 has been amended to state that: "An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty, that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead, be estimated.

The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in measurement technique, are changes in accounting estimates if they do not result from the correction of prior period errors.

The effective date of the amendment is for years beginning on or after January 2023. **In the 2023 financial year, there were no changes in the estimates and inputs used for all our transactions where management's judgement is applied. Valuation techniques currently used are not anticipated to change in the next financial year.**

Amendments to IAS 1 and Practice Statement 2: Disclosure of Accounting Policies

The amendments to IAS 1 require reporting entities to disclose their material accounting policy information rather than their significant accounting policies.

An entity shall disclose material accounting policy information. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements.

The effective date of the amendment is for year beginning on or after 01 January 2023. **All policies of the Group deemed to be material (both quantitatively and qualitatively material), have been disclosed in the annual financial statements.**



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

32. New Standards and Interpretations (continued)

IFRS 17: Insurance Contracts

IFRS 17 applies to all insurance contracts that an entity issues (including those for reinsurance); reinsurance contracts it holds; and investment contracts with a discretionary participation feature, provided the entity also issues insurance contracts.

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

- the fulfilment cash flows - the current estimates of amounts that the insurer expects to collect from premiums and payout for claims, benefits and expenses, including an adjustment for the timing and risk of those cash flows, and
- the contractual service margin - the expected profit for providing future insurance coverage (i.e. unearned profit).

The Group expects to adopt the standard for the first time in the 2024 financial statements and the impact is still being assessed by management. IFRS 17 will not be early - adopted by the Group.

Amendment to IFRS 17: Initial Application of IFRS 17 and IFRS 9 - Comparative information

The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

IFRS 17 incorporating the amendment is effective from annual reporting periods beginning on or after 1 January 2023.

The impact is still being assessed by management

The Group expects to adopt the standard for the first time in the 2024 financial statements and the impact is still being assessed by management. **IFRS 17 will not be early - adopted by the Group.**



	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
33. Deferred Tax Liability				
Deferred tax liability				
Deferred tax liability	(29 562)	(44 743)	-	-
Reconciliation of deferred tax liability				
At beginning of year	(44 743)	(45 496)	-	-
Expected credit losses	3 507	4 209	-	-
Straight line rental debtors	(92)	353	-	-
Fair value adjustment	(24 951)	(3 474)	-	-
Income received in advance	476	(519)	-	-
Provision for audit fees and other	44	184	-	-
Reversal of deferred tax	36 197	-	-	-
	(29 562)	(44 743)	-	-

34. Other Operating Income

Other operating income is stated after crediting the following significant items:

Sundry income*	36 774	378 656	31 407	313 865
Dividends received**	722	684	198 949	684
Grants applied	65 000	93 992	65 000	93 992
Rental received	351 158	336 068	322 254	302 403
Sale of electricity, water, refuse and sewage	365 812	324 211	365 812	324 211
Fees earned, commission and service recovered	281 077	245 934	99 734	65 543
Management fee income from projects	10 882	1 383	10 882	1 383
Fair value adjustment on Investment Property	(15 991)	(113 585)	2 949	(112 423)
Fair value adjustment on investments (Cell Captive and shares) at fair value through profit / loss	4 170	8 178	4 170	8 178
General service levy	33 802	33 127	33 802	33 127
Dormant deposit income	10 051	8 380	-	-

*Sundry income for Company for the current year relates to additional sundry income raised based on final amounts confirmed by SASRIA for rebuild work to be done of R31.4m (Group: Insurance payouts received from SASRIA by Ithala SOC Ltd (R7.8m and additional net sundry income raised relating to SASRIA of R29.0m).

Sundry income in the prior year comprised of actual insurance payouts received of R59.9m for Company and a receivable raised for insurance payouts to be received of R254m (Group: Actual insurance payout received of R61.7m and receivable raised for insurance payout to be received of R317m). The receivable raised in the prior year has been restated, as detailed **Note 47** and **Note 15**.

** Dividends received for Company includes the dividend received from Sundumbili Plaza (Pty) Ltd of R198.2m which has been eliminated at Group level.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Group

Company

2023 R'000	2022 R'000	2023 R'000	2022 R'000
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35. Operating Expenditure

Operating (loss) profit before taxation for the year is stated after charging / (crediting) the following, amongst others:

Auditor's remuneration - external

Audit fees

14 236	11 647	6 426	5 440
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Other significant expenses

Employee costs*	449 596	403 734	246 844	227 378
Purchases of electricity, water and sewage	294 225	253 197	294 225	253 152
Consulting and professional fees	27 864	16 567	12 885	8 476
Assessment rates & municipal charges	181 039	150 683	181 039	150 683
Cleaning	9 803	15 932	8 229	13 940
Security	70 856	57 117	49 675	42 678
Repairs and maintenance	60 261	58 693	39 966	37 792
Expenses relating to debit card products	35 772	33 916	-	-

* Refer to **Note 21** for details of the income statement movements in respect of retirement benefits and long service obligations.



36. Interest Income

Interest income

Interest generated from an effective interest rate:

Investments in financial assets:

Balances with banks and short-term funds

Advances

Other interest income:

Finance leases

SARS Interest from tax overprovision

Total interest income

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Balances with banks and short-term funds	71 747	59 812	22 544	19 496
Advances	279 773	197 505	61 966	36 204
Other interest income:				
Finance leases	3	88	-	-
SARS Interest from tax overprovision	-	21	-	-
Total interest income	351 523	257 426	84 510	55 700

37. Interest Expenditure

Interest expense calculated using the effective interest rate

Borrowings

Interest on savings and deposit accounts

Bank overdraft

Other interest expense

Lease liabilities

Non- trading interest*

Total interest expenditure

Borrowings	2 020	1 885	1 995	1 861
Interest on savings and deposit accounts	64 541	55 059	-	-
Bank overdraft	-	2	-	2
Other interest expense				
Lease liabilities	6 440	6 013	1 191	1 168
Non- trading interest*	12 161	12 339	9 097	9 859
Total interest expenditure	85 162	75 298	12 283	12 890

*Non-trading interest consists primarily of interest costs on the long service and post retirement benefits obligations.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
38. Taxation				
Major components of the tax (income) expense				
Current				
Current year tax	5 131	23 861	-	-
Prior year underprovision / (overprovision)	479	(732)	-	-
Withholding Tax	390	-	-	-
	6 000	23 129	-	-
Deferred				
Movement in temporary differences	2 919	364	-	-
Reversal of prior year deferred tax	(18 099)	(1 118)	-	-
	(15 180)	(754)	-	-
	(9 180)	22 375	-	-
Reconciliation of the tax expense				
Reconciliation between accounting profit and tax expense.				
Accounting profit	26 833	255 216	-	-
Tax at the applicable tax rate of 27% or 45% (2022: 28% or 45%)*	7 606	22 303	-	-
Tax effect of adjustments on taxable income				
Prior year overprovision	(501)	(186)	-	-
Fines income	390	-	-	-
Exempt income	3 380	(541)	-	-
Base cost movement	(77)	(39)	-	-
Change in tax rate	-	(1 118)	-	-
Effect of blended tax rate**	-	4 171	-	-
Current tax attributable to sole beneficiary	(1 879)	(2 215)	-	-
Reversal of deferred tax***	(18 099)	-	-	-
	(9 180)	22 375	-	-

*The tax rate of 27% is applicable to the Property subsidiaries (which are companies) and the 45% tax rate is applicable to Durban Wharfside Trust (which is a trust).

**The effect of the blended rate in the prior year, arises as a result of the deferred tax being measured at the substantively enacted tax rate of 27% and current tax being measured at 28%.

***The reversal of deferred tax is as a result of the dissolution of Sundumbili Plaza (Pty) Ltd.



39. Irregular Expenditure

Irregular expenditure - current year

Details of irregular expenditure

- Irregular expenditure under assessment
- Irregular expenditure under determination
- Irregular expenditure under investigation*

Total

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Irregular expenditure - current year	4 474	18 497	-	-
Details of irregular expenditure				
- Irregular expenditure under assessment	-	-	-	-
- Irregular expenditure under determination	-	-	-	-
- Irregular expenditure under investigation*	4 474	18 497	-	-
Total	4 474	18 497	-	-

An amount of R4.5m (2022: R18.5m) was incurred by the Group as a result of non compliance with the Supply Chain Management policy.

40. Fruitless and Wasteful Expenditure

There was no fruitless and wasteful expenditure identified in the current financial year for Group and Company.

41. Material Losses

The Group suffered a loss of R18.4m due to bad debts written off (2022: R32.0m).

The Group suffered a loss of R0.9m (2022: R3.5m) as a result of branch robbery. No insurance proceeds were received. There was no staff and other fraud losses incurred in the current year.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023**

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
42. Contingent Liabilities and Contingent Assets				
The Group is currently opposing certain claims that have been instituted against it by various parties. At year end, the outcome of the following legal disputes is considered uncertain.				
CORPORATION				
- Claim by an employee for alleged malicious damage suffered as a result of a disciplinary hearing	400	400	400	400
- Claim by a supplier for electrical installation	579	579	579	579
- Claim by a supplier for unpaid invoices for work done at Ezakheni	313	313	313	313
- Claim arising from alleged damages suffered by the client resulting from fire damage after Ithala performed a fire break procedure at Ezakheni Estate*	-	11 754	-	11 754
- Claim for damage resulting from the rain after an Ithala contractor attended to roof repairs	1 809	1 809	1 809	1 809
- Claim for damages caused by an alleged breach of a management agreement	1 002	1 002	1 002	1 002
- Claim by ex-employee for legal fees	784	784	784	784
- Claim by the Liquidators of Easy Does It (in liquidation)**	42 525	42 525	42 525	42 525
- Claim arising from refund of rental deposit	187	-	187	-
Ithala SOC Limited				
- South African Insurance Association	3 000	3 000	-	-
- Claim for alleged unfair retrenchment / dismissal	3 000	2 501	-	-
- Claim against invoices not paid: Tech Mahindra***	1 600	21 276	-	-
	55 199	85 943	47 599	59 166

* As at the end of the current financial year, the claims relating to ISO Moulders (2022: R5.3m) and Southey Holdings (2022: R6.5m) were settled out of court.

** The Liquidators allege in their action that the sale of the property by Easy Does It be set aside as it was of no value. Further, the liquidators seek orders against the creditors that were paid from the proceeds of the sale to repay the money received with interest and further forfeit claims against the insolvent estate of Easy Does It.

*** In the 2020 financial year, Tech Mahindra submitted invoices for R2,7 million in respect of License Fees and R18,6 million in respect of system implementation. These invoices have not been settled as there is a dispute regarding the work completed. Ithala SOC Ltd has received a summons to settle R1.6m for services they claim were rendered.



42. Contingent Liabilities and Contingent Assets (continued)

Contingent assets

Civil unrest broke out in KZN during the period 9th to 12th July, resulting in extensive damage to Ithala SOC Limited's branch infrastructure, whereby buildings and infrastructure were vandalised and some buildings were set alight.

In summary, the following properties were affected by the unrest, relating to the banking subsidiary, Ithala SOC Ltd:

- 16 Branches were damaged/vandalised, of which 4 were torched
- 22 Auto teller machines

Claims for damages and loss of income had been submitted by Ithala SOC Ltd to SASRIA, which is a state-owned insurer that provides special risk cover to individuals, businesses and government entities that own assets in South Africa. This is a unique cover against risks such as civil commotion, public disorder, strikes, riots and terrorism.

Claims amounting to R13.7m were submitted to SASRIA by Ithala SOC Ltd, of which R7.8m (2022: R1.8m), was received during the financial year. An amount of R4.1m is still awaiting finalisation by SASRIA. The amount is expected to be finalised and funds paid to Ithala SOC Ltd in the new financial year.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

43. Directors' Emoluments

Executive

2023

CORPORATION	Salary benefits	Risk and retirement benefits	Vehicle benefit	Other benefits*	Annual short-term incentives	Termination benefits	Total
PS Bengu - Chief Executive Officer	2 451	586	-	6	1 508	-	4 551
B Mapisa (Resigned March 2023)	1 972	147	-	-	-	51	2 170
Dr M Muthusamy (Appointed 01 July 2022)	1 790	166	48	247	651	-	2 902
B Shangase	1 691	226	-	-	-	-	1 917
XE Mkhize	1 717	402	-	13	-	-	2 132
TN Mthethwa	1 806	313	-	19	740	-	2 878
K Cele	1 874	244	-	25	555	-	2 698
AR Malope (Appointed 9 October 2022)	739	-	-	-	-	-	739
ITHALA SOC LIMITED							
T Vilakazi - Chief Executive Officer	2 889	379	-	-	-	-	3 268
S Gwala - Head: HR (Resigned 24 June 2022)	392	35	-	-	-	191	618
S Xolo - Head Marketing and Communication	1 557	140	-	-	-	-	1 697
S Moodley - Head Retail and Business Banking	1 616	145	-	-	-	-	1 761
B Van der Lingen - Chief Risk Officer	1 388	122	-	-	-	-	1 510
A Pather: Head Insurance	1 557	140	-	-	-	-	1 697
S Nsele - Chief Audit Executive	1 560	137	-	-	-	-	1 697
K Nkambule: Compliance Officer	1 557	140	-	-	-	-	1 697
X Khumalo - Head Credit (resigned 31 January 2023)	1 401	122	-	-	-	174	1 697
N Masuku - Company Secretary	1 077	95	-	-	-	-	1 172
S Phakathi - Chief Information Officer	1 821	164	-	-	-	-	1 985
S Dlamini - Executive Assistant (resigned 05 May 2022)	211	7	-	-	-	17	235
T Nell - Head HR (appointed 16 September 2022)	929	71	-	-	-	-	1 000
	31 995	3 781	48	310	3 454	433	40 021



43. Directors' Emoluments (continued)

2022

	Salary benefits	Risk and retirement benefits	Vehicle benefit	Other benefits*	Annual short- term incentives	Termination benefits	Total
CORPORATION							
PS Bengu- Chief Executive Officer	2 428	569	-	-	-	-	2 997
SB Mnguni (Resigned July 2021)	712	120	50	263	-	-	1 145
F Abdool Kader (Acting, Term ended March 2022)	-	-	-	225	-	-	225
B Mapisa (Appointed March 2022)	155	12	-	-	-	-	167
M Muthusamy (Acting)	-	-	-	367	-	-	367
B Shangase	1 599	215	-	-	-	-	1 814
XE Mkhize	1 621	381	-	-	-	-	2 002
TN Mthethwa	1 837	237	-	-	380	-	2 454
K Cele	1 786	233	-	-	-	-	2 019
ITHALA SOC LIMITED							
T Vilakazi - Chief Executive Officer	2 588	349	-	-	-	-	2 937
S Gwala- Head: HR	1 623	139	-	-	-	-	1 762
S Xolo - Marketing and Communication	1 340	110	-	-	-	-	1 450
T Luthuli- Company Secretary (resigned 30 April 2021)	124	11	-	-	-	278	413
S Moodley - Head Retail and Business Banking	1 542	141	-	-	-	-	1 683
B Van der Lingen - Chief Risk Officer (Appointed 15 November 2021)	422	34	-	-	-	-	456
C Gumede: Chief Risk Officer	128	11	-	-	-	49	188
A Pather- Head Insurance	1 380	124	-	-	-	-	1 504
L Barnard - Head IT	550	50	-	-	-	56	656
S Nsele - Chief Audit Executive	1 382	121	-	-	-	-	1 503
K Nkambule: Compliance Officer	1 423	129	-	-	-	-	1 552
X Khumalo - Head of Credit	1 607	143	-	-	-	-	1 750
N Masuku - Company Secretary (appointed 15 November 2021)	351	28	-	-	-	-	379
S Phakathi - Chief Information Officer (appointed 06 January 2022)	413	40	-	-	-	-	453
S Dlamini - Executive Assistant (appointed 01 July 2021)	672	60	-	-	-	-	732
M Gafoor - Acting Chief Financial Officer (appointed 01 September 2021)	669	57	-	-	-	-	726
N Dlamini - Acting Company Secretary (appointed 01 May 2021, resigned 15 November 2021)	380	29	-	-	-	-	409
N Shewdin - Acting Chief Risk Officer (appointed 01 May 2021, resigned 15 November 2021)	580	45	-	-	-	-	625
	27 312	3 388	50	855	380	383	32 368

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023****43. Directors' Emoluments (continued)****Non-executive****2023**

	Directors' fees	Total
CORPORATION		
R Morar (Term ended 31 May 2022)	186	186
S Mkhize - Chairperson (Appointed 1 June 2022)	1 086	1 086
C Gina - Deputy Chairperson (Appointed 1 June 2022)	787	787
PN Sibiya	750	750
Dr S Ndlovu	711	711
K Mbonambi	626	626
Z Zwane (Appointed 1 June 2022)	4	4
Dr D Jairam (Appointed 1 June 2022)	571	571
M Ngcobo (Appointed 1 June 2022)	436	436
Dr U Roopnarian (Appointed 1 June 2022)	526	526
M Ngubo (Appointed 1 June 2022)	470	470
ITHALA SOC LIMITED		
N Simelane	692	692
M Pupuma	966	966
G Sibiya	771	771
Inkosi SN Mkhize	996	996
Y Mjiako (appointed 01 September 2022)	394	394
	9 972	9 972

2022

	Directors' fees	Total
CORPORATION		
R Morar- Chairperson	1 059	1 059
S Mkhize	1 057	1 057
PN Sibiya	840	840
C Gina	604	604
S Ndlovu	721	721
K Mbonambi	558	558
Y Ngwane	41	41
ITHALA SOC LIMITED		
N Simelane	589	589
M Pupuma	765	765
S Shabalala (Resigned 27 October 2021)	382	382
G Sibiya	775	775
Inkosi SN Mkhize	875	875
	8 266	8 266



44. Change in Estimate

Property, plant and equipment

Property, plant and equipment are depreciated over its estimated useful lives taking into account residual values, where appropriate. The remaining useful lives of assets were reassessed during the current year. The effect of the change in estimate during the current year is as follows:

The future impact of the change in estimate will result in depreciation of R1.4m (2022: R1.6m) for Group and R0.8m (2022: R1.0m) for Company, being recognised over the remaining useful life of the asset.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Decrease in depreciation	(1 447)	(1 606)	(797)	(1 026)
Increase in net book value	1 447	1 606	797	1 026
	-	-	-	-

45. Events After the Reporting Period

The transfer of the land purchased at Isithebe, as detailed in **Note 9**, was completed on the 22 May 2023. This was a non-adjusting event.

46. Loan Commitments

As at 31 March 2023, the Group had loan commitments amounting to R118.4m (2022: R43.3m).

Loan commitment	118 361	43 349	106 761	30 849
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

47. Correction of Prior Period Errors

Effect on Statement of Financial Position

	Group		Company	
	ADJUSTMENT AS AT 2022 (R'000)	ADJUSTMENT AS AT 2021 (R'000)	ADJUSTMENT AS AT 2022 (R'000)	ADJUSTMENT AS AT 2021 (R'000)
Increase in government grants*	(137)	(150)	(137)	(150)
Increase in other payables**	(2 073)	(6 796)	(2 073)	(6 796)
Decrease in current tax payable***	16 910	-	-	-
Increase in loans and advances****	13 442	53 128	13 442	53 128
Decrease in other receivables*****	(41 348)	-	(39 931)	-
	(13 206)	46 182	(28 699)	46 182
Effect on Statement of Changes in Equity*****				
Retained Income as previously reported	3 390 541	3 234 756	3 226 799	3 086 477
2020/2021 Cumulative increase in operating income*****	-	40 128	-	46 183
2022 decrease in interest income	(2 210)	-	(2 210)	-
2022 decrease in income tax expense	16 910	-	-	-
2022 increase in interest income (stage 3 interest reversal)	13 442	-	13 442	-
2022 decrease in sundry income	(41 348)	-	(39 931)	-
	3 377 335	3 274 884	3 198 100	3 132 660

***Government grants**

In the prior financial years, for the grant funds which did not have their own bank accounts, Corporation had been erroneously recognising interest earned on these funds invested in Corporation's ABSA call account, as part of Corporation's interest income for the financial year. The correction has been accounted for retrospectively and has resulted in a cumulative increase to the grant liability of R150k as at the 2020/21 financial year and an increase of R137k for the 2021/22 financial year, for both Corporation and Group. Refer to **Note 22** for the restated figures.

****Other payables**

In the prior financial years, for the project funds which did not have their own bank accounts, Corporation had been erroneously recognising interest earned on these funds invested in Corporation's ABSA call account, as part of Corporation's interest income for the financial year. The correction has been accounted for retrospectively and has resulted in a cumulative increase to the other payables liability of R6.8 million as at the 2020/21 financial year and an increase of R2.1 million for the 2021/22 financial year, for both Corporation and Group. Refer to **Note 24** for the restated figures.

*****Current tax payable***

In the prior financial year, sundry income raised of a capital nature (i.e. for SASRIA insurance payout to be received), was incorrectly included as part of taxable income. Per the Income Tax Act, the definition of gross income excludes income of a capital nature, and the payout from the insurer was to be utilised for the rebuild of investment properties. The correction has been adjusted retrospectively and has resulted in a decrease to current tax payable of R16.9m for Group. Refer to **Note 15** for the restated figures.

******Loans and advances**

In the prior financial years, ECL was erroneously recognised on the gross carrying amount (before the reversal of stage 3 interest), instead of the net amount, which resulted in the understatement of loans and advances. The correction has been adjusted retrospectively and has resulted in an increase of R53.1m in loans and advances for the 2020/21 financial year and an increase of R13.4m for the 2021/22 financial year, for both Group and Company. Refer to **Note 2** for the restated figures.



47 Correction of Prior Period Errors (continued)

*****Other receivables

In the prior financial year, sundry income raised for SASRIA insurance proceeds expected to be received, erroneously included VAT. The correction has been adjusted retrospectively and has resulted in a decrease to other receivables of R41.3m for Group and a decrease of R40.0m for Company, in the 2021/22 financial year. Refer to **Note 15** for the restated figures.

*****All adjustments relating to the prior financial years as detailed above, were processed against retained earnings.

*****The 2020/2021 cumulative increase in operating income for Group and Company is comprised as follows:

Group

- Previously reported: R6.1m decrease in operating income
- Errors identified and corrected in the current financial year: R46.2m increase in operating income

Company

- Errors identified and corrected in the current financial year: R46.2m increase in operating income

48. Restatement of prior year disclosures

Balance Sheet

Investment in subsidiaries have been split between current and non-current assets, with the current portion comprising of the loans owing by Ithala SOC Ltd and Sundumbili Plaza Pty Ltd, as disclosed in **Note 8**

[illegible]



DEVELOPMENT FINANCE CORPORATION LIMITED