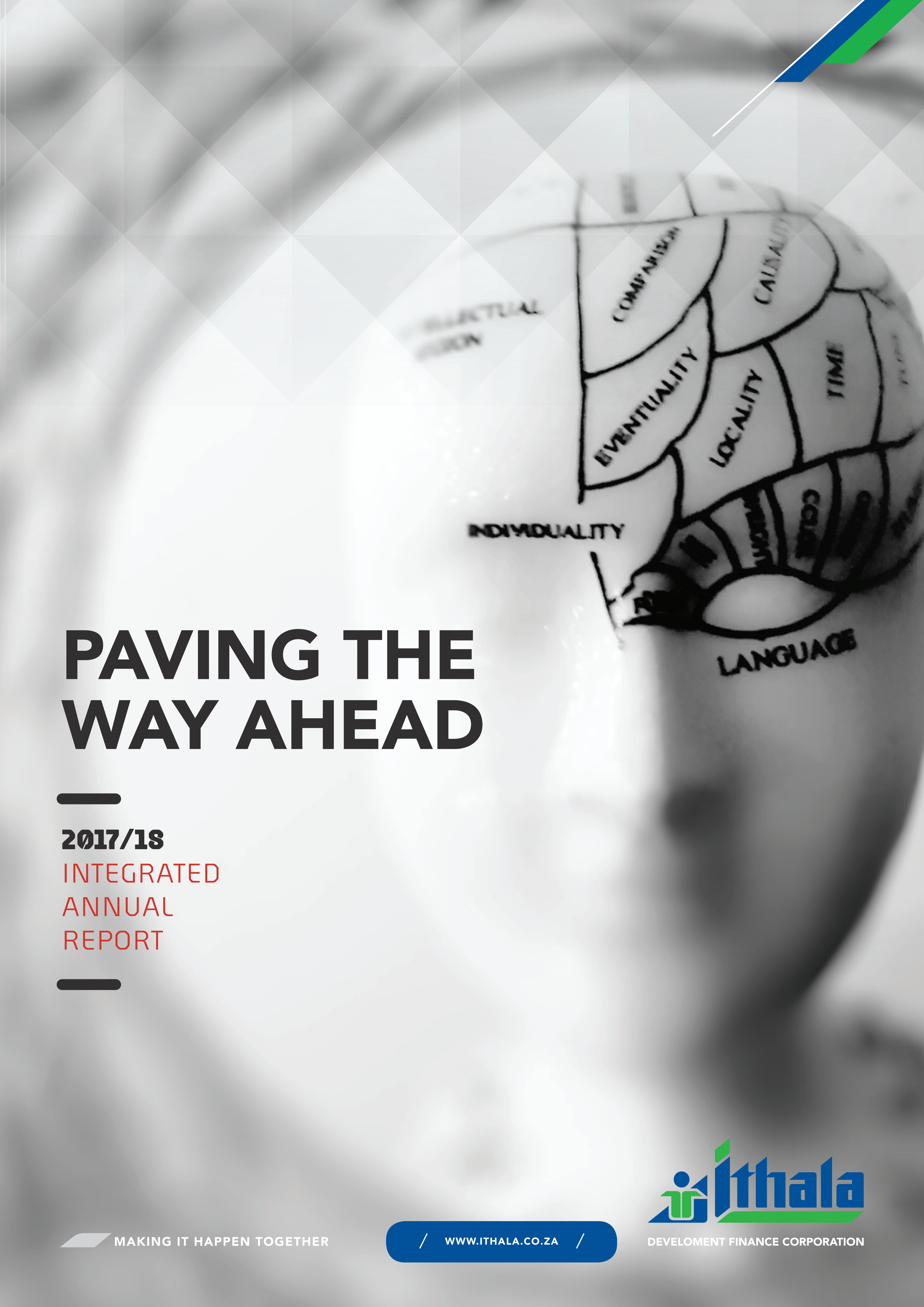

PAVING THE WAY AHEAD

2017/18

INTEGRATED ANNUAL REPORT

MAKING IT HAPPEN TOGETHER

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ithala

DEVELOMENT FINANCE CORPORATION

VISION MISSION VALUES

VISION
To be the catalyst for growth, economic development and empowerment.

MISSION
To drive economic development and empowerment, whilst remaining financially sustainable.

VALUES
- Customer satisfaction
- Respect
- Innovation
- Integrity
- Empowerment
- Equitable employment practices

COMPANY INFORMATION

GROUP COMPANY SECRETARY:
LS Mahamba

BANKERS:
ABSA Bank Ltd

AUDITORS:
The Auditor-General

CORPORATE ATTORNEYS:
Approved panel of attorneys

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

POSTAL ADDRESS:
PO Box 2801, Durban
KwaZulu-Natal, South Africa

CONTACT DETAILS
Telephone: +27 31 907 8911
Facsimile: +27 31 907 5685
Website: www.ithala.co.za

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SECTION 1

SECTION 2

ANNUAL FINANCIAL STATEMENTS

REFERENCE OVERVIEW

INTRODUCTION

Further to this report, Ithala Development Finance Corporation Limited (IDFC), produces reporting publications designed for readers with specific information requirements.

AIR

ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED ANNUAL INTEGRATED REPORT

As Ithala's primary report, the annual integrated report presents a balanced and succinct analysis of the organisation's strategy, performance and prospects.

ACR

ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED AUDIT AND RISK COMMITTEE REPORT

Ithala's Audit and Risk Committee report provides details regarding its composition, statutory duties, overall compliance, adoption of a combined assurance model and financial controls.
Visit www.ithala.co.za

AFS

ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED ANNUAL FINANCIAL STATEMENTS

Ithala's annual financial statements set-out the full audited financial statements for the organisation, inclusive of the report of the audit committee.
Visit www.ithala.co.za

ABOUT THIS REPORT

The annual integrated report encompasses the Ithala Development Finance Corporation Limited's (IDFC) strategy, material issues and performance for the period 1 April 2017 to 31 March 2018 and our prospects for the future.

Ithala is a state-owned entity and through this report sets out to address our material stakeholders, most notably, our shareholder, regulators, clients and communities, as well as potential investors, with regard to our ongoing viability. In determining the contents of this report, we are bound by the reporting requirements set by the Auditor-General in regard to conveying our performance against our annual performance plan (see pages 38 to 39).

MATERIALITY IS DETERMINED BY THE BOARD OF DIRECTORS, IN LINE WITH ITHALA'S MANDATE AND THE INFORMATION REQUIREMENTS OF ITS SHAREOWNERS AND REGULATORS, AS WELL AS OTHER KEY STAKEHOLDER GROUPS.

We have been guided by the International Integrated Reporting Council (IIRC) Integrated Reporting Framework, released in December 2013, and the King Code on Corporate Governance for South Africa (2009) (King Code). Further standards applied in defining the contents of this report include the South African Generally Accepted Accounting Principles (SA GAAP), the Companies Act No. 71 of 2008 (Companies Act) and the Public Finance Management Act No. 1 of 1999 (PFMA).

FORWARD-LOOKING STATEMENTS

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

Words such as 'anticipates', 'estimates', 'expects', 'projects', 'believes', 'intends', 'plans', 'may', 'will', 'should' and similar expressions are typically indicative of forward-looking statements. These statements are not guarantees of Ithala'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.

Ithala 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.

Ithala 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 audit provide additional assurance on the effectiveness of our risk management of material issues.

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

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

Chairman

Audit and Risk Committee

WHO WE ARE

Being a development finance institution, we are regarded as one of the key channels through which Government funding and other SMME support interventions reach communities.

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

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

OUR VISION

To be the catalyst for growth, economic development and empowerment.

OUR MISSION

To drive economic development and empowerment, whilst remaining financially sustainable.

OUR VALUES

- Respect;
- Innovation;
- Customer satisfaction;
- Internal and external empowerment
- Equitable employment practices.

OUR MANDATE

Section 3 of the KwaZulu-Natal Ithala Development Finance Corporation Act, No. 5 of 2013, mandates us to:

- Mobilise financial resources and to provide financial and supportive services to the people of KwaZulu-Natal;
- Plan, execute, finance and monitor the implementation of development projects and programmes in the Province;
- 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 private sector and community organisations in development projects and programmes, and in so doing, contribute to economic growth and development; and
- Act as the Government's agent for performing any development-related tasks and responsibilities that the Government considers may be more efficiently or effectively performed by a corporate entity.

HOW WE DELIVER ON OUR MANDATE

- We fund business enterprises, SMMEs and co-operatives;
- We provide entrepreneurial support and skills development;
- We develop and manage commercial and industrial properties; and
- We provide savings, loans, insurance, home loans and financial services.

MEC'S FOREWORD

The financial year 2017/18 was once again a year in which Ithala Development Finance Corporation Limited recorded remarkable progress in spite of a number of challenges in the economic and social spheres.

IT IS PLEASING TO BE A PART OF ANOTHER MILESTONE OF ITHALA'S SERVICE TO SOCIETY AS EXPRESSED IN THIS ANNUAL REPORT. REACHING THIS POINT IN THE BUSINESS OF FACILITATING ECONOMIC DEVELOPMENT IS A NOTEWORTHY EFFORT, ESPECIALLY WITHIN AN ENVIRONMENT THAT IS FACED BY COMPLEX SOCIAL AND ECONOMIC TRANSFORMATION LAGS.

Our environment has become more complex because the society we serve has since moved from the position of taking whatever level of service delivered to them by government institutions, including organisations such as Ithala. It is evident all around our nation that communities and individuals have become more aware of the mandate assigned to state institutions, as well as the levels at which services must be delivered to them. Based on improved insights, they understand what their fundamental rights are and they are willing to raise their demands without reluctance.

In reality, the prevailing social climate imposes more accountability, if not extreme pressure on all role players in the development sector to tangibly deliver on the promises they make. Unfortunately, this expectation grows as the state funds are more constrained, and competition for available resources intensifies. These developments imply a requirement to plan and deliver smartly towards producing concrete results that can be accepted by individuals and groups served by state institutions.

In the context of KwaZulu-Natal, Ithala is central to this scenario as social expectations of its organisational output have remarkably increased. Entrepreneurs in the rural and township economies have reached a saturation point in their frustration caused by exclusion from mainstream business, as well as seeing major economic activity taking place outside their perimeters for the benefit of the already-empowered players. This scenario is extraordinary, and therefore demands extraordinary response from all our institutions.

As government we have also shifted from only focusing on pronouncements of programmes. Instead, we have taken a position that allows us direct involvement in programmes we initiate in order to ensure that they substantially improve people's lives. It is for this reason that our tracking and follow-up mechanisms have taken a more robust posture in keeping with our public commitments.

As the Department of Economic Development, Tourism and Environmental Affairs (EDTEA) we have taken it upon us to get involved through the hands of Ithala and its fellow entities in engineering programmes that will graduate the rural and township entrepreneurs into significant players in the provincial, and ultimately national economic activities. In this regard, Ithala has been and will continue to be instrumental in simplifying and unlocking sectors of the economy that have always kept the majority of our entrepreneurs outside, forcing them to maintain their businesses only as subsistence operations.

This explains our unrelenting pursuit of reportable results in the programmes we have institutionalised such as Operation Vula and Radical Agrarian Socio-Economic Transformation (RASET). Through these programmes, we are ring-fencing large scale provisioning of goods and services required in large government departments in favour of conglomerates of SMMEs and Cooperatives owned by Previously Disadvantaged Individuals PDIs). To this end, we have committed a total of R 40 million to the RASET programme; a fund that is administered by Ithala on behalf of EDTEA.

Crafting opportunities without readying SMMEs and Cooperatives to take hold of them is a job partially done. Ithala is in the forefront of capacity development initiatives aimed at gearing suppliers from historically disadvantaged backgrounds to raise their standards in the form of capital held, stock levels maintained and supply volumes achieved. This means, Ithala's focus is not only on loan financing, but also on capacity development through non-financial support interventions.

The performance results contained in this report indicate that Ithala continues to make progress in its mission of enabling SMMEs and Cooperatives by employing financial resources available to it. This is seen in the number of SMMEs and Cooperatives successfully reached over the past year. During the 2017/18 financial year, Ithala disbursed funding to to the value of R 211 million to 619 SMMEs and Cooperatives. This is estimated to have enabled creation of 4 181 new employment opportunities. »

We are paying dedicated attention to the rural and township environments, driving investment in women and youth empowerment. In this, we also employ the flourishing programmes we are familiar with, namely Inkunz'isematholeni and Imbokodo Iyazenzela. Through the Inkunz'isematholeni initiative, 32 finalists were assisted with business skills, as well as support in creating market linkages. The winners were each assisted with R 250 000 worth of business support services. The Imbokodo Iyazenzela initiative reached 708 women-owned SMMEs in 8 towns across the KZN Province. Twenty women on the programme underwent a year-long mentorship intervention valued at R 273 000.

These exemplify the ways we use to transition SMME players from the primary to the secondary economy. We have concluded that the complexities of access can only be addressed through decisive engineering at policy, institutional and project levels – and not only at one level. This is the history-making effort, seeking to ensure that the development and transformation opportunity does not end up as an unaccomplished vision of our generation. Ithala is therefore an integral part of writing this history as portrayed in the sections of this report.

For the good work accomplished, I congratulate the Board, the Executive Team and employees of Ithala led by Mr Themba Mathe. I particularly appreciate the manner in which the new Board led by Mr Roshan Morar has hit the ground running in ensuring that improvements due in delivering customer value are implemented without delay.

The battle against poverty rages on, let us keep our focus geared for real change.

Mr S Zikalala (MPP)
MEC for Economic Development,
Tourism and Environmental Affairs

CHAIRMAN’S LETTER TO STAKEHOLDERS

" I want to assure Ithala stakeholders and customers that tomorrow will be a better day. Let us therefore move forward together to embrace it."

MR ROSHAN MORAR
CHAIRMAN

ITHALA DEVELOPMENT FINANCE CORPORATION IS ON A FRESH STRATEGIC PATH. THIS PATH REPRESENTS A PROGRESSIVE DIRECTION TAKEN BY THE ORGANISATION FROM ITS FORMER STRATEGIC PLATFORM CONCERNED WITH ADDRESSING INTERNAL WEAKNESSES TOWARDS A STANCE THAT IS ROBUSTLY POSITIONED TO DRIVE SOCIAL TRANSFORMATION THROUGH STRUCTURED AND WELL-DEFINED INITIATIVES.

The essence of Ithala’s strategic undertaking entails alignment of its pace of delivery to match that of its parent, Department of Economic Development, Tourism and Environmental Affairs (EDTEA). EDTEA’s pace in facilitating economic transformation is a radical and expedited one. It is enabled through packaged programmes that allow its entities to deliver clear and purposeful interventions that add value to the bigger map of transformative activities in the sector.

The initiatives through which Ithala’s strategy will be delivered are reliant on successful forging of alliances with related private and public institutions that share similar development ideals. In a context of restrained financial resources, as well as complex social networks province-wide, Ithala does not intend reinventing the wheel when accessing programmes and specific social sectors. Instead, it seeks to galvanise pre-existing institutional relationships and access mechanisms to deliver optimal developmental inputs with the highest yield possible.

In exemplifying this, Ithala has forged partnerships with organisations such as Tongaat-Hullett in advancing the activities of its loan recipients in the agricultural sector, especially in sugar cane farming. New public-private partnership models are emerging in property development in which the cost of development and asset management is shared between parties and associated risks are effectively shared in the process. Partnerships between a variety of provincial and national departments on specific initiatives are ever increasing in line with the above-stated strategic intent.

Over the past years, Ithala has proven its institutional and financial resilience. The maturity of its policies, processes and procedures provide sufficient capacity to make a significant impact at the level required by the shareholder, as well as the wide spectrum of beneficiaries in the SMME and Cooperative sector.

In a period of about one year, the new Board of Directors has been duly inducted and acquainted with the intricacies of Ithala business, making its members effective in providing plausible advice, solutions and interventions that make the organisation impactful in its sphere of operation. We are confident to also note that the respective areas of specialisms are well represented in the Board, and the members are transformative rather than maintenance operators in their areas of speciality. Flowing from the posture of the Board, the Executive Team and the entire workforce of Ithala are geared to deliver at the level that is in keeping with the strategy momentum going forward. The Board of Directors is cognizant of its role of not only ensuring governance, but of also facilitating cohesion between what Ithala focuses on and delivers and what the development sector requires. This is not a simplistic activity, but a complex interweaving of entrepreneurial concepts, stakeholders and end-user expectations.

In practice, the challenge borne by the Executive Team and the workforce to tangibly transform the status of SMMEs and Cooperatives in KwaZulu-Natal is equally shared with the members of the Board.

This report presents the organisation’s account regarding its state of finances, its achievements against predetermined objectives, as well as its compliance with legislation. Altogether, this report proves Ithala’s undeterred focus and commitment to fulfilling its mandate following lawful and professionally acceptable standards. »

In taking our services forward, we have set ourselves to learn and be adaptable to the calls made by our shareholder and its associated partners. We want to improve our relevance to society by serving our clients with utmost care and speed from the position of their need. We believe that we are a significant part of a whole, and this motivates us to remain humble as we fulfil our duty, serving as true ambassadors of development.

I acknowledge the diligence of Ithala's Executive Team led by the Acting Group Chief Executive, Mr Themba Mathe. We appreciate the effort they apply in facilitating a wide range of interventions aimed to serve a diverse set of stakeholders in the environment. As the Board of Directors we are also aware that the results communicated in this report are an outcome of a collective organisational effort. For this we recognise the hard work of all employees in their respective roles in the organisational value chain.

I would finally wish to assure all Ithala stakeholders and customers that tomorrow will only be better. Let us move forward to realise it together.

Mr R Morar
Chairman

FROM THE ACTING GROUP CHIEF EXECUTIVE'S DESK

"We have not relented from reaching out to a diverse range of communities we serve, especially those based in rural and township environments. Testimonies of successfully executed interventions and projects are abound across our province."

MR THEMBA MATHE
ACTING GROUP CHIEF EXECUTIVE

THIS ANNUAL REPORT PRESENTS A RECORD OF ITHALA'S CONTINUED PURSUIT FOR SUSTAINABILITY AND SOCIAL IMPACT. IT REPRESENTS THE EXTENT TO WHICH THE ORGANISATION HAS TRANSFORMED ITSELF IN LINE WITH ITS SURROUNDING ENVIRONMENT, AND RESPONDED TO CALLS MADE BY THE SHAREHOLDER AND ITS CLIENTS IN THE OPERATING ENVIRONMENT.

It was noted in the previous reporting periods that the efforts to reposition the organisation in terms of governance and administration produced sustainable results. Over the past year, the focus of the organisation has therefore been on uplifting its transformative contributions in the SMME and Cooperative sector.

In this pursuit, the provincial interventions that were presented to Ithala's participation served as a convenient platform for expedited and immediate connection with the target client base in achieving the most aligned rendition of our services.

In terms of organisational sustainability, the 12.6% year-on-year improvement of the cost-to-income ratio indicates the organisation's resolve to achieve self-sufficiency while optimising its service effectiveness.

Against economic dynamics prevalent in the period under review, Ithala was able to achieve up to 10.6% increase in its property income, made possible by the revision of rental rates and reduction of vacancies, amongst other contributors.

On the other hand, the reduction in government grant income impacted the levels of profit realised by Business Finance. Increasing number of defaulting loans, especially those associated with SMMEs affected by drought in 2015/16, has resulted in non-performing loan levels increasing from 23.1% to 28.4%. Efforts to remediate this situation are in force through existing client support and collection mechanisms.

Over the past year, Ithala has refreshed its strategy with a view to refining its relevance and impact. The intent underpinning this strategic roadmap is maximisation of strategic alliances on identified SMME and co-operative developmental projects. To this effect, Ithala is party to provincial programmes such as Radical Agrarian Economic Transformation (RASET) and Operation Vula. Ithala's involvement in this programme has been affirmed in the allocation of SMME and Cooperative funding to the value of R 40 million for disbursement to entities carrying out Operation Vula / RASET projects. It is expected therefore that as the 2018/19 year rolls out, more success stories will emerge from this initiative.

In the process, we have not relented from reaching out to a diverse range of communities we serve, especially those based in rural and township environments. Testimonies of successfully executed interventions and projects abound in public events we have hosted, as well as in a variety of media platforms that have acclaimed our efforts to meaningfully engage society on entrepreneurial development linked to our core mandate.

Internally to the organisation, the year under review has seen unprecedented number of leadership strengthening interventions concerned with organisational cultural transformation, living the values of Ithala, building cohesion between executive and operations managers, revitalising commitment to the mandate, and so forth. As a result of these interventions, Ithala's organisational climate has since been transformed for the better, and employee engagement levels have been significantly enhanced.

Leadership and organisational cultural drives are significant in the context of Ithala, based on a view that the quality of both the leadership and corporate culture directly translates to distinct customer service experiences. In conducting technical elements of business transactions, it goes without saying that the distinguishing quality of Ithala will be the attitudes of its people towards its clients. We are aware that the pride that the employees have about their own organisation, notions of self-respect, perceptions about the customer, levels of care given to the customer altogether define the character of the organisation.

Simply stated, it is not the technologies and systems that define the 'persona' of Ithala. Instead, it is Ithala people who define its character through their individual and collective behaviours.

Linked to the organisation transformation effort, is the institutionalisation of business support through the » establishment of a suitable structure, processes and systems. Ithala's philosophy of SMME and Cooperative development has always integrated both financial and non-financial support. In this undertaking, Ithala seeks to bolster its non-financial support in order to increase capacity of KwaZulu-Natal-based SMMEs and Cooperatives. This is deemed essential to their self-sustainability and transitioning to higher modes of economic participation.

In our course of serving our mandate, we appreciate the support we receive from our shareholder representative, the Honourable MEC Sihle Zikalala. His frank feedback and guidance have been instrumental to our organisation keeping on the race, as well as achieving the progressive results reported for the 2017/18 financial year.

The support provided by the Board of Directors under the leadership of the Chairman, Mr Roshan Morar, over the past year has been truly valuable. We acknowledge the range of inputs this Board has provided. Such inputs have gone a long way in sharpening our focus and improving our agility in responding to the needs of the clients we serve.

Finally, my acknowledgement goes to the Executive Team and the employees of Ithala who have made Ithala to be what it is today. Our ability to overcome the challenges we faced in the course of the past year cannot be overemphasised.

As we move forward, I wish to emphasise that we are conscious of the confidence the KwaZulu-Natal public has placed in us.

In recognising our role in the Province, we can confidently promise that we will continue to serve our mandate with humility and honour as we carve the way to a better future for the historically disadvantaged candidates of our service offerings.

Mathe

Mr Themba Mathe
Acting Group Chief Executive

GROUP CHIEF FINANCIAL OFFICER'S REPORT

"The organisation continued to concentrate its focus to cost-containment initiatives as a major input into maintaining financial sustainability"

MS FARHANA AMOD
GROUP CHIEF FINANCIAL OFFICER

FINANCIAL REVIEW

REVENUE	▲ 5.99%
OPERATIONAL COSTS	▲ 0.97%
NET PROFIT**	▲ 303.82%
COST-TO-INCOME	▼ 12.64%
RETURN ON ASSETS	▲ 2.93%
CAPITAL ADEQUACY RATIO	▲ 2.92%

** - Net profit includes two exceptional items pertaining to a fair value year on year increase in investment property of R157m and the recognition of grant income of R60m pertaining to share capital injection in the wholly owned subsidiary Ithala SOC Limited

COST CONTAINMENT REMAINED THE KEY FINANCIAL DRIVER FOR THE YEAR UNDER REVIEW, AS EVIDENCED BY THE 1% YEAR ON YEAR INCREASE IN OPERATIONAL EXPENDITURE. THIS DELIBERATE INWARD FOCUS WAS NECESSITATED BY THE GROUP'S MAINTENANCE OF REVENUE STREAMS AT A LEVEL THAT ENSURED A 6.0% YEAR ON YEAR INCREASE. ACCORDINGLY, THE COST TO INCOME RATIO IMPROVED BY 12.6% YEAR ON YEAR. THE GROUP CONCLUDED THE YEAR WITH A PROFIT OF R282 MILLION, WHILST THE CORPORATION RECORDED A PROFIT OF R322 MILLION.

Ithala Development Finance Corporation Limited has delivered pleasing results amidst the modest economic recovery experienced over the financial year under review.

The Properties department recorded a profit of R382m. There has been a year on year increase in revenue of 10.56%. The major contributors are increases in rental income due to new leases coming into effect as a result of a reduction on vacancies, and fee income primarily due to increased electricity recoveries. The appreciation in fair value (FV) of investment property, gave rise to a FV adjustment of R157m during the year. The debtors' book, reflects an 8.8% year on year increase. The increased bad debt provision in rental debtors in the current year signifies a deterioration of the debtors' book.

The Business Finance department recorded a profit of R67.8m profit which represents a 40% year on year deterioration in operating profit. This is largely due to a year on year reduction in government funding to SMMEs and Co-Operatives, due to budget reprioritisation by the shareholder. Additionally, loans to the agricultural sector continue to negatively impact the unit. Due to the drought experienced in 2015/16, the organisations had to restructure a number of loans to assist clients whose crops were afflicted by drought and could not honour loan repayments. These loans, which have commenced emerging from the capital payment moratorium period, have shown signs of default, resulting in a deterioration of non-performing loans from 23.1% to 28.4% in 2017/18. Asset Finance loans have also contributed to the increase in non-performing loans in the year under review. Early settlement of large loans during the year, further impeded the department from achieving its interest income target.

The largest subsidiary in the Group, Ithala SOC Limited, has reported a loss of R32.7m which is an improvement of 29.4% year on year. This improvement is largely due to an increase in fee income of 17.4%. Non-performing loans improved from 7.3% to 6.2% in the current year, thereby reducing the year on year credit impairment charge. The bank has adopted a "Build the Bank" strategy, which whilst favourably reducing losses in the latter part of the current year, is expected to yield positive results in the ensuing years.

Ithala SOC Limited has applied for a full banking licence with the South African Reserve Bank. An exemption to a full banking licence has been approved by the Minister of Finance for two years ending 30 September 2019, whilst the application for the full banking licence is in the process of being strengthened.

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2018

FOR THE YEAR ENDED 31 MARCH 2018	GROUP			CORPORATION		
	2018	2017	%	**2018**	2017	%
Interest income	**343 987**	**353 925**	**-2.81%**	**83 319**	**95 616**	**-12.9%**
Rental income	355 561	321 587	10.56%	320 831	285 445	12.40%
Sale of municipal services	260 991	249 282	4.70%	260 991	249 282	4.70%
Fees	184 551	155 575	18.63%	47 251	35 906	31.60%
Revenue	**1 145 090**	**1 080 369**	**5.99%**	**712 392**	**666 249**	**6.93%**
Other operating income	**380 928**	**225 720**		**372 224**	**201 747**	
Fair value adjustment	157 339	(34 655)	554.0%	158 994	(41 386)	-484.2%
Grants on lending	77 913	113 282	-31.2%	77 913	113 282	-31.2%
Grants -(SBGE,KPDH,DTI)	5 898	39 881	-85.2%	5 898	39 881	-85.2%
Grants Limited capital Injection	60 000	-	0.0%	60 000	-	0.0%
Other	79 778	107 212	-25.6%	69 419	89 970	-22.8%
Net Total Income	**1 526 018**	**1 306 089**	**16.8%**	**1 084 616**	**867 996**	**25.0%**
Interest expenditure	(105 573)	(108 814)	-3.0%	(7 882)	(9 699)	-18.7%
Credit impairment charges	(70 214)	(66 832)	5.1%	(55 571)	(46 255)	20.1%
Operating expenditure	(1 061 121)	(1 050 965)	0.97%	(699 520)	(668 890)	4.6%
Operating profit before taxation	**289 110**	**79 478**	**263.8%**	**321 643**	**143 152**	**124.7%**
Taxation expense	(6 936)	(9 505)	-30.0%	-	-	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**282 454**	**69 973**	**303.7%**	**321 643**	**143 152**	**124.7%**

REVENUE

The increase of 6.0% in the total revenue of the Group is largely due to the fee income from Ithala SOC Limited where certain products such as debit cards for both businesses and individuals, multi-term targets and club save accounts, have significantly improved compared to prior financial year. The Properties department municipal services recoveries improved by 26% including property subsidiaries (Nongoma Plaza Limited, Sundumbili Plaza Limited and The Wharfside Trust) due to concerted efforts to ensure that IDFC recovers in accordance with lease agreements terms. The Properties department new leases and renewals, have led to an increase in rental income by 11%. The sale of municipal services only increased by 5% whereas interest income decreased by 3% due to loan advances volume mix not achieved as intended. Notwithstanding Business Finance's over achievement in their loan advances targets, loan advances on the Enterprise Development Fund (EDF) fund impedes interest income growth as the loans from this fund are disbursed at predetermined, significantly below market rates to assist Co - Operatives and SMMEs to make their businesses more sustainable. Additionally, Business Finance had loan settlements during the financial year, which also contributed to the lower interest income achieved.

CREDIT IMPAIRMENT CHARGES

There has been a reduction in impairment charges in the Group as a result of an improved debt management process. However, Agricultural loans in the Business Finance department has caused an increase in credit impairments in the Corporation.

OTHER OPERATING INCOME

Other income increased in the current year. This is mainly due to a higher year on year fair value adjustment on investment properties of R157m.

An analysis of other operating income is included in note 20.

OPERATING EXPENDITURE

Operating expenditure has increased by 1.0% within the Group and by 4.6% in the Corporation during the year under review. A concerted effort has been made to monitor and contain costs throughout the year.

An analysis of other operating expenditure is included in note 21.

CAPITAL ADEQUACY RATIO

The capital adequacy ratio has improved from 12.3% to 15.2% in the current year. This level is above the minimum requirement of the South African Reserve Bank and the Memorandum of Agreement entered into between Ithala SOC Limited and the Minister of Finance.

GROUP CHIEF FINANCIAL OFFICER'S REPORT (continued)

BALANCE SHEET AS AT 31 MARCH 2018

	Group			Corporation	
	2018	2017		2018	2017
	R'000	R'000		R'000	R'000
ASSETS					
Non-current assets	4 850 678	4 522 599		3 730 288	3 453 542
Current assets	2 246 607	2 138 599		914 330	766 005
Total assets	7 097 285	6 661 198		4 644 618	4 219 547
EQUITY AND LIABILITIES					
Capital and reserves	3 997 913	3 715 459		4 059 658	3 738 015
Non-Controlling Interest	(166)	(166)		-	-
Total equity	3 997 747	3 715 293		4 059 658	3 738 015
Non-current liabilities	2 649 065	2 590 150		218 573	224 754
Current liabilities	450 473	355 755		366 387	256 778
Total liabilities	3 099 538	2 945 906		584 960	481 532
Total equity and liabilities	7 097 285	6 661 198		4 644 618	4 219 547

GROUP CHIEF FINANCIAL OFFICER'S REPORT (continued)

FINANCIAL POSITION

THE GROUP HAS MAINTAINED ITS LIQUIDITY AND SOLVENCY DURING THE YEAR. AT THE END OF THE FINANCIAL YEAR CURRENT ASSETS EXCEEDED CURRENT LIABILITIES BY R1.8 BILLION DEMONSTRATING A HIGHLY LIQUID POSITION. TOTAL ASSETS EXCEEDED TOTAL LIABILITIES BY R4 BILLION. TOTAL ASSETS INCREASED BY 7% MAINLY DUE TO INCREASED CASH AND CASH EQUIVALENTS AND AN INCREASE IN INVESTMENT PROPERTY (DUE TO FAIR VALUE ADJUSTMENT).

FUTURE OUTLOOK

Ithala is set on a more service-oriented strategic path from 2018/19 going forward. In terms of Ithala's new strategic road map, Ithala's strategic focus will be on facilitating development outcomes that are in line with its organisational mandate by optimising institutional contributions in self-initiated and pre-defined government programmes.

Ithala recognises that receipt of grant funding from government is a finite arrangement, thus requiring the organisation to mobilise alternative sources of funding to advance its developmental course. Entailed in Ithala's future undertaking is increased focus on forging strategic alliances for project delivery purposes and gearing the organisation to attract fee income from serving as an agency of project implementations in a wide spectrum of disciplines relevant to the prescribed mandate.

The Properties department's strategic focus area for 2018/19 is to recapitalise the property portfolio to support tenant retention and attraction and also reduce tenant vacancies, thereby increasing the rental income stream. The focus is also to venture into public-private partnerships (PPPs) in order to deliver new property investments and social infrastructure to further enhance this revenue stream. The Properties department will also drive rural and township economies revitalisation programs in keeping with our mandate. Consequently, the unit's performance is expected to continue on a positive trajectory in the forecasted years ahead.

The Properties department continues to embark on strategic projects, which will increase the number of new property developments and refurbishments of the existing property portfolio. This is expected to positively impact vacancy levels and consequently improve rental income generation in 2018/19.

The Business Finance department's strategic focus areas for 2018/19 centres around growing the loan book, increased participation in government poverty alleviation and other programmes by increasing lending activities for this purpose and increased lending activities that support rural and township revitalisation programmes.

In addition, specific focus is on reducing the value of non-performing loans by provision of increased non-financial support services as well as other initiatives to SMMEs and Cooperatives emanating from strategic partnerships with both public and private sector. The aforementioned initiatives will ensure improvement in the quality of the loan book.

These goals will be achieved by substantial investments in the property and business finance portfolios, coupled with continued cost containment.

ITHALA SOC LIMITED

Ithala SOC Limited has developed a new 'Build the Bank' strategic plan as called for by the South African Reserve Bank ("SARB") and the Minister of Finance, which articulates how Ithala SOC Limited will turn itself around and achieve profitability and also determine the re-capitalisation value required to successfully implement this turnaround strategy. In the next financial year, a new integrated enterprise-wide digital core-banking platform will be introduced. This will enhance Ithala SOC Limited services and customer experience.

Ithala SOC Limited is forecasting a profit in the next financial year as a result of initiatives being implemented as part of the turnaround plan.

Ithala Group will be adopting International Financial Reporting Standards (IFRS) from the 2018/19 financial year. This is not expected to have a pervasive impact on the financial statements, as SA GAAP was fully aligned with International Accounting Standards until it was discontinued in December 2012. The significant impact will be in adopting IAS 19 (employee benefits) and IFRS9 (Financial Instruments: Recognition and Measurement).

Ms F Amod
Group Chief Financial Officer

OUR LEADERSHIP

Ithala is given strategic direction by a highly skilled and dedicated Board for delivery against its mandate.

BOARD OF DIRECTORS

Roshan Morar
INDEPENDENT NON-EXECUTIVE DIRECTOR (CHAIRMAN)

B Com, B Com Honours,Chartered Accountant (S.A.), Certified Fraud Examiner
Appointed 01/06/17

Area of Expertise

- Financial Management
- Business Advisory
- Audit
- Accounting
- Forensic Services & Investigations
- Taxation

Other directorships

- South African National Roads Agency Soc Ltd
- Airports Company South Africa Soc Ltd
- Harith General Partners
- Capital Appreciation Ltd
- Lancaster Group (Pty) Ltd

Siphesihle Mkhize
INDEPENDENT NON-EXECUTIVE DIRECTOR

B Compt, B Com (Honours) CTA, Auditing Specialized Course (APT), Chartered Accountant (S.A.)
Appointed 01/06/17

Area of Expertise

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

Other directorships

- Maphumulo Municipality – Audit Committee Member

OUR LEADERSHIP (continued)

Ithala is given strategic direction by a highly skilled and dedicated board for delivery against its mandate.

Sipho Gina
INDEPENDENT NON-EXECUTIVE DIRECTOR

Social Legal Studies Diploma, Political Economy, Conciliation and Arbitration - Certificate Arbitration – Certificate - Appointed 01/06/17

Area of Expertise
- Human Resources and Labour Specialist
- Social and Ethics

Other directorships
- Deputy General Secretary of SACTWU
- National Textile Bargaining Council

Inkosi Sibonelo Mkhize
INDEPENDENT NON-EXECUTIVE DIRECTOR

International Baccalaureate (IB) Diploma, B Com, Public Policy - Certificate Appointed 01/06/17

Area of Expertise
- Financial Management
- Economic Development
- Social and Ethics
- Credit and Investment Management
- Foreign Exchange and Equities
- Strategy Formulation and Management

Other directorships
- KZN Provincial House of Traditional Leaders
- uThukela House of Traditional Leaders
- KZN Financial Literacy Association
- uThukela Local House of Traditional Leaders Development Trust

Precious Sibiya
INDEPENDENT NON-EXECUTIVE DIRECTOR

B Accounting, Postgraduate Diploma in Accounting, Leadership Development - Certificate Chartered Accountant (S.A.), Business Rescue Practitioner - Appointed 01/06/17

Area of Expertise
- Financial Management
- Auditing
- Risk Management
- Planning (Budgets & Forecasts)
- Business Performance Management
- Client Relationship Management
- Performance Management and Succession Planning
- Credit and Investment Management
- Strategy Formulation and Management
- Project Management

Other directorships
- Parliament of South Africa – Audit & Risk Committee Member
- AWCA Investment Holdings (AIH)
- Reef Tankers (Pty) Ltd
- Gauteng Provincial Government Cluster: Health, Sports, Arts and Culture and Social Services Department- Audit & Risk Committee Member
- Financial Intelligence Centre - Audit & Risk Committee Member
- HSRC – Board Member and Audit & Risk Committee Member

Njabulo Nzuza
INDEPENDENT NON-EXECUTIVE DIRECTOR

B Com Economics, Certificate in Corporate Funding Strategies JSE, Non Executive Director Portshepstone Quarries - Appointed 01/06/17

Area of Expertise
- Strategic Management
- Economic Development
- Project Management
- Financial Management

Other directorships
- ANC Youth League Secretary General

OUR LEADERSHIP (continued)

BOARD OF DIRECTORS (continued)

Sihle Ndlovu
INDEPENDENT NON-EXECUTIVE DIRECTOR

MBA, Professional Accountant (SAIPA), Advanced Diploma in Management Accountant (CIMA) National Diploma in Cost and Management Accounting (CMA), Business Management on Developing Countries –Certificate, Tax Practitioner (Chartered Institute of Management Accountant) Post graduate Diploma in Accounting and Finance, CIMA (Chartered Institute of Management Accounting) - Appointed 01/06/17

Area of Expertise

- Financial Management
- Economic Development
- Credit and Investment Management
- Agriculture
- Planning (Budgets & Forecasts)
- Client Relationship Management
- Performance Management
- Strategy Formulation and Management
- Project Management
- Social and Ethics

Other directorships

- Joburg Market under City of Johannesburg Municipality
- ILembe District Municipality and ILembe Enterprise Development Agency - Audit & Risk Committee Member
- Agribusiness Development Agency - Audit & Risk Committee Member
- Built Environment Support Group - Chairman
- Advisory Council Agriparks (UMgungundlovu Region)
- KZN Agricultural Union
- Ezemvelo KZN Wildlife Board

Khulekelwe Mbonambi
INDEPENDENT NON-EXECUTIVE DIRECTOR

B Accounting, B Com Honours, Board Governance – Certificate, Enterprise-Wide Risk Management - Certificate - Appointed 01/06/17

Area of Expertise

- Corporate Governance
- Strategy & Performance Management
- Financial Management
- Asset, Debt and Liability Management
- Enterprise Risk Management
- Social and Ethics
- Strategic Management
- Performance Management
- Compliance
- Taxation

Other directorships

- Railway Safety Regulator - Non-Executive Director and Chairman of the Human Resources & Remuneration Committee
- Water Research Commission - Non-Executive Director and Chairman of the Audit & Finance Committee
- Mpumalanga Department of Public Works Roads & Transport - Chairman of the Audit Committee
- ICASA - Chairman of the Audit & Risk Committee
- Bonitas Medical Scheme - Chairman of the Audit & Risk Committee

Themba Mathe
ACTING GROUP CHIEF EXECUTIVE

Appointed: 25/07/17

Qualification

- Postgraduate Diploma in Business Management
- Bachelor of Arts
- Credit Diploma and Advanced marketing Diploma (CAIB)
- International Executive Programme (IEP)

OUR LEADERSHIP (continued)

MANAGEMENT TEAM

Themba Mathe
ACTING GROUP CHIEF EXECUTIVE

Appointed: 25/07/17

Qualification
- Postgraduate Diploma in Business Management
- B A
- Credit Diploma and Advanced marketing Diploma (CAIB)
- International Executive Programme (IEP)

Farhana Amod
GROUP CHIEF FINANCIAL OFFICER

Appointed: 01/12/15

Qualification
- Chartered Accountant (S.A.)
- B Compt (Honours)
- B Compt
- Post-graduate Diploma in Auditing
- CIA
- CFSA
- Executive Development Programme

Farhana Abdool Kader
ACTING PROPERTIES EXECUTIVE

Appointed: 01/10/17

Qualification
- Chartered Accountant (S.A.)
- B Compt (Honours)
- B Compt

Michael Matibe
GROUP CHIEF INFORMATION OFFICER

Appointed: 01/12/11

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

OUR LEADERSHIP (continued)

MANAGEMENT TEAM (continued)

Thulisile Galelekile
ACTING EXECUTIVE: GROUP MARKETING COMMUNICATIONS AND HUMAN RESOURCES

Appointed: 01/08/17

Qualification

- B Com
- B Com (Honours) (Marketing and Communication)

Bonginkosi Shangase
BUSINESS FINANCE EXECUTIVE

Appointed 01/06/2017

Qualification

- Chartered Accountant (S.A.)
- B Com (Accounting)
- B Com (Honours)
- MBA (Investments & Portfolio Management)
- Diploma (Development of Small Businesses & Industries)
- Auditing Specialism Certificate

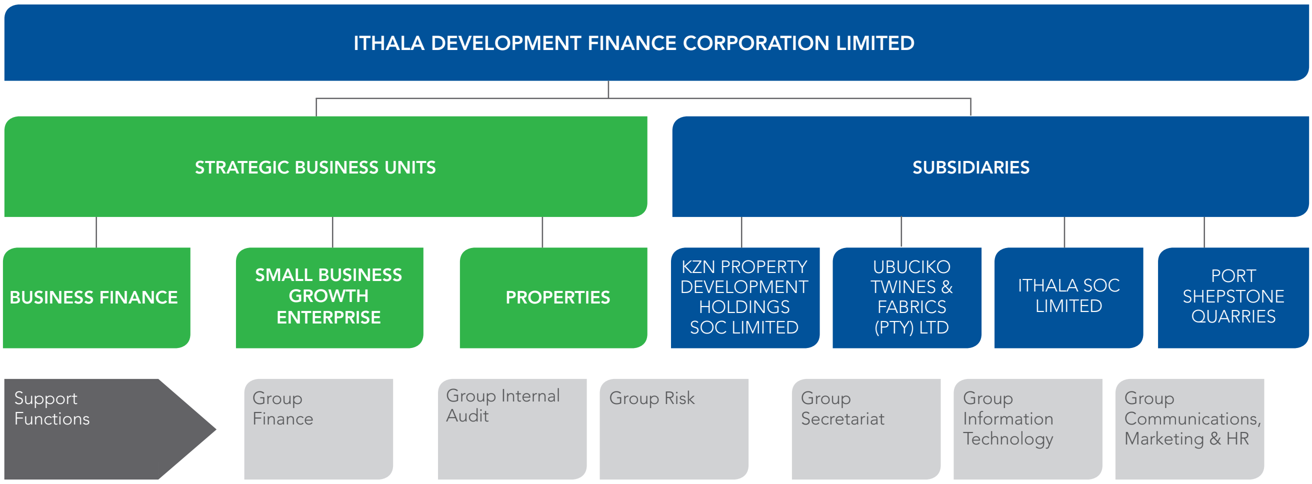
Boitumelo Mokgatle
GROUP CHIEF RISK OFFICER

Appointed: 04/05/15

Qualification

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

ORGANISATIONAL STRUCTURE



PROPERTIES

Our properties business assumes responsibility for the management and development of Ithala's property portfolio, comprising a range of large industrial, retail, light industrial and SMME properties. We are one of the largest property portfolio holders in KwaZulu-Natal. Read about our properties division's performance and prospects on pages 34 to 36.

BUSINESS FINANCE

Lending activities are provided through our business finance unit, offering financial services to SMMEs and co-operatives within KwaZulu-Natal. In so doing, the unit packages an array of products and services designed to stimulate entrepreneurship amongst, especially, historically disadvantaged individuals and communities. Our lending concentrates on sectors in line with the Provincial Spatial Economic Development Strategy, as well as meeting our primary mandate, as expressed in the Ithala Act. Read about our business finance performance and prospects on page 32 to 33.

SUBSIDIARIES

ITHALA SOC LIMITED

Ithala SOC Limited was formally established in 2001 to enhance our service portfolio by providing effective deposit-taking activities.

It provides financial services to the people of KwaZulu-Natal, especially in areas where such services lacked in the past. We deliver retail financial services, savings and investment products, housing and loan products, as well as insurance products. Ithala SOC Limited functions in terms of a multi-channel distribution network, servicing the needs of individuals, groups, businesses and other public sector entities.

Please refer to the Ithala SOC Limited annual integrated report for additional information. This may be downloaded from the website: www.myithala.co.za.

UBUCIKO TWINES AND FABRICS SOC LIMITED

Previously located in Mkondeni, Pietermaritzburg, Ubuciko Twines and Fabrics, a wholly-owned subsidiary, was established in 2006, producing polypropylene twine, woven material and polypropylene bags and sacks. These products were aimed at various sectors, inclusive of the mining and agricultural sectors, geo-textiles, polychemical, sugar and furniture industries.

During the review period, Ithala successfully secured a company to lease both the equipment and the property previously occupied by Ubuciko Twines and Fabrics. These two rental revenue streams continue to be collected by Ithala. Importantly, the majority of operational staff members previously employed by Ubuciko Twines & Fabrics were absorbed into the business by the new operator.

KWAZULU-NATAL PROPERTY DEVELOPMENT HOLDINGS

In December 2016, the MEC directed the Chairman of Ithala to wind-up KPDH in line with its legal duty as the shareholder of the entity. Consequently, in February 2017, the Ithala Board, by written resolution, instructed the KPDH Board of Directors to cease to carry on business by the end of March 2017, except to the extent necessary to wind-up the business. The shareholder further resolved that KPDH must be deregistered from the register of the Companies and Intellectual Property Commission. This activity was given attention in the course of 2017/18.

PORT SHEPSTONE QUARRIES (PTY) LIMITED

Port Shepstone Quarries (Pty) Ltd is a business involved in quarry mining in a leased farm in Port Shepstone. Ithala initially acquired 30% shareholding in this company when it granted its debt facilities in September 2013. In July 2015 Ithala acquired the remaining 70% shareholding through a settlement agreement entered into with the majority shareholder after the company had failed to service its debt obligations. In May 2017 the company was put under business rescue until the end of January 2018. The company has produced a turnaround plan which provide in detail the areas that the company needs to focus and improve on going forward. This turnaround plan is currently being evaluated for implementation by the shareholder.

Port Shepstone Quarries (Pty) Ltd produces a variety of aggregates and dust bi-products and sell it to companies involved in construction projects and hardware retailers. The company is currently exploring entering the lucrative road stone market. The company employs more than 37 workers from around the Port Shepstone area and they are affiliated to National Union of Mine Workers.

ORGANISATIONAL STRUCTURE (continued)

ASSOCIATE COMPANY

The Ntingwe Tea Estate (Pty) Ltd, located in the Nkandla district, was established in 1988. Ithala has 38% ownership, while 62% is held by the KwaZulu-Natal Department of Agriculture and Rural Development. Ithala assumes responsibility for management support of the enterprise, which employs between 200 and 300 people from the surrounding villages.

OUR STRATEGY

We formulate strategic objectives with our Shareholder and measure progress towards their achievement via a set of agreed upon key performance indicators (please see our Annual Performance Plan report on pages 38 to 39).

During the period under review, we focused on strengthening our property business by unlocking additional revenue generation potential from our property portfolio. We have achieved this by reducing the holding and maintenance costs associated with the operation, and reducing the levels of vacancies across the board.

We apply continuous improvement interventions in terms of our business units and work to constantly strengthen our corporate risk, governance and internal audit structures and systems (please see pages 26 to 27 for more information).

IN ADDITION, WE PLAY AN ACTIVE ROLE IN STRATEGIC PROVINCIAL PROJECTS WHICH ARE DESIGNED TO GIVE EFFECT TO FURTHER ECONOMIC ACTIVITIES, THEREBY ASSISTING TO GROW NEW EMPLOYMENT OPPORTUNITIES AND PROMOTE INDUSTRIAL DEVELOPMENT. WE EXPLORE VIABLE ALTERNATIVE FUNDING SOURCES SO AS TO ADVANCE BUSINESS LENDING ACTIVITIES BEYOND STAKEHOLDER GRANTS.

This report concentrates on material developments and issues affecting Ithala.

A material issue is defined as one which affects our ability to remain commercially viable and socially relevant to the communities within which we operate.

The process of determining material issues includes undertaking an analysis of our business environment, the expectations of our material stakeholders and giving sound consideration to issues emanating from our enterprise risk management process.

Our organisation's value creation model and strategy is customised to respond to these.

Material items are those which are regarded as being of high concern to stakeholders and which have a significant impact on the business.

The diagram below depicts the interactive relationship between our stakeholder risks and opportunity landscape and our strategic and performance goal-setting.

CORE STRATEGIC THEMES

STRATEGIC RISK

ENTERPRISE RISK MANAGEMENT

The Board has overall responsibility for the effective management of risks and has mandated the Audit and Risk Committee (ARC) to assist it in executing its responsibilities concerned with risk management to ensure that its risk management is embedded into all processes and activities of Ithala. The adoption and implementation of our Enterprise Risk Management (ERM) Framework enhanced Risk Management at both a Strategic and Operational Risk levels in the organisation.

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

We recognise that identifying and managing risks and opportunities is fundamental to generating sustainable profits, safeguarding Ithala's reputation and advancing its competitive edge. Risk management is required to ensure Ithala's success and stability, primarily for the benefit of historically disadvantaged people in the region.

Strategic risk is the current and prospective variable 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. These include risk issues that impact Ithala's day to day operations.

Ithala pro-actively manages its strategic risk by ensuring that strategic risks are identified annually and monitored continuously as guided by the strategic objectives and direction of the organisation towards managing critical risks. During the past financial year our focus was on enhancing the risk culture within Ithala and the monitoring and reporting of key risk indicators identified as part of our Risk Appetite and Tolerance Framework.

The ARC reviews the Risk Management Framework of Ithala and oversees the control and enhancement of systems, policies, practices and procedures to ensure risks (strategic and operational) are identified, measured, controlled, monitored and reported.

We have also embedded our governance culture which includes the management of ethics and fraud risks with the formulation of the Anti-Fraud and Ethics committee that reports to Board Human Resource Social and Ethics (HRSEC) Committee on fraud, ethics and governance issues that set the foundation for embedding a robust risk culture within Ithala.

The risk management culture has been further embedded by implementing recommendations from the ERM Maturity Assessment that was conducted within Ithala, which benchmarked us against international best practices. This included the appointment of Risk Champions in all areas of the business to support group risk as an integral part of our risk management process.

Management is committed to ensuring that the risk management process remains robust to ensure that Ithala assets are protected and where necessary, the risk is mitigated through adequate insurance. An Ithala risk workshop was held in February 2017 in which the strategic risk register was revised and mapped to Ithala's strategy. In total,10 strategic risks Ithala faces were identified, and they are listed below:

STRATEGIC RISKS

Risk Name	Strategic Goals	Opportunities	Mitigating Controls
Liquidity risk	Financial Sustainability and Viability	• Diversification of funding sources • Proactive cash and capital management • Cost rationalization	• Cost rationalization project • Ongoing stakeholder engagements • Business Finance and Properties collections in line with budget. • Weekly updates on available funds presented at MCIC meetings by Business Finance. • Monthly cash flow forecasting submitted to EXCO and Board Sub-Committees. • On-going robust credit collections management • Group Finance MIF reporting is used to monitor cost-to-income ratio. • Monthly management information • Monthly reports on liquidity position • Capital adequacy ratio buffer • Established guidelines for the acceptable minimum cash balances • Asset and liability management system • Report to ARC and Board (Governance structures) • Funding requirements planning
Return on Properties assets risk	Financial Sustainability and Viability	• Diversification of funding sources • Public Private Partnerships • Implementation of properties turnaround strategy	• Benchmark reports on rentals per portfolio • Rental valuation exercise to inform rental rates setting • Management information reports • Sufficient skills and adequate capacity within the Properties Department • Socio economic profiling • Research conducted to determine the ideal tenant mix • Tenants charged market related rentals on all new leases and lease renewals. • Incentivizing estate agents to encourage filling of vacant properties.
Return on Business Finance assets risk	Financial Sustainability and Viability	• Improved loan book performance • Improved governance, risk and compliance management • Diversification of revenue streams	• Post Investment Monitoring unit monitors non - performing loans, assesses potential losses. • Approval structures - Committees are in place for the assessment and approval of client loan facilities. • Technical Investment Support Unit performs due diligence, financial analysis on new loan applications, to mitigate high default rates in the high risk market that Ithala operates in.
Technology risk	Operational Excellence and Good Corporate Governance	• Systems readiness for business continuity • Retention of IT personnel • Improved operationalization of IT projects	• IT strategy is developed after taking budgetary constraints and available funding into account • Alignment of IT strategy against business unit requirements in line with available funds • IT strategy drives the department's budget and Key IT Projects to be delivered. • Internship training program has been developed to improve on training and skills development. • Disaster recovery plan assists in recovering system failures. • HR Policies assist in the Attraction and Retention of Skills. • Return on Investment (ROI) Framework and tool to monitor the effectiveness of the utilisation of systems. • Implemention of change management strategies. • Monitoring and reporting on ROI.

STRATEGIC RISKS (continued)

Risk Name	Strategic Goals	Opportunities	Mitigating Controls
Strategy risk	Forge Strategic Partnerships	• Alignment of strategy with stakeholder expectations • Meeting stakeholder expectations • Improved reputation • Increased stakeholder engagement to communicate plans successes and foster co-operation between role players	• The corporate plan is developed to adapt to the changes in external factors / forces • Key Performance Indicators (KPI's) and targets set on the Annual Performance Plan and Corporate Plan. • Repositioning strategy and five year strategic plan developed to adapt to the changes in external factors / forces • KPI's and targets set on Corporate Plan directly linked to organisational strategy • Quarterly review and reporting of the Annual Performance Plan to EXCO, Shareholder, Board and Board Sub-Committees
Optimal use of resources risk	Financial Sustainability and Viability	• High performance culture • Proactive talent management • Building trust with organized labour • Skills development • Staff wellness	• Annual Borrowing Plan developed taking into account business requirements, to optimally use Ithala's asset base • Monthly (EXCO) and Quarterly (Board) reporting of ROA, ROI and Debt to Equity Ratio and monitoring adherence to Policy • Submissions to EDTEA MEC, Provincial Treasury, National Treasury, in line with S54 and S56 of the PFMA • Refurbishment and Maintenance program and budget
Developmental Impact to the economy and society	Development Effectiveness	• Attract target market • Customer perceptions • Client centricity • Market intelligence • Innovative product offerings	• Classification of clients to tailor interventions • Skills development workshops • Industry sector analysis and reporting • EDTEA Steering Committee to ensure alignment with the provincial development plan • Business Finance Lending Policies • Weekly MCIC meetings are held to assess applicants
Appropriate skills at governance structures	Operational Excellence and Good Corporate Governance	• Maintain good governance of risks • Compliance with applicable legislation	• Ithala Act (S 6 (2)) defines the minimum skills, expertise and qualification that the Board must possess and our Skills Matrix is based on the Ithala act and the strategy • The skills matrix is reviewed and approved by the Board annually and the Ithala Act allows Board to co-opt required skills that it does not have. • There is a Board Continuity Policy and Board Rotation Plan in place.
Fraud, theft and corruption	Operational Excellence and Good Corporate Governance	• Maintain good governance of risks and compliance with applicable legislation • Ethical work environment	• The anti-fraud and Ethics Committee monitors fraud and ethics activities • Fraud Hotline to report irregular and fraudulent activities • Anti-fraud and Ethics Policies enhance the mitigation of fraud and the enhancement of the ethics environment • Forensic Investigation and reporting of irregular and fraudulent activities • Employees' annual declaration of interests • Reporting to EXCO on fraudulent and unethical activities • Reporting to Board ARC and HRSEC Committees on fraudulent and unethical activities • Ethics rejuvenation programme • Monitoring of existing controls by Management • Assurance by Internal Audit monitoring and reporting • Assurance by Risk and Compliance monitoring and reporting
Inability to harness and build human capacity to be competitive	Knowledge Management	• High performance culture • Proactive talent management • Building trust with organized labour • Skills development • Staff wellness • Cost rationalization • Improved customer relationships • Increased revenue	• HR Talent Acquisition, Talent Development and Performance Management Policies and Procedures • Succession and Performance Management Policies and Procedures • Remuneration and Benefits Policy and Procedure • Employee Value Proposition Framework

STRATEGIC RISKS (continued)

Existing controls are in place for the identified risks and, where additional controls are required, management developed detailed risk mitigation plans to address the residual risk exposure. All operational risks are reviewed on a monthly basis and strategic risks on a quarterly basis, Quarterly update reports are submitted to the ARC ensuring management can execute its risk management responsibility in terms of the PFMA and King IV.

COMPLIANCE

Ithala operates in a highly regulated environment and we consider all applicable legislative and regulatory requirements when determining our strategic objectives. Regulatory compliance ensures that Ithala meets its legal and regulatory requirements across the industry. Failure of which could lead to potential litigation for not complying with the applicable regulatory requirements.

Some of the key controls that have been put in place to mitigate this risk include the development of Compliance Manuals, Policies and Procedures and Compliance Regulatory Management Plans (CRMP's). During the past financial year our focus was on improved compliance methodologies, policies and the development and testing of CRMP's, thereby embedding a compliance culture within the Corporation.

We are a public entity in terms of the Public Finance Management Act No. 1 of 1999 and listed under Schedule 3 D of the Act. Ithala is defined as an Accountable Institution in terms of Schedule 1 to the Financial Intelligence Centre Act No. 38 of 2001.

We are 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. Ithala 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.

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.

We have 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. It uses a four-phase approach guiding us to identify, assess, manage and monitor compliance risk.

Compliance - Top 12 Legislation as extracted from the regulatory universe	
No.	Legislation
1.	Financial Intelligence Centre Act 38 of 2001 (FICA)
2.	National credit Act No 34 of 2005 (NCA)
3.	Public Finance Management Act, 1999
4.	Preferential Procurement Policy Framework Act, 5 of 2000
5.	Ithala Development Finance Corporation Act, 2013
6.	Protection of Personal Information Act , 2013 (POPI)
7.	Occupational Health and Safety Act, 85 of 1993
8.	Labour Relations Amendment Act 6 of 2014
9.	Consumer Protection Act, 68 of 2008
10.	Prevention and Combating of Corrupt Activities Act 12 of 2004
11.	Electronic Communications and Transactions Act, 2002
12.	Basic Conditions of Employment Amendment Act 20 of 2013

ECONOMIC ENVIRONMENT

According to the International Monetary Fund's (IMF) April 2018 World Economic Outlook (WEO) publication, global growth has firmed from 3.2% year-on-year in 2016 to a multi-year high of 3.8% in 2017. The key drivers of this growth rate were stronger growth outcomes in the Eurozone (EZ), Japan and the US plus continued fast expansion in China, which has improved conditions for commodity exporters.

Global growth is projected to strengthen from 3.8% in 2017 to 3.9% in 2018 and 2019, driven by a projected pickup in growth in emerging market and developing economies and resilient growth in advanced economies, as illustrated in the table below:

WORLD ECONOMIC OUTLOOK PROJECTIONS (% CHANGE)

	2016	2017	2018
World	3.8	3.9	3.9
Advanced Countries	2.3	2.5	2.2
USA	2.3	2.9	2.7
Euro Area (19 Euro Zone Countries)	2.3	2.4	2.0
United Kingdom	1.8	1.6	1.5
Japan	1.7	1.2	0.9
Emerging Market and Developing Economies	4.8	4.9	5.1
China	6.9	6.6	6.4
India	6.7	7.4	7.8
Emerging Europe	5.8	4.3	3.7
Latin America and Caribbean	1.3	2.0	2.8
Sub-Saharan Africa	2.8	3.4	3.7
South Africa	1.3	1.5	1.7

Source – IMF World Economic Outlook April 2018

If the IMF's 3.9% Gross Domestic Product (GDP) growth rate for 2018 forecast does materialise, it will be the fastest rate of expansion in world GDP since 2011.

The positive growth forecasts for the world economy are, however, shadowed by significant threats. These include, inter alia, the pace and extent of monetary policy normalisation in advanced economies, particularly in the United States; increasing trade protectionism stance of US President Donald Trump's administration and the strong possibility of retaliatory responses from the affected trading partners, particularly China; and geo-political tensions in other parts of the world.

In South Africa, Stats SA reports that for 2017 as a whole, GDP growth expanded by 1.3%, up from a very poor growth figure of 0.6% in 2016. The main drivers of this growth rate were agricultural and mining output plus, to a lesser degree, increased activity in the 'finance, real estate and business services' sector. This was partially counteracted by declines in growth by the trade as well as construction sectors. Other sectors such as manufacturing struggled to make meaningful contributions to GDP growth in 2017.

In 2017 as a whole, household consumption expenditure, which, according to Stats SA and the South African Reserve Bank, accounts for more than half of GDP in South Africa (approximately 60%), expenditure rose by 2.2%, its strongest since 2012. This growth is attributed largely to lower inflation and low debt service costs, which provided impetus to consumer spending over the year regardless of weak confidence and the poor job market.

Real fixed investment improved substantially in the final quarter of 2017, recording 7.4% growth in real terms. This followed contractions in each of the preceding three quarters. Therefore, for the year 2017 as a whole, gross fixed capital formation increased by 0.4%. This was underpinned by a 1.2% increase in capital outlays by the private sector, whereas the public sector saw its investment spending decline for the second consecutive year.

Growth in consumption expenditure by general government, which is critical for, inter alia, SMME businesses that rely largely on government or public sector contracts, slowed to 0.6% for the year as a whole from 1,9% in 2016. This is largely a reflection of budget constraints in line with government's commitment to fiscal discipline and slower employment growth during the year.

ECONOMIC ENVIRONMENT (continued)

GDP GROWTH FORECAST (YEAR-ON-YEAR % CHANGE)

A hugely positive development for the South African economy was the decision by ratings agency Moody's to affirm the country's foreign and local currency credit ratings at investment grade. They also revised the outlook on the ratings from negative to stable. Moody's rating, when read in conjunction with recent ratings from Fitch and S&P Global, means that all three major credit rating agencies now have a stable outlook on SA's rating. For the near future, this removes the risk that SA bonds will fall out of key global bond indices.

South Africa's growth prospects have improved considerably in the early part of 2018, largely due to a significantly improved political environment, which is impacting positively on consumer, business and investor sentiment.

Further to this, a relatively benign inflation outlook, supportive monetary policy and more favourable prospects for the world economy, including higher commodity prices, all contribute to the improved outlook for the South African economy.

The South African economic recovery that is already underway is expected to gain further momentum in the short to medium term, with GDP growth forecast to expand at an average rate of 2.4% per year over the period 2018 to 2023. This is illustrated in the table below from the Bureau for Economic Research (BER) data:

	2018	2019	2020	2021	2022	2023	Average 2011 / 17	Average 2018 / 23
SOUTH AFRICAN ECONOMY:								
Real GDP growth (real year-on-year %)								
Final household consumption expenditure	2.3	2.6	2.9	3.0	3.1	3.1	1.9	2.8
Government consumption expenditure	-0.2	1.1	1.4	1.4	1.4	1.5	1.8	1.1
Gross fixed capital formation	2.2	4.7	3.6	3.7	3.9	4.0	1.7	3.7
Real Gross Domestic Expenditure (GDE)	2.2	2.8	2.7	2.8	2.9	3.0	1.6	2.7
Total exports	3.2	1.5	2.5	3.3	3.2	3.4	2.0	2.9
Total imports	4.2	4.1	3.8	3.8	3.9	4.0	2.0	4.0
Real GDP	1.9	2.0	2.3	2.6	2.7	2.8	1. 6	2.4

Source - BER Forecast 2018 to 2023 (April 2018)

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

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

Ithala Development Finance Corporation's strategic focus is geared towards facilitating and supporting the implementation of these Government economic development initiatives.

STAKEHOLDER CONTEXT

The Board of Directors promotes a stakeholder-inclusive approach with regard to the governance of Ithala. In determining our strategy to deliver against our developmental mandate, we remain mindful of the needs of our various stakeholder groups, which have either a direct or indirect economic and social interest in Ithala's activities by virtue of such stakeholders being in a position to affect or be affected by our decisions, actions, objectives and policies.

Stakeholder Groups' Material Issues	Engagement Method	Stakeholder Expectations	Ithala's Response
Provincial Government	• Quarterly performance reports • Quarterly meetings • Annual general meeting • Meetings with Legislature/Portfolio Committee	• Financial sustainability and viability • Alignment with Provincial Government's economic development agenda • Efficient and effective utilisation of allocated funds	• We signed our Shareholder's Compact with the Department of Economic Development, Tourism and Environmental Affairs • Our 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 department • Quarterly engagements are held with the department to discuss performance and the achievement of targets
Clients	• Business Finance clients - pre-funding interaction • Post-funding interaction • We visit and interact with our properties' clients and tenants on an ongoing basis	• Accessible and affordable financial services • Non-financial support services • Well maintained commercial and industrial properties • Affordable rentals • Business premises in prime development nodes	• Pricing for Government Grant funding is less than prime • Post-funding non-financial support is provided through the post-investment monitoring units of business finance • Increased allocations for capital and maintenance expenditure • We offer competitive and, in most cases, highly favourable rentals • Industrial and commercial premises are located in growth nodes
Regulators	• Regulatory reporting	• Responsible lending • Fair treatment of clients • Safekeeping of client records • Good corporate governance	• Submission of all regulatory reports in a timely manner • A fully capacitated compliance unit established
Employees	• Quarterly briefings by the group chief executive • On-line internal magazine business broadcasts	• Job security • Fair reward 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	• Ongoing	• Fair and transparent process of selecting service providers • Pay for services rendered in a timely manner • More opportunities for smaller enterprises	• Approved supply chain policies and procedures in line with Government policy • Specific focus on engaging B-BBEE-compliant service providers (see page 47)

HOW WE CREATE VALUE

Our approach is to focus on activities which optimise developmental outcomes across all the sectors supported by Ithala in KwaZulu-Natal.

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

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

INPUTS

- **Financial capital:** We receive grant funding from Government for lending to SMMEs (R40 million during the 2017/18 financial year);
- **Social and relationship capital:** We are dependent on the support of our shareholder, the Provincial Government of KwaZulu-Natal; and
- **Intellectual capital:** We are guided by our mandate from the Provincial Government of KwaZulu-Natal.

BUSINESS ACTIVITY

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

OUR IMPACT

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

THIS YEAR

During the 2017/18 financial year, we:

- Created 4 181 employment opportunities through the financing of business enterprises;
- Funded 619 entrepreneurs (2017: 382);
- Disbursed business loans to the value of R211 million (2017: R183 million);
- Created 425 employment opportunities through our property development and maintenance division; and
- Opened 97 859 new savings accounts through our wholly-owned subsidiary, Ithala SOC Limited.

OUR PERFORMANCE

During the course of the 2017/18 financial year, we financed 619 businesses and co-operatives, estimated to have enabled the creation of 4 606 new employment opportunities.

BUSINESS FINANCE

The strategic purpose of Business Finance is promoting, supporting and facilitating sustainable socio-economic development in KwaZulu-Natal by providing financial and non-financial support services to SMMEs including co-operatives. Financial support services include largely debt facilities and in some cases equity funding. Non-financial support services remain key when lending to SMMEs and in this regard Business Finance offers both pre-investment support as well as post-investment support.

In the last few years government has been formulating strategies that will increase economic growth, create employment opportunities, reducing unemployment and eradicating poverty. These government strategies largely inform the lending activities of Ithala and in this regard lending is aligned to the KwaZulu-Natal Provincial Growth and Development Strategy as well as the KwaZulu-Natal Provincial Spatial Development Strategy. These provincial strategic documents sets out the following targeted key economic sectors that have a potential of accelerating the economic growth of the province:

- Manufacturing;
- Agriculture and Agro-processing;
- Construction and tourism;
- Trade and services.

Furthermore, in order to be considered for business funding the business or project should demonstrate a positive economic development impact when taking into considerations factors such as the following:

- Employment creation;
- Black empowerment;
- Beneficiation of South Africa's raw materials;
- New technology and skills introduced;
- Export and/ or import replacement; and
- The general multiplier effect of the project to the economy.

Business Finance manages various strategic funds for lending and offers a wide range of products that are tailored specifically for SMMEs. These products included inter alia:

- Asset Based Finance;
- Structured Finance;
- Empowerment Finance;
- Project Finance;
- Agri-finance and Crop Finance;
- Procurement Finance and Construction Performance Guarantees;
- Commercial Property Finance;
- Bridging Finance; and
- Working Capital Finance.

In order to maximise the delivery of services to our clients, Ithala has set-up strategic business centres across KwaZulu-Natal. Clients are able to approach these centres to submit their applications and to receive any kind of business advisory or business support services. Our clients are also able to tap into the vast network of Ithala SOC Limited branches.

POST INVESTMENT MONITORING AND SUPPORT

Ithala has a fully-fledged post investment management unit. This is done to ensure that Ithala is always kept abreast of the challenges faced by our clients so that interventions can be introduced as soon as possible.

During the loan investigation an assessment is made of all the business support that is or might be required by the business. This business support is then deployed immediately after the disbursement of a loan for a specific period of time. Business support may be in the form of mentorship, coaching, facilitation of business linkages and various other administrative support services. Our Business Support advisors report regularly on the progress of the services being provided.

CREDIT RISK MANAGEMENT

Ithala has a very strong credit risk management culture and in this regard we have appropriate policies for the management of credit and lending business units are separate from credit approval division and approval committees. During loan investigation applications are taken through an intensive due diligence investigation to ensure that only viable business loans compliant with our investment policies are on-boarded.

Credit Risk Division monitors the performance of each class of the loan investment portfolio on a continuous basis. Continuous risk grading or categorisation is applied on loans when their status changes as a result of default or any other factors. Credit Risk also reports to the Board on a quarterly basis on the performance of the total debtor's investment portfolio.

Defaulting clients are monitored on a continuous basis. Various interventions through workout and restructuring are explored to try and assist our clients to return to profitability and resume loan repayments. These interventions, restructuring and rescheduling of loans are critical as most of the challenges faced by our clients are short-term and sometimes cyclical. This careful evaluation of credit risk assist in the management of non-performing loans.

OUR PERFORMANCE (continued)

When all interventions fail, client accounts are handed over to legal division for collection.

PORTFOLIO INVESTMENT PERFORMANCE

During the 2017/18 financial year Ithala had to deal with settlements of some of our large debtors accounts to the total value of R62 million which had been the anchor of our loans portfolio. The overall effect of these settlements was the decrease in our debtors investment portfolio by 3.8% from R871 million to R837 million. The performing portion of our investment portfolio at year-end totalled R599 million, being 71.57% of the overall investment portfolio.
The non-performing portion of our investment portfolio totalled R238 million, being 28.4% of the overall investment portfolio. This non-performing investment portfolio is disappointingly higher than the 25% target reflecting our tolerance level set at the beginning of the year.

During this financial year Ithala approved investments in SMME loans totalling R303 million and managed to disburse R211 million. The balance of the approved loans will be disbursed in the following financial year. This performance reflect an 11% improvement on approvals when compared to last year and a 15.3% improvement on disbursements. The following year offers Ithala with greater investment opportunities in government initiatives such as radical economic transformation and our active participation will ensure steady growth of our investment portfolio.

OUTLOOK

The projected economic growth is still a concern and it is still viewed as not enough to stimulate the desired economic activity in the market. However, we remain positive and are of the view that the worst is behind us when particularly taking into account that the severe drought of the past three years which affected our agricultural investment portfolio is over. We expect the demand for agricultural finance to increase. We have also seen changes in government and these will naturally result in new government programmes which will create more business opportunities for our clients.

Ithala remains committed in playing an active role in government projects aimed at providing business opportunities for SMMEs. To this end, Ithala will project manage Radical Agrarian Socio-Economic Transformation (RASET) programme. This fund is for assisting farmers and service providers operating in the agricultural value chain to trade directly with government in terms of the set-asides for various commodities procured by KwaZulu-Natal provincial government. Furthermore, Ithala will continue to play an active role in the Black Industrialist programme, which is a programme of the Department of Trade and Industry aimed at promoting industrialisation by black Africans by offering grants and incentives.

In the new financial year, Ithala will also seek to establish a Business Support unit. It is a known fact that as a development finance institution Ithala operates in a high risk environment and many of the clients that we finance face numerous challenges at early stages of getting their businesses going. These challenges result in SMMEs defaulting in the loan accounts which in-turn increases the number on non-performing loans. We see the introduction of business support as a direct intervention in dealing with these challenges and we hope the number of non-performing loans will decline gradually. Business Support Unit will provide both pre and post investment support .

In terms of our new strategy, Business Finance intends to:

- Grow our debtors' investment portfolio. To this end we have substantially increased our advances budget for the new year and we will also be managing the RASET fund.
- Increase our participation in government led programmes like the National School Nutrition Programme; Scholar Transport Programme; Public Works Eyesizwe Contractor Programme and the provision of decent housing for military veterans.
- Actively target the provision of funding to businesses owned by women and youth enterprises. We will also target businesses and initiatives aligned to the rural and township revitalisation programmes.
- Form strategic partnerships with both public and private organisations with the intention of leveraging the provision of non-financial support services for our clients.
- Improve the overall quality of our debtors investment portfolio by actively driving initiatives aimed at reducing non-performing loans.
- Provide improved customer experience by continuously improving the application loan turnaround times.

DEVELOPMENT OUTCOMES

We recorded the following **highlights:**

- Total value of funding approved totalled R303 million which is 87.5% higher than the annual budget.
- Disbursements totalled R211 million which is 15.3% higher than previous year.
- Gross collections totalled R272 million which is 19.5% higher than previous year.
- We provided finance to 619 small, micro and medium enterprises and facilitated the creation of 4 181 job opportunities.

We recorded the following **lowlights:**

- Non-performing loans remained high at 28.4%.
- The total investment portfolio decreased by 3.8% to R837 million at year-end.
- Large number of accounts were settled by our clients, resulting in the reduction of the loan book.

OUR PERFORMANCE (continued

PROPERTIES

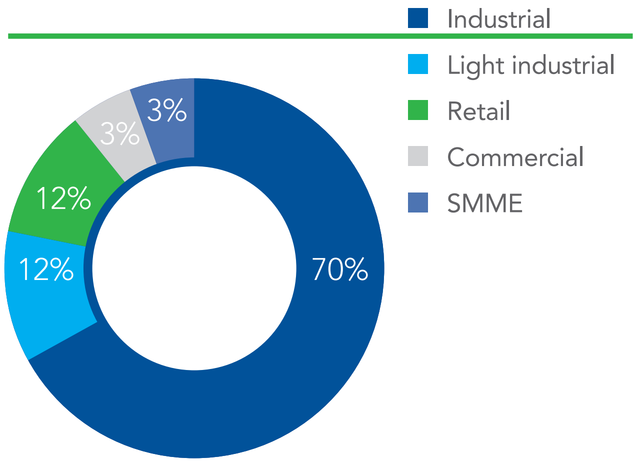
The Properties Department is responsible for managing Ithala's diverse property portfolio consisting of 1.2 million square meters of gross lettable area, located primarily in urban and peri-urban areas and stretching across the length and breadth of KwaZulu Natal. The property portfolio serves as a catalyst for economic development in the province. In addition, the Properties Department manages certain projects where Ithala acts as an implementing agent for governments' infrastructure programmes.

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

The Properties Department comprises three main divisions:

- Property management - responsible for leasing, ensuring optimal tenant mix and managing tenants.
- Asset management - responsible for long term, strategic and financial planning to optimise property asset values and realise return and growth objectives.
- Technical services – This division comprises four subdivisions viz
  - Facilities management – responsible for both planned and reactive maintenance of properties;
  - Project management – responsible for managing construction and refurbishment projects;
  - Construction Management – responsible for contract and on-site management of construction projects; and
  - Engineering services - responsible for management of infrastructure and municipal services such as electricity, water, sewer and solid waste disposal provided to tenants.

PORTFOLIO BY SECTOR



The property portfolio comprises of large industrial, light industrial, retail, commercial, and SMME properties. The large industrial portfolio consists of the three industrial estates viz. Isithebe, Ezakheni and Madadeni and accommodates 220 large manufacturing and other enterprises that provide employment to approximately 40 000 people in and around the surrounding areas of the estate.

The light industrial portfolio comprises nine industrial parks and three stand-alone factories providing accommodation to 192 businesses. Two of these light industrial parks are co-owned with Growthpoint Properties.

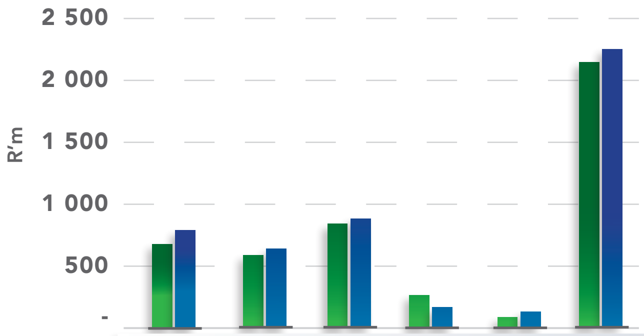
The retail portfolio comprises 21 shopping centres with shops ranging from 4 square metres to 5158 square metres and caters for small businesses and national tenants. There are currently 528 tenants in the retail portfolio. The commercial portfolio consists of five office blocks two of which are occupied by Ithala whilst the remainder is let as part of the leasing portfolio. The Ithala Trade Centre in the Durban Point Office precinct is the flagship development in this portfolio and is the head office of Ithala.

The SMME portfolio consists of 44 small properties being let as mini factory units, handicraft centres and motor parks.

In terms of vacant land Ithala holds 167 fully serviced sites located within the Industrial Estates, 19 Commercial sites and 235 Residential sites.

INVESTMENT OVERVIEW

Investment by Sector



	Industrial	Light Ind	Retail	Comm	SMME	Total
2016/17	690	529	766	191	55	2 231
2017/18	814	597	866	216	56	2 549

The total portfolio investment grew by 12% in the year under review.

The industrial and retail portfolio grew by 18% and 13% respectively. Light industrial and commercial portfolios also grew by 13%.

REFURBISHMENT PROGRAMME

Ithala embarked on a rigorous refurbishment programme on 8 shopping centres in the retail portfolio, 8 light industrial parks, 1 SMME industrial park, 1 residential building and various re-roofing and refurbishment of roof at the industrial estates which required urgent recapitalisation.

The refurbishment programme is focussed on the physical condition, functionality and compliance requirements of the properties.

Work in progress in respect of major refurbishment of retail and industrial properties of approximately R500 million is currently underway with R97 million spent in 2016/17 and R142 million in 2017/18.

INVESTMENT OPPORTUNITIES

A number of investment opportunities have been identified and are currently being pursued.

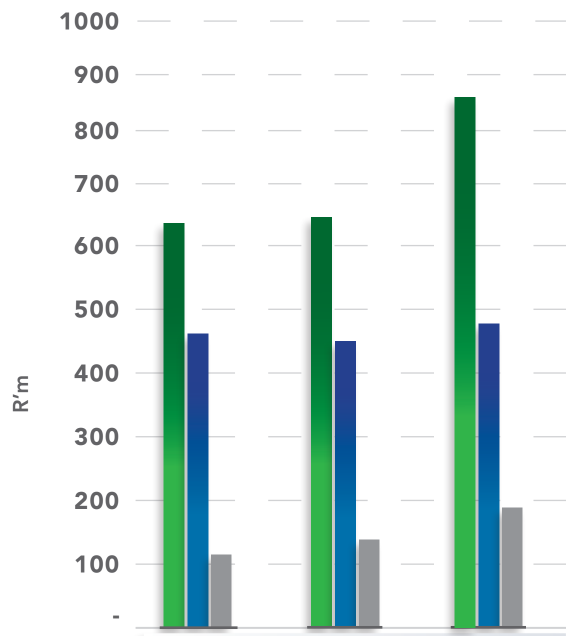
7 high yielding retail properties have been identified for major remodelling at an estimated cost of R2 billion. It is anticipated that these projects will be funded through a combination of own funds, commercial borrowings and contributions from strategic partners.

2 new retail property developments are being pursued at Mondlo and Ulundi as part of the growth strategy. The Mondlo project is in the central CBD of Mondlo and is being touted as a catalytic project for the area as there are currently no such facilities in Mondlo, whilst the Ulundi development is aimed at providing a more modern and up-market styled mall catering for the middle to upper LSM (Living standards Measure) of Ulundi.

FINANCIAL OVERVIEW

- Key Highlights (Year on year performance)
  - Total income up 34.8% to R868 million
  - Net Profit up 102% to R382 million
  - Total expenditure up 6.8% to R486 million
  - Gross collections up 11.75% to R732 million
  - Arrears up 12.50% to R81 million
  - Capital and maintenance expenditure up 22% to R188 million

FINANCIAL PERFORMANCE



	2015/16	2016/17	2017/18
Total Income	637	644	868
Total Expenses	465	455	486
Profits	172	189	382

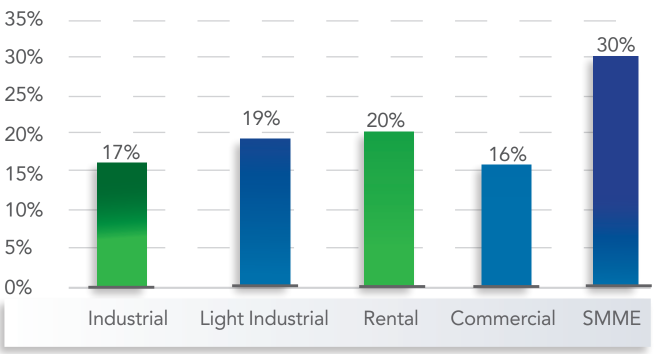
Net profit, excluding fair value adjustments, grew by 0.5% year on year to R225 million.

The strong financial performance was driven by the following:

- 4.7% growth in otal income to R710 million, excluding fair value adjustments. The main contributors to total income are rental income which increased by 10.6% and recoveries from tenants increased by 26.3%.
- 6.8% increase in total expenditure to R486 million.

INVESTMENT OVERVIEW

VACANCY LEVELS



The portfolio vacancy rate improved from 20.3% to 17.6% split as follows:

- 12% large industrial;
- 2% Light industrial;
- 2% Retail; and
- 1% SMME

IMPLEMENTING AGENTS

The Properties Department is currently managing the following projects on behalf of EDTEA all of which are at design stage

- Industrial Hubs – Clothing and Textiles and Leather processing
- Ndumo Retail Development
- Thokazi Royal lodge

STRATEGY

The three-year strategy was approved in February 2018 and will focus on the following:

- Refurbishment and upgrade to the current portfolio to remain relevant and competitive and to ensure compliance
- Expand and grow the Retail portfolio for market capitalisation in line with government's Township Revitalisation Programme and to reduce the concentration risk posed by the industrial portfolio which constitutes 70% of the portfolio
- Diversify and re-purpose the portfolio to take into account the needs of the Province (Housing, Student and Office accommodation)
- Re-establish IDFC as an implementing agent for government infrastructure programmes
- Explore innovative funding models including public private partnerships (PPP's)

PROSPECTS FOR 2018/2019

The Properties Department is targeting to achieve the following:

- Grow property revenue by 9%
- Maintain operational expenditure at current levels
- Reduce property vacancy levels to 14% by leasing an additional 52 000 square metres
- Improving the value of the investment portfolio by increasing investment yield to 13%

OUR PERFORMANCE (continued)

SUBSIDIARIES

ITHALA SOC LIMITED

The financial year closed with a disappointing net loss of R32, 7 million versus the budgeted net loss of R3, 6 million; however, this is still greatly improved from the prior year net loss of R46, 3 million). This adverse variance of R29 million is due to the poor performance of fee and insurance income, and the return on surplus funds.

Delays with the rollout of Automatic-Teller Machines (ATMs) and Self-Service Devices (SSDs) coupled with lower than expected sales of the group Affinity Product, Unsecured Loan Product, and salaried and debit order debit card accounts have resulted in the budgeted fee income targets for the period ended 31 March 2018 not being achieved.

SOME OF THE TARGETS SET WERE:

- We planned to increase the number of active transactional accounts held by individuals to 107 615 by year-end. However, only 97 859 accounts were held (91.0 percent achieved). The target was not achieved as there were lower than budgeted sales volumes and account activations.
- We achieved a capital adequacy ratio percentage of 15.2 per cent against a target of 15.9 per cent (95.6 percent achieved), thanks to the shareholder providing capital of R60 million in October 2017 to recapitalise the entity for 12 months.
- We achieved a JAWS ratio (income growth rate exceeds its expenses growth rate) of positive 5.7 per cent against a target of 10.9 per cent.
- We planned to achieve a net loss of R3.6 million by year-end. However, a loss of R32.7 million was achieved. Although the results are disappointing, they have still improved by 29.4 percent from the prior year.
- The negative variance in new advances, the return on surplus funds and non-interest income also contributed to the non-achievement of the targeted cost-to-income ratio of 98.1 per cent, as the actual ratio was 108.7 per cent.
- We achieved a non-performing loans percentage of 6.2 per cent, which is an improvement when compared to the planned target of 8.0 per cent.

The new Build the Bank strategy to re-engineer, restructure and take Ithala SOC Limited forward towards sustainability was developed in September 2017. A new integrated enterprise-wide digital core-banking platform is now in the process of being implemented. The shareholder, the KwaZulu-Natal ("KZN") Department of Economic Development, Tourism and Environmental Affairs ("EDTEA"), have provided short-term capital adequacy support in the amount of R60 million during October 2017 and have paid a further R40 million in grant funding during March 2018 for the implementation of the new platform.

ASSOCIATE

NTINGWE TEA ESTATE

The Ntingwe Tea Estate, established in 1988, is located in the Nkandla district. Ithala has 38% ownership, whilst 62% is owned by the KwaZulu-Natal Department of Agriculture and Rural Development (DARD). Ithala is responsible for management support.

The KwaZulu-Natal Provincial Executive Council took a decision to assess the feasibility of Ntingwe Tea Estate in the 2017/18 financial year. The MEC for Agriculture and Rural Development recommended that Ntingwe Tea Estate be transferred to Agribusiness Development Agency (ADA).

The implementation of the recommendation by the MEC for Agriculture and Rural Development to transfer Ntingwe Tea Estate to Agribusiness Development Agency (ADA) has commenced but has not yet reached completion.

Cabinet has indicated that the turnaround plan and proposed operating model for Ntingwe Tea Estate be approved prior to finalizing the transfer of Ntingwe Tea Estate shares to ADA.

It is anticipated that this matter will be finalized by end of Quarter One of the 2018/19 financial year.

OUR PERFORMANCE (continued)

ANNUAL PERFORMANCE REPORT 2017/18

STRATEGIC GOAL 1: FINANCIAL PERSPECTIVE

STRATEGIC OBJECTIVES	KEY PERFORMANCE INDICATORS	TARGET 2017/18	ANNUAL ACTUAL OUTPUT	MANAGEMENT COMMENT
Financial Sustainability	Gross Collections	R933.8m	R998.9m	Target Achieved.
	Non-Performing Loans	25%	28.4%	Clients struggling to meet their payment obligations and shrinking performing portfolio
	Net Profit	R182.3m	R332.0m	Target Achieved.
Financial Efficiency	Cost to Income Ratio Ceiling	80%	57.4%	Target Achieved.

STRATEGIC GOAL 2: CUSTOMER PERSPECTIVE

STRATEGIC OBJECTIVES	KEY PERFORMANCE INDICATORS	TARGET 2017/18	ANNUAL ACTUAL OUTPUT	MANAGEMENT COMMENT
SMME Capacity Development	No. of Jobs Created	2 454	4 606	Target Achieved.
	Number of New Businesses Financed	160	619	Target Achieved.
	Total Value of Loans Disbursed	R123.7m	R211.0m	Target Achieved.
Property Investments	Capital and Maintenance Expenditure	R246.4m	R174.3m	Target not achieved. Protracted challenges faced by Business Unit in the form of non-responsive and inaccurate tender submissions.
BBBEE Spend	% Spent on BBBEE Compliant Service Providers	90%	103%	Target Achieved.

OUR PERFORMANCE (continued)

STRATEGIC GOAL 2: CUSTOMER PERSPECTIVE - CONTINUED

STRATEGIC OBJECTIVES	KEY PERFORMANCE INDICATORS	TARGET 2017/18	ANNUAL ACTUAL OUTPUT	MANAGEMENT COMMENT
Forge and Sustain Strategic Partnerships	Sustain Community Partnerships	2	7	Target Achieved.
	Sustain Business Partnerships	2	6	Target Achieved.
	Sustain Government Partnerships	2	5	Target Achieved.

STRATEGIC GOAL 3: INTERNAL BUSINESS PROCESSES

STRATEGIC OBJECTIVES	KEY PERFORMANCE INDICATORS	TARGET 2017/18	ANNUAL ACTUAL OUTPUT	MANAGEMENT COMMENT
Clean Audit	Unqualified (Clean) Audit per Auditor-General's Audit Report	Unqualified Clean Audit	Unqualified Audit Opinion with a finding relating to material misstatement adjustment	The material misstatement identified in the AFS and adjusted pertained to an adjustment to bad debt provisions on loans.
Improve Information Capital	Information Technology Operating Expenditure	R36.3m	R37.1m	Target Achieved.
	Information Technology Capital Expenditure	R8.9m	R3.6m	Target not achieved due to Commercial Lending System implementation deferred, and there were delays in the establishment of the Datacentre due to resource constraints.

STRATEGIC GOAL 4: LEARNING AND GROWTH

STRATEGIC OBJECTIVES	KEY PERFORMANCE INDICATORS	TARGET 2017/18	ANNUAL ACTUAL OUTPUT	MANAGEMENT COMMENT
Improve Human Capital	Number of New Interns, Learners and Graduates admitted (cumulative)	15	19	Target Achieved.
	Training and Development Spend (Cumulative)	R1.8m	R2.1m	Target Achieved.

VALUE ADDED STATEMENT

Our value and wealth contribution for the 2017/18 financial year is depicted below:

	2018		2017	
	R'000	%	R'000	%
VALUE ADDED				
Net interest income	238 414	17	245 111	19
Non-interest income	1 182 309	83	1 031 405	81
Other expenditure	(559 866)	(39)	(592 295)	(45)
	860 857	61	684 221	55
VALUE ALLOCATED				
To employees:				
Staff costs	451 914	52	436 147	65
To government:	83 771	10	64 673	9
Skills development levies	2 899	0	2 984	0
Value added taxation	28 770	3	15 496	2
Rates and taxes paid to local authorities	45 118	5	39 506	6
South African normal taxation	6 984	1	6 687	1
To retention for expansion and growth:	325 172	38	183 401	26
Depreciation	42 718	5	31 117	5
Retained income for year	282 454	33	152 284	21
Total value allocated	860 857	100	684 221	100

HUMAN CAPITAL

HUMAN CAPITAL

Ithala's human capital function is set to become a primary resource in partnering with business in order to drive the strategic imperatives of the organisation through consistent and professional human resource management services.

- The Human Resources division's Human Capital Strategy is geared towards partnering with business in order to drive the strategic imperatives of the organisation through consistent and professional Human Resource (HR) Management Services.
- The purpose of our human capital strategy is to ensure optimal human capital enhancement and value creation through:
  - Facilitating the development of healthy, positive relationships between management, employees, labour and other relevant stakeholders through constructive engagement;
  - Inculcating a high performance oriented organisational culture;
  - Implementation of an integrated Human Resources (HR) system to support a transformational Human Resources service philosophy. This is done through optimising technology and knowledge management by addressing the growing need for decision-facilitating data at every level of management through real-time, quick-access systems and providing further value-adding e-Shared services to all employees;
  - Supporting Business Units in achieving their business objectives;
  - HR processes aimed at transformational activity and service delivery. Providing learning and development initiatives which contribute materially to the creation of a culture of continuous learning;
  - Effective implementation of the Talent Management. Through this, the organisation is able to build an enabling high-performance culture, thereby meeting the needs of individuals by providing progressive career opportunities and growth;
  - Integrated Employee Value proposition as a retention mechanism;
  - Accelerating transformation through entrenching a philosophy that embraces diversity in all its forms and contributing to the richness of our organisational heritage.

STAFF PROFILE

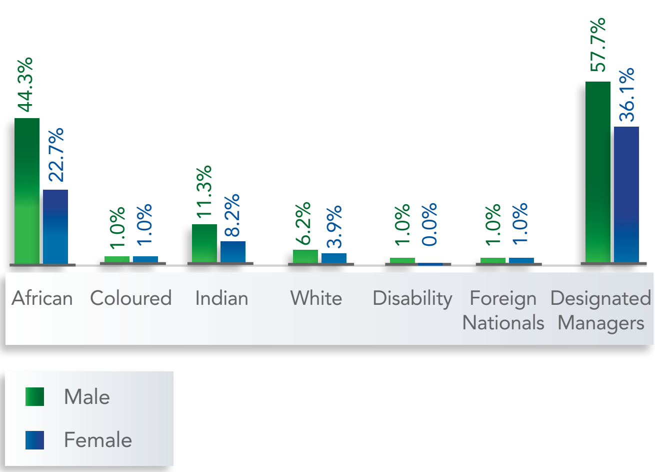
IDFC EMPLOYEE PROFILE AS AT 31 MARCH 2018

Occupational Level	All Male Employees						All Female Employees						Total Employees	Disabled
(Permanent Employees Only)	African	Indian	Coloured	White	Foreign Nationals	Sub-Total	African	Indian	Coloured	White	Foreign Nationals	Sub -Total		
Top Management	3	-	-	-	-	3	1	1	-	-	-	2	5	-
Senior Management (excluding those counted as top management)	7	-	-	1	-	8	4	2	-	-	-	6	14	1
Professionally qualified and experienced specialists and mid management	33	10	1	6	1	51	16	5	1	3	2	27	78	-
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	51	2	2	-	-	55	71	10	3	7	1	92	147	1
Semi-skilled and discretionary decision making	44	-	-	-	-	44	15	-	-	1	-	16	60	-
Unskilled and defined decision making	30	-	-	-	-	30	7	-	-		-	7	37	-
Permanent Total	168	12	3	7	1	191	115	18	4	11	2	150	341	2
Learners	10	-	-	-	-	10	16	-	-	-	-	16	26	-
Fixed Term Contracts	20	1	3	3	-	27	4	-	-	-	-	4	31	-
Non-Permanent Total	30	1	3	3	-	37	20	-	-	-	-	20	57	-
Grand Total	198	13	6	10	1	228	135	18	4	11	2	170	398	2

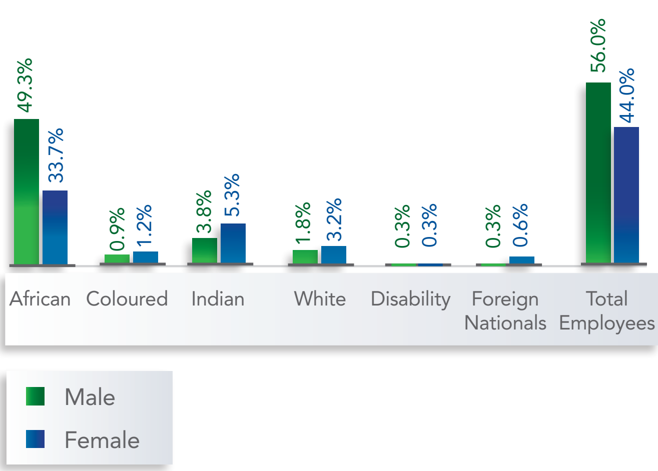
HUMAN CAPITAL (continued)

- The profile of our staff complement in the group of 728 permanent employees (2016/17 was 778) is depicted below:
  - 98.4% are historically disadvantaged individuals;
  - 44% of IDFC staff are female staff members and 56% male staff members. There is an improvement compared to 2016/2017 in the number of female representation. The organisation is making strides in ensuring that there is enough representation of female employees, especially at managerial levels. Going forward, the organisation seeks to ensure that women representation in managerial functions reflect the national and provincial demographics. Work has begun in earnest, to ensure that this is achieved in the new financial year.
  - 0.6% of our staff has disabilities. The national norm is 1%. Various interventions have been considered to improve this percentage. IDFC continues with endeavours to attract people with disabilities into its employ. The company plans to at least achieve the national norm of 1% in terms of disabled representation in both managerial and non-managerial functions.
  - The organisation has a healthy age profile, with 89% of the employee complement aged 55 and below. Only 11% of the employee complement is due for retirement in less than 10 years. The Integrated Talent Management Framework introduced in Q3 of the 2017/18 financial year has ensured that robust succession plans are in place, therefore ensuring that there is continuity of business activities when the employees close to the retirement age leave the organisation.

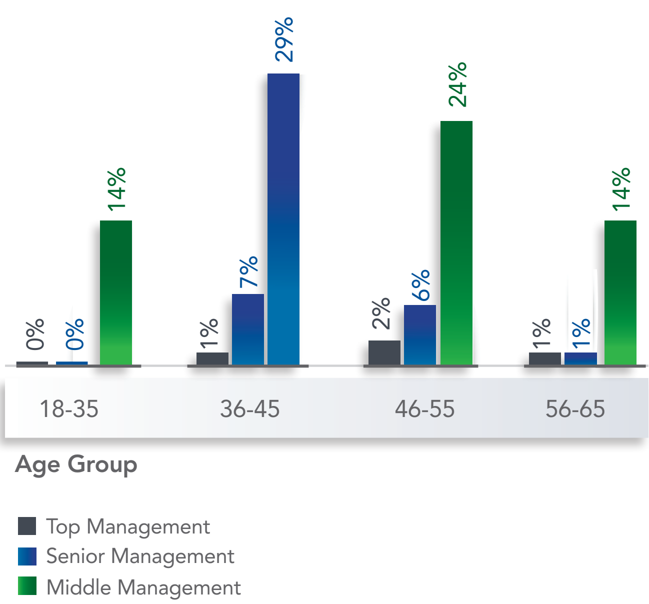
IDFC GENDER AND RACIAL REPRESENTATION AT MANAGERIAL LEVEL AS AT 31 MARCH 2018



IDFC EMPLOYEE PROFILE AS AT 31 MARCH 2018



IDFC MANAGERIAL AGE PROFILE AS AT 31 MARCH 2018



HUMAN CAPITAL (continued)

TALENT MANAGEMENT AND SUCCESSION PLANNING

At Ithala Development Finance Corporation, we believe that our people (staff) are our most valuable asset and for this reason, the organisation actively seeks to identify and develop talented people who have the right skills, potential and abilities to take IDFC forward to it's next level.

- The organisation is set on empowering our staff who share our values and are a good fit to our culture, and purpose.
- Since it is our staff that give effect to our business strategy, it is essential that we have an effective way of attracting the right people, enabling them to develop personally and professionally, retaining them and ensuring that they have the skills, insights and capabilities to help us achieve our strategic business objectives.
- The Integrated Talent Management framework introduced in 2016/2017 has laid a solid foundation for talent reflection and succession practice for the present and future periods.

Effective and Efficient Employee Relations

- Our approach to employee relations ensures that we harness relations with all our stakeholders and further recognise our employees' rights to fair and equitable employment practices.
- The 2018/19 wage negotiations were concluded smoothly and timeously. This is a great improvement from the past, a clear indication of the maturing relationship between the organisation and the recognised union.
- It is pleasing to note that the organisation did not experience any industrial action during the 2017/18 financial year.
- However, during the year under review, there were four disciplinary hearings and these are still in progress
- Ithala continues to apply zero tolerance on dishonest, fraudulent behaviours and robust systems have been put in place to ensure a significant reduction in these non-compliant incidents.

Employee Wellness

- Our employee wellness programme (EWP) affords our staff professional support and resources in both their professional and personal lives.
- Our wellness strategy is designed to foster a culture of healthy living, based on the premise that healthy staff tend to be happier and more productive.
- Our wellness days, hosted on a quarterly basis, focus on an array of health issues, from managing disability to disease prevention and management.
- The highlight of the 2017/18 financial year, was the launch of a Bootcamp aimed at improving the health and wellbeing of employees, through engaging services of a licenced fitness trainer who is also a registered wellness coach. This is done twice a week, and has enjoyed the following of a number of employees within the organisation.

Employee Value Proposition

- Ithala's business philosophy is entrenched in its mandate to foster economic development in the province, whilst remaining financially sustainable. This critical role necessitates a high performance culture underpinned by excellence. However, an organisation can only strive for excellence through people with right capabilities and competencies.
- There is a fierce war for top talent globally and like other organisations or companies, both private and public sector, Ithala is faced with challenges of having to compete for such top talent.
- A strong and compelling Employee Value Proposition (EVP) becomes very crucial in this case. An EVP serves as a competitive advantage as it is an organisation's brand and the primary reason why people would be proud and motivated to work for an organisation.
- It is for this reason that a packaged and formalised proposed EVP framework was put together in Q3 of the 2017/18 financial year. This will assist the organisation in dealing with the challenges of attracting and retaining the right people.
- To entrench the value proposition, Ithala has registered with the Top Employers' Institute for Top Employer certification. Certification as a top employer enhances the employer/organisation brand. This is very crucial for attraction and retention of best talent. The rationale for acquiring this certification is to ensure that Ithala regains its competitive advantage as the employer of choice.
- The Employer Institute commenced IDFC assessment in February 2018 towards certification.

Change management

- Using a structured methodology in delivering and facilitating change has greatly assisted us in assessing the corporation's change maturity and to understanding whether we are making progress in looking after the interests of our employees during times of change, as well as the level of leadership involvement and ownership expressed.
- Change Management played a key role in the execution of the following projects
  - **Employee Engagement Survey**
    - This was a survey aimed at gauging how engaged Ithala employees are with the organisation.
    - Participation rate for this result stood at 85%, a pleasing rate given that this exceeded both national and international norms in terms of participation in surveys of this nature.
    - Engaged to disengaged employee ratio is 4:1

HUMAN CAPITAL (continued)

- **Ethics and Values Rejuvenation Programme**
  - In the 2017/18 financial year, Ithala embarked on an exercise of rejuvenating its ethics and values.
  - Part of this exercise also involved relooking at our mission and vision in order to re-establish our relevance with key stakeholders.
  - Work is now underway to implement the new artefacts developed through this exercise.

Talent Development and Management

- **Youth Development**
  - In order to contribute positively to the National and Provincial Youth Development and Employability, Ithala set a target of 15 interns per annum of Learners and Graduates.
  - During the period under review, 4 in-service learners (Including IDFC bursary recipient) were placed within Properties. The purpose was to assist learners to meet the qualification requirements towards National Diploma in Electrical Engineering.
  - What's pleasing to note is that Ithala has performed above this target with 19 interns being placed in the 2017/18 financial year.
  - Nine (9) of Ithala interns were employed either as fixed term contractors or permanent employees. Of these, six (6) have been appointed by IDFC and three (3) appointed by external organisations. This indicates the effectiveness of the programme Ithala has facilitated to upskill these Interns.
  - Application for BankSeta Pivotal Funding WAS submitted and approved by BankSeta, for implementation in 2018/19.

- **Learning and Development**
  - A total of R 2.3 million was spent on training interventions during the course of the 2017/18 financial year. Such interventions focused on improving the knowledge and technical skills of our staff in the furtherance of our commitment to nurturing and developing employee talent.
  - We approved 17 study loans (2016/17: 41), amounting to R 317 399, for the benefit of staff.
  - 3 new bursaries were approved in the 2017/18 calendar year, amounting to R 686 099
  - The breakdown of our investment in this respects is depicted in the following table:

SOCIO-ECONOMIC TRANSFORMATION

SOCIO-ECONOMIC TRANSFORMATION

This section of our integrated annual report focuses on the contributions made by Ithala towards the socio-economic transformation agenda, with specific focus on Broad-Based Black Economic Empowerment and community-based initiatives.

As a public entity, we are subject to the Public Finance Management Act and broad - based black economic empowerment principles

Integral to Ithala's mission is the requirement to incorporate previously disadvantaged and marginalised black people into the economy. To achieve this Ithala conducts activities which contribute to Broad-Based Black Economic Empowerment (B-BBEE), which include corporate social investments, poverty alleviation, bursary schemes, sponsorships, skills development, employment equity, application of preferential procurement, female empowerment workshops and granting of loans to black owned cooperatives and small, medium and micro business enterprises. As a State Owned Entity, we are subject to the Public Finance Management Act (PFMA), which promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of limited resources.

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

Ithala is a level 4 B-BBEE contributor. and is classified as a value-adding supplier, a benefit that accrues to those that utilise us as a supplier. Our procurement spend amounted to R349 million, this excludes an amount of R225 million that have been identified as exclusions for the year (2016/17 R550 million). Our weighted procurement spend from B-BBEE suppliers in 2017/18 amounted to R359 million (2016/17 R237 million).

EXCLUSIONS

Municipalities	R68 173 518
Eskom	R152 996 024
Sponsorships	R1 202 277
Training and Development	R469 993
Other Government Departments	R2 607 197
TOTAL	R225 449 009

In order to ensure alignment with government's mandate to catalyse radical economic transformation, Ithala has committed to enforce fundamental change by implementing preferential procurement in favour of African exempted micro enterprises (EME's) and qualifying small business enterprises (QSE's), female, youth, disabled and military veterans wherever practicable. Accordingly in the period 2018/19 the procurement spend will be aligned to favour the aforementioned groups. Ithala is also introducing a supplier development programme in this period, that is targeted at woman and youth owned companies in construction.

CORPORATE SOCIAL INVESTMENT ACTIVITIES

Our Corporate Social Investment flagship projects are on the following key areas :

Skills Development:
Imbokodo lyazenzela Women in SMMEs and the Siyasebenza SMME and Co-operative Financial Literacy and Business Support

Job Creation and Entrepreneurship focusing on Youth:
Inkunzi'sematholeni Youth in Business Competition.

Financial Wellness:
StarSaver (Teach Children to Save initiative) and the School Enterprise Challenge

My Business Indaba

The "My Business Indaba" roadshows brought together Ithala's 3 main empowerment programmes which are specifically designed for SMME Development in KwaZulu-Natal namely:

- Imbokodo lyazenzela Women in SMME Workshops
- Inkunz'isematholeni Youth in Business Competition and
- Siyasebenza SMME Development Workshops.

Over the past 3 years, more than 5000 SMME have been reached via these SMME development initiatives.

Imbokodo lyazenzela Women in SMMEs programme is a pillar of support to women entrepreneurs in KZN who require access to information and the resources to grow. The theme of the programme 'Imbokodo lyazenzela Women in SMMEs is aligned to the following key priority areas:

- Rural Development
- Township Revival
- Youth and Women Empowerment

421 nominations were received this year (2017/18) an improvement from the 121 that were received in 2016/17. This programme culminates in an awards ceremony that recognises, acknowledges and celebrates the Top 20 women who have advanced in the small business category.

Imbokodo lyazenzela Mentorship Programme

The 19 female entrepreneurs that were nominated, celebrated and acknowledged in 2016, were taken through a mentorship programme that provided mentorship solutions, specifically designed to meet individual needs of their businesses.

Key highlights:

- In 2015 a total of 1041 women had an opportunity to attend the business clinics in the 16 towns visited.
- In 2016 more than 2000 women got an opportunity to attend the business clinics in the 10 towns visited.
- In 2017 A total of 708 women had an opportunity to attend the business clinics in the 8 towns visited.

Inkunz'isematholeni Youth in Business

The development and enhancement of the knowledge economy is one of the key strategic goals of the KZN provincial government, whilst the growth of the Green economy is line with government's agenda to encourage and support the youth to present innovative ideas within this economic sector.

Key Highlights :

For the 2017/18 financial year, the Inkunzi'sematholeni competition received a total of 198 entries against 132 which were received in 2016, a 50% improvement on the previous year's entries.

- 2017 Winner – Young man from Elandskop who designed a Solar operated, Portable Power Source
- 2017 Runner up - UKZN Student who has designed a Maths app for smartphones and tablets.

Siyasebenza Entrepreneur Development Programme,

meaning "We are working" is a series of developmental outreach workshops aimed at uplifting youth, women and SMMEs in townships and rural areas.

The purpose is to educate and inspire existing and aspiring entrepreneurs with ways to build and grow sustainable businesses.

The series comprises presentations and one on-one consultations with the KZN-based SMME's and co-operatives on key topics of importance related to starting a business; Compliance; Market research; Funding your business; Financial record keeping

School Enterprise Challenge

The School Enterprise Challenge, sponsored by Ithala, is a global enterprise competition designed by a London-based organisation called 'Teach a Man to Fish'. The partnership is in response to current challenges in education, entrepreneurship and community development to enable significant and relevant social change.

The project aims to bridge the employment gap between education and the workplace. Through this competition, teachers and students are encouraged to work together to establish a profitable business.

Key Highlights:

- Ithala's investment of R1 061 million to date (2014 -2018) has supported learners at approximately 360 schools in KZN who were exposed to vital business skills; that entail topics such as gaining the competitive advantage; SWOT analysis; market research and sales; operational planning, financial planning and business sustainability.

CORPORATE SOCIAL INVESTMENT ACTIVITIES (continued)

Abantwana Bethu

"Back to School Drive" is driven by Ithala Employees, aimed at providing much needed support to schools in the regions where Ithala operates. The aim is to entrench Ithala brand in KwaZulu-Natal by reassuring people of KZN that Ithala cares for their wellbeing. Support ranges from providing much needed school uniforms, to providing non-perishable food items to schools in desperate need of nutrition.

Working in partnership with Ithala SOC Limited branch network, 540 learners from 5 schools benefitted from the school uniform drive. The branch managers are tasked to identify a school within their jurisdiction.

Starsaver (Teach Children to Save)

Aligned to Ithala's vision to drive financial literacy, Ithala embarked on the Star Saver programme aimed at empowering young kids through teaching them to save.
The Star Saver campaign's key objectives are to enhance the organisation's role in youth, development, drive financial literacy and empower the youth with access to information through learning and exchange within the financial services sector.

- A total of 24 Ithala volunteers were part of the programme.
- A total of 730 learners participated in the financial literacy classes.
- In partnership with Business Association of South Africa (BASA) and Ithala SOC Limited, in Bulwer and Greytown activities and financial literacy classes were rolled out, as part of the Global Money Week programme.

INFORMATION TECHNOLOGY

The endeavours of the ICT department to enable the corporation to conduct business operations in an efficient and cost-effective manner began paying dividends during the period under review.

- Ithala's ICT department established the organisation's own Business Continuity Centre in Pinetown which has been commissioned for use. Ithala had previously been outsourcing / renting business continuity space at Teraco at a monthly cost to the organisation. Ithala's own Business Continuity Site will ensure that critical Ithala operations will continue in the event of any disruptions that might affect our systems. The ICT department is also now saving the company money on the monthly rentals and plans are in place to let out / lease the Business Continuity site to other companies to generate income. The Business Continuity Centre was successfully tested by Ithala SOC Ltd on Friday 20 October 2017. On 8 December 2017 the IT department successfully demonstrated the ability to recover identified IT systems in the event of a disaster.

- The primary data centre has been moved from Teraco to Ithala Trade Centre. Ithala's primary data centre was being hosted by a service provider at a monthly cost. The move from Teraco to Ithala Trade centre has led to significant savings for the organisation. During the relocation, the secondary data centre was relocated to a temporary location in the Business Continuity Centre at New Germany on 17 September 2017 to mitigate the risk of having the primary and secondary data centres in one location.

- In the period under review management and Board reviewed the policies and practises to align them to the changing IT environment. The renewed policies will help with the governance and security of the IT environment in order to enable Ithala's business operations.

- Service Uptime - average availability of Ithala's Information Communication Infrastructure was 99.2%. This means that operations within the organisation facilitated by information technology are reliable and available when required. The IT has had to work shifts to ensure the continued availability of IT services and operations.
- Customer Satisfaction Index - 82.3% based on the number of satisfaction ratings given by users after calls were serviced by the IT support personnel. This implies that customers are generally satisfied with the services provided by IT. The IT department will endeavour to improve the service to our customers on a continuous basis.

- A number of critical positions were filled in year 2017/18 ensuring that the IT department is adequately geared to meet the increasing demands in the ICT space.

HEALTH, SAFETY AND ENVIRONMENT

Working to continuously develop and implement health, safety and environmental improvements is crucial to the ongoing success of Ithala.

HEALTH, SAFETY AND ENVIRONMENT IS AN AREA OF FOCUS FOR THE ORGANISATION. WE ACCORDINGLY UNDERTAKE A NUMBER OF ACTIVITIES TO ENSURE THAT SUSTAINABLE BUSINESS IS MAINTAINED AT ALL TIMES. SUCH ACTIVITIES, AMONGST OTHERS, INCLUDE THE PROMOTION OF HEALTH, SAFETY AND ENVIRONMENT AWARENESS, ENSURING THE ASSURANCE OF COMPLIANCE AND THE RAISING OF CONFIDENCE AMONGST EMPLOYEES AND OTHER STAKEHOLDERS.

Our health, safety and environment strategy is based on a combination of risk management, policy setting, employee awareness and a culture which promotes desired health, safety and environment behaviours, the implementation of management systems and the promotion of employee health and well-being, together with compliance.

We are committed to meeting or exceeding all legal and other health, safety and environment requirements. Our approach is initiated by a set of health, safety and environment policies, with which our business operations must comply.

Key features of these policies include:

- An overriding commitment to comply with legislation;
- A commitment to identify, control, eliminate or reduce both health and safety risks and significant environmental impacts;
- A commitment to prevent pollution and accidents or ill-health and to deliver continuous improvement;
- Training and informing all employees in order to ensure adequate knowledge on health safety and environment activities, and to instil a positive health, safety and environment culture; and
- Making appropriate resources available in order to ensure compliance with our health, safety and environment policies and procedures.

We periodically assess our compliance, including assurance processes. This is done as a means to provide assurance to the authorities that our operations and business units comply with policies and legislative requirements. In this regard we have made sound progress towards improvement plans, as follows:

HEALTH

As per Occupational Health and Safety Act requirements, medical surveillance is carried out at our industrial sites as part of ensuring that the activities being conducted have not adversely affected employees.

SAFETY

There were no reportable incidents during the period under review.

Occupational health and safety committee meetings are held on a quarterly basis, being the minimum requirement contained in the Occupational Health and Safety Act.

ENVIRONMENT

There were no environmental incidents reported during the period under review.

Monthly awareness broadcasts are disseminated to enhance staff awareness of their role and responsibilities regarding matters of health and safety.

In addition, health, safety and environment sessions are held Organisation-wide to assist with health, safety and environment requirements for business clients. This further helps to ensure that our clients observe safe and healthy practices.

GOVERNANCE

HOW WE ARE GOVERNED

The Board of Directors (Board) of Ithala Development Finance Corporation (IDFC) subscribes to the highest standards of corporate governance and expects implementation of such standards within all the organisation 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 IDFC Code of Conduct. The Board understands and values long-term and ethical client relationships, and has well established governance processes for ensuring a balance between achieving business growth and meeting the reasonable expectations of its stakeholders. The Board has expressed a position of zero tolerance for any form of fraud, theft or corruption. The Board has adopted King IV on Corporate Governance (King Report) and the Organisation has conducted a gap analysis to measure its level of compliance in this regard. Refer to the analysis below.

PRINCIPLES

Principle 1: Ethical leadership

The governing body should lead ethically and effectively:

The Directors hold one another accountable for decision-making and acting in a way that displays the ethical characteristics of integrity, competence, responsibility, accountability, fairness and transparency, which form the basis of the IDFC Director performance assessments. The chairman is tasked to monitor this as part of his duties.

Directors are made aware of the IDFC code of conduct. The Board and its committees continually demonstrate ethical and effective leadership and promote the corporation's collective vision, purpose, values, and culture as well as business behaviours.

Principle 2: Organisation values, ethics and culture

The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture:

IDFC has a code of conduct in place which is applicable to the Board members and all employees.
The Board oversees the establishment and monitoring of the code of conduct to promote high ethical behaviour. The board is the custodian of the IDFC code of conduct and supported by the Group Company Secretary, who acts as the link between management and Board.

IDFC's philosophy is underpinned by the belief in the following values:

- Customer satisfaction;
- Respect;
- Innovation;
- Integrity;
- Empowerment; and
- Equitable employment practices.

Principle 3: Responsible corporate citizenship

The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen:

The Board has delegated the responsibility for monitoring and reporting of social, ethical, transformational and sustainability practices that are consistent with good corporate citizenship to the Human Resources, Social and Ethics Committee.

GOVERNANCE (continued)

Principle 4: Strategy, implementation and performance

The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process:

The Board, as part of its decision making process, ensures that a stakeholder-inclusive approach is adopted, which takes into account and balances stakeholders' legitimate and reasonable needs, interests and expectations.

The Board sets the direction for the realisation of the IDFC's core purpose and values through its strategy, and delegates to management the formulation and development of the corporation's short-, medium- and long-term plans. The risks, opportunities and other significant matters connected to the triple context (economic, social and environmental issues) in which IDFC operates are considered.

IDFC Board believes that effective risk and opportunity management is supported by effective governance structures, robust policy frameworks and a risk-focused culture.

Strong governance structures and policy frameworks foster the embedding of risk considerations in business processes and ensure that consistent standards exist across IDFC.

In line with the IDFC's corporate governance framework, the Board retains ultimate responsibility for providing strategic direction, setting risk appetite and ensuring that risks are adequately identified, measured, monitored, managed and reported on.

Principle 5: Reports and disclosure

The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short-, medium- and long-term prospects.

Refer to the IDFC 2017 annual integrated report that presents material information in an integrated manner, and provides users with a holistic, clear, concise and understandable presentation of the corporation's performance in terms of sustainable value creation in the economic, social and environmental context within which it operates. IDFC is striving to fully achieve this principle by ensuring continued improvement of the way that the entity communicates with stakeholders.

Principle 6: Role of the governing body

The governing body should serve as the focal point and custodian of corporate governance in the organisation.

The Board implements the highest standards of corporate governance at all operations. Governance structures and processes are formally reviewed annually and continuously adapted to accommodate internal developments, and reflect best practice. The board considers corporate governance to be a priority and endeavours to go beyond compliance, where appropriate.

The Board's role and responsibilities are articulated in the board charter. The board is the focal point and custodian of corporate governance, both in terms of how its role and responsibilities are documented and the way it executes its duties and responsibilities.

The Board charter and board committee terms of reference are reviewed annually.

GOVERNANCE (continued)

PRINCIPLES
Principle 7: Composition of Governing Body

Composition of the board:

The Board, with the assistance of the Nomination, Governance and Remuneration Committee, considers, on an annual basis, its composition in terms of balance of skills, experience, diversity, independence and knowledge, and whether this enables it to effectively discharge its role and responsibilities.

Should the Board identify skill gap, it is empowered by Ithala Act to co-opt the necessary skills to the Board and its Committees.

Principle 8: Governance structures

The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties:

The composition of the committees of the Board and the Distribution of authority between the chairman and other directors is balanced and does not lead to instances where individual(s) dominate decision-making within governance structures or where undue dependency is caused.

All Directors, whether classified as Executive, Non-Executive or independent Non-Executive, act with independence of mind, in the best interest of IDFC. The roles of the Chairman, Non-Executive Directors and Group Chief Executive Officer are set out in the Board charter, demonstrating a clear balance of power and authority at Board level, to ensure that no one director has unfettered powers of decision-making.

In discharging its duties, the Board is empowered to delegate to management. As such, the board is supported by Executive Management, together with various board committees and other governance structures.

The Audit and Risk Committee has satisfied itself with the performance and independence of the external auditors. The Group Chief Financial Officer is the head of the finance and procurement function.

The Audit and Risk Committee assesses the performance of the Head: Internal Audit and the arrangements of internal audit, and evaluates whether the internal audit function is independent and appropriately resourced.

Whilst the administrative performance of the Group Company Secretary is assessed by Chief Executive quarterly the Nominations, Governance and Remuneration Committee also evaluates the functional performance once a year.

Principle 9: Evaluation of performance of the board

The Board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness:

Once during the Board's term, the Board's performance and effectiveness is measured, and that of the individual members. Evaluations are conducted formally with the focus on the following:

- Board and board committee governance, performance and effectiveness;
- Performance and effectiveness of the board chairman;
- Performance and effectiveness of individual non-executive directors;
- Performance and effectiveness of the company secretary;

Independence of independent Non-Executive Directors who have served continuously for nine years or more.

GOVERNANCE (continued)

PRINCIPLES

Principle 10: Delegation to management

The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities:

Delegation of authority resolutions are reviewed and passed by the Board annually. In addition, the delegations indicate matters reserved for the board and those delegated to governance structures and management.

The Board is satisfied that IDFC is appropriately resourced and that its delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised.

The company secretary signs off on disclosure of membership of board structures, number of meetings of each and attendance at each meeting as well as the overall content of the committee information and reporting in the public domain.

Principle 11: Risk and opportunity governance

The governing body should govern risk and opportunity in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives:

The Board ensures that effective risk management is supported by effective governance structures, robust policy frameworks and a risk-focused culture.

Strong governance structures and policy frameworks foster the embedding of risk considerations in business processes and ensure that consistent standards exist across the organisation. In line with the IDFC's corporate governance framework, the board retains ultimate responsibility by providing strategic direction, setting risk appetite and ensuring that risks are adequately identified, measured, monitored, managed and reported on.

IDFC's risk management framework describes the corporation's approach to risk management. Effective risk management requires multiple points of control or safeguards that should consistently be applied at various levels throughout the organisation.

The primary board committee overseeing risk matters across the IDFC is Audit and Risk Committee.

IDFC ensures that effective risk, performance and financial resource management are of primary importance to deliver sustainable returns to stakeholders. These disciplines are, therefore, embedded in the organisation's tactical and strategic decision-making.

The Audit and Risk Committee implements a process whereby risks to the sustainability of the organisation's business are identified and managed within acceptable parameters.

The Audit and Risk committee delegates to management to continuously identify, assess, mitigate and manage risks and opportunities within the existing risk profile of IDFC's operating environment.

Mitigating controls are formulated to address the risks and the Board is kept up-to-date on progress on the risk management plan.

Principle 12: Technology and information governance

The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives:

The Board is aware of the importance of technology and information as it is interrelated to the strategy, performance and sustainability of IDFC. The Information, Communications and Technology Governance Committee is responsible for information and technology governance in accordance with best governance practice.

The Committee is aware of challenges within the ICT Department and is committed to assist the department in building capacity. The Board appointed a co-opted external IT specialist to assist the board in technology and information governance and provide support to IDFC in setting and achieving its strategic objectives.

GOVERNANCE (continued)

PRINCIPLES

Principle 13: Compliance governance

The governing body should govern compliance with applicable laws and adopt, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen:

Compliance with laws and regulations applicable to its operations is critical to IDFC as non-compliance may have potentially serious consequences. The board's mandate is to ensure full compliance with all statutes and regulations. To achieve this, the Group Chief Risk Officer (GCRO) has developed policies; implemented appropriate structures, processes and procedures to identify regulatory risks.

The GCRO works closely with Executive Management, and other assurance providers to ensure effective functioning of compliance processes.

The Human Resources, Social, Ethics Committee assists the board with ensuring responsible business practices within the corporation and monitors IDFC's activities in line with the Companies Act, no 71 of 2008.

Principle 14: Remuneration governance

The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short-, medium and long-term:

IDFC endeavours to remunerate fairly, responsibly and transparently to promote the creation of value in a sustainable manner.

Annual salary increments for Executive Management and staff are considered by the Nominations, Governance and Remuneration Committee and recommended to the Board for approval.

The remuneration report is set out in the annual integrated report.

Non-Executive Directors remuneration rates are based on the framework determined by the Department of Economic Development Tourism and Environmental Affairs (EDTEA) and tabled at the annual general meeting for the formal approval of the shareholder.

Principle 15: Assurance

The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports:

Formal enterprise-wide governance structures for enhancing the practice of combined assurance at IDFC and subsidiary levels are overseen by the Audit and Risk Committee.

The combined outcome of independent oversight, validation and audit tasks performed by the assurance providers ensure a high standard across methodological, operational and process components of IDFC's risk and capital management processes.

The outcomes of the combined assurance work indicate greater efficiency of the assurance process through elimination of duplication, more focused risk based assurance against key control areas and heightened awareness of emerging risk issues resulting in the implementation of appropriate preventative and corrective action plans.

The Audit and Risk Committee report is contained in the annual integrated report.

GOVERNANCE (continued)

PRINCIPLES
Principle 16: Stakeholders

In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time:
Relationship with subsidiaries within the corporation.

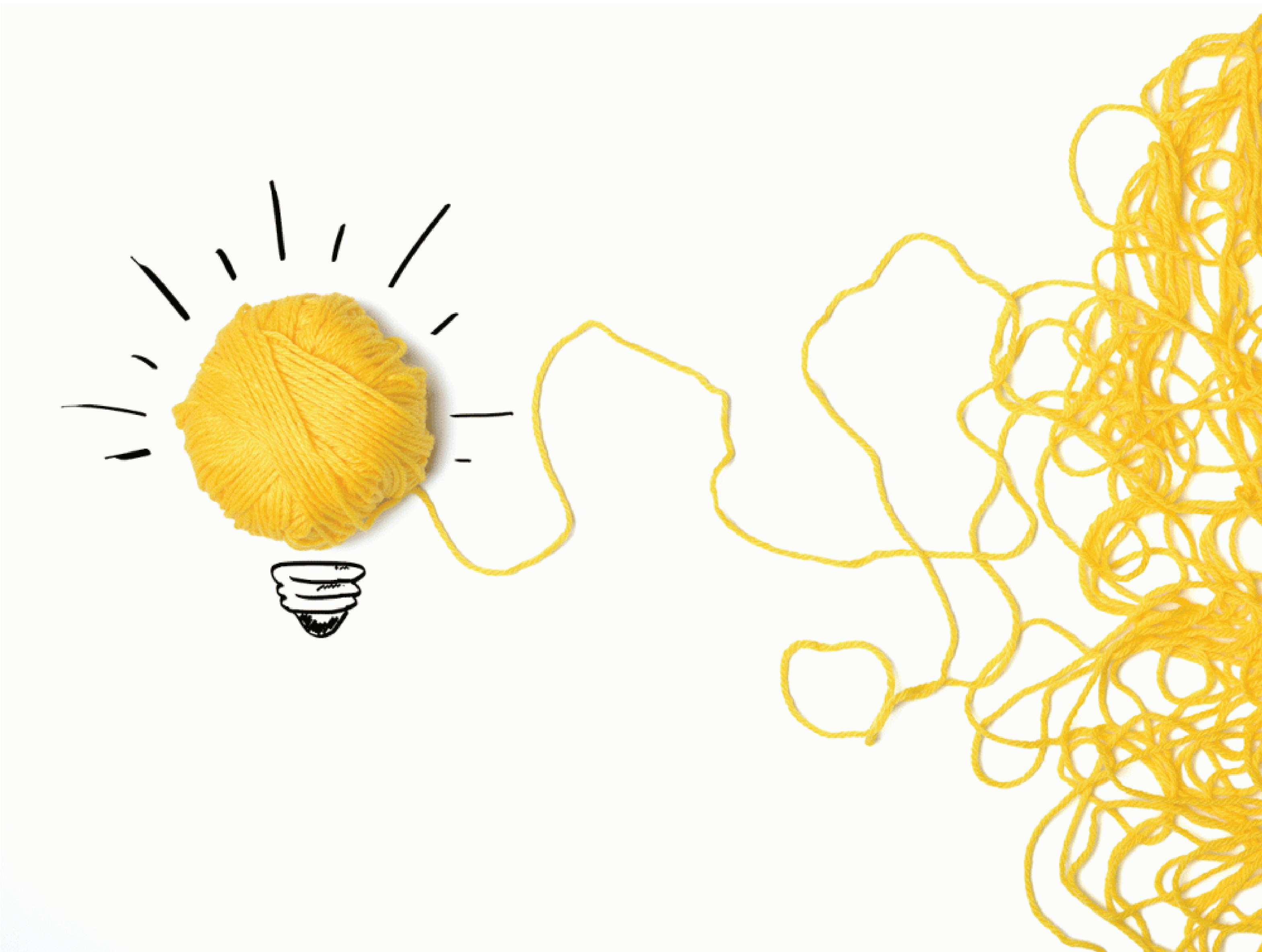
IDFC has identified its stakeholders as:
- EDTEA (shareholder),
- government and regulators;
- employees;
- customers;
- suppliers;
- Communities and civil society.

IDFC endeavours to balance its stakeholder's legitimate and reasonable needs, interests and expectations.

The IDFC has entered into shareholder compacts with subsidiaries. This governs the relationship with these entities

IDFC's HR Policies are developed and implemented at group level.

In cases where polices are required to address specific needs of subsidiaries and their stakeholders, these are developed and applied at subsidiary level with appropriate governance oversight.



GOVERNANCE (continued)

IDFC complies with the King Report principles in all material aspects except in areas that are not permissible by the legislative framework; in this instance; in terms of Ithala (the Act), the Group Chief Executive remains the only member of the management team who is an ex- officio member of the Board. The balance between non-executive and executive directors is therefore not at the levels that are recommended by the King Report.

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 Act, the Board must consists of at least seven (7), but no more than thirteen (13) members. The previous Chairman; Dr Gantsho whose 2nd term of office ended retired on 31 May 2017. The 3rd term of office of Ms Afolayan ended on 20 April 2017 but was extended to 31 May 2017 in order to comply with the requirements of Section 6 (1) (a) of the Act. The term of office of the other previous board members and co-opted member was capped to 31 May 2017. A new board comprising of eight (8) members was appointed with effect from 1 June 2017.

BOARD EFFECTIVENESS

After the appointment of the Board, a skills gap analysis was undertaken against the minimum skills as stipulated in the Act as well as those skills that the board considers essential for achieving the goals of IDFC. The results of the skills gap analysis indicated that the board required to bolster its Information Technology and Legal skills. The IT and Legal specialists were co-opted to the ICT Governance Committee and Audit and Risk Committee respectively with effect from 1 January 2018.

In terms of the board performance evaluation framework, the board must evaluate its performance on a three (3) year cycle as follows:

Year 1: The Board as a collective, individual members' self-evaluation, peer evaluation and evaluation of the chairman

Year 2: Board Committees, their Chairpersons Committee members peer evaluation

Year 3: An independent service provider will evaluate the performance of the whole board and its Committees.

During the year under review no board performance evaluation was undertaken due to the Board being appointed later during the year. The next evaluation, which will be for the board as a collective will be undertaken during the 2018/19 financial year.

BOARD OF DIRECTORS

With the appointment of new members during the year under review, the Board constituted Committees, and approved the terms of reference delegations of the following:

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

Whilst the previous Board focused on the implementation of the repositioning strategy and management of the associated risks for the past five (5) years which put Ithala on a turnaround trajectory; the new Board, upon its appointment in June 2017, became ceased with developing a new strategy which is outward looking; taking into consideration the new developments in the South African economic sphere, with particular emphasis on the needs of the people of KwaZulu-Natal and related EDTEA strategy. To this end the board reviewed and approved the BBBEE Policy as well as the Supply Chain Management (SCM) Policy and related delegations. These policies were particularly aimed at implimenting **Radical Economic Empowerment** as it relates to Ithala mandate and streamline the SCM processes to improve procurement process turnaround times.

GOVERNANCE ACTIVITIES

Our Governance report focuses on the activities and main deliberations of the Board and its Committees during the year. Find their terms of reference on our website at www.ithala.co.za/governance

BOARD AND BOARD COMMITTEE MEETING ATTENDANCE 2017/18

BOARD AND COMMITTEES' MEETING ATTENDANCE 2017/18 (1 April 2017 to 31 May 2017)

Date of first appointment		Board of Directors		Audit Committee		Banking Licence		Credit and Investment	
		Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended
*Dr MSV Gantsho	01/06/2011	-	-	-	-	-	-	-	-
*Mr DM McLean	15/09/2009	-	-	2	2	-	-	-	-
*Ms R Ramdew	01/04/2016	-	-	-	-	-	-	-	-
*Ms BC Bam	15/09/2009	-	-	-	-	-	-	1	1
*Mr GNJ White	01/12/2015	-	-	2	2	-	-	1	1
*Ms NN Afolayan	21/04/2008	-	-	2	1	-	-	1	1
***Ms YEN Zwane	01/12/2011	-	-	-	-	-	-	1	0

BOARD AND COMMITTEES' MEETING ATTENDANCE 2017/18 (1 April 2017 to 31 May 2017)

Date of first appointment		Enterprise Risk		Human Resources and Remuneration		Nominations, Governance, Social and Ethics	
		Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended
*Dr MSV Gantsho	01/06/2011	-	-	-	-	-	-
*Mr DM McLean	15/09/2009	1	1	-	-	-	-
*Ms R Ramdew	01/04/2016	1	1	-	-	-	-
*Ms BC Bam	15/09/2009	-	-	1	1	-	-
*Mr GNJ White	01/12/2015	1	1	1	1	-	-
*Ms NN Afolayan	21/04/2008	1	0	1	1	-	-
***Ms YEN Zwane	01/12/2011	1	0	-	-	-	-

BOARD AND COMMITTEES' MEETING ATTENDANCE 2017/18 (1 June 2017 to 31 March 2018)

		Board of Directors		Audit and Risk		Banking Licence		Credit and Investment	
		Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended	Scheduled meetings	Meetings Attended	Scheduled meetings	Meetings Attended
** Mr R Morar	01/06/2017	6	5	-	-	2	2	-	-
** Mr S Mkhize	01/06/2017	6	6	7	6	2	2	5	5
** Mr SC Gina	01/06/2017	6	6	-	-	-	-	-	-
** Ms KG Mbonambi	01/06/2017	6	4	7	5	-	-	-	-
** Inkosi SN Mkhize	01/06/2017	6	6	-	-	2	2	5	5
# Advocate MC Mlaba		-	-	7	1	-	-	-	-
** Mr SL Ndlovu	01/06/2017	6	6	7	7			5	5
** Mr NB Nzuza	01/06/2017	6	6						
** Ms PN Sibiya	01/06/2017	6	6	7	7	2	2	5	5
*** Mr BTT Mathe (Acting GCE)	25/07/2017	6	5	-	-	-	-	5	5

GOVERNANCE ACTIVITIES (continued)

BOARD AND COMMITTEES' MEETING ATTENDANCE 2017/18 from 1 June 2017 to 31 March 2018

Date of first appointment		Human Resources, Social and Ethics Committee		Information Communications and Technology Governance		Nominations, Governance and Remuneration	
		Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended	Scheduled meetings	Meetings Attended
** Mr R Morar	01/06/2017	-	-	-	-	6	5
** Mr S Mkhize	01/06/2017	-	-	-	-	6	5
** Mr SC Gina	01/06/2017	4	4	-	-	-	-
** Ms KG Mbonambi	01/06/2017	4	4	4	4	6	6
** Inkosi SN Mkhize	01/06/2017	-	-	-	-	6	5
** Mr SL Ndlovu	01/06/2017	4	4	-	-	6	6
** Mr NB Nzuza	01/06/2017	4	4	4	4	-	-
** Ms PN Sibiya	01/06/2017	-	-	4	4	6	6
***Mr BTT Mathe (Acting GCE)	25/07/2017	4	3	4	3	-	-

- Non-Executive Directors are appointed for a term of no more than three years and may be re-appointed for a further two terms, subject to a non-executive director serving no more than nine years on the board.

* Whilst Dr Gantsho's 2nd term ended on 31 May 2017 and Ms Afolayan whose 3rd term ended on 20 April was extended to 31 May 2017, the term of office of all the rest of the Board members was capped to 31 May 2017.

** A new Board was appointed for a 1 year term with effect from 1 June 2017

*** Ms Zwane passed on, on 30 June 2017.

*** Mr Mathe was appointed Acting Group Chief Executive with effect from 25 July 2017

Adv. MC Mlaba was co-opted to the Audit and Risk Committee as a legal specialist with effect from 1 January 2018 and resigned on 15 March 2018.

#Mr K Cele was co-opted to the ICT Governance Committee as an ICT specialist with effect from 1 January 2018

GOVERNANCE ACTIVITIES (continued)

Upon the appointment of the new Board, Audit and Risk Committee was constituted consolidating ERC and Audit Cmmittee. Given the importance and the increased focus on IT, a separate Information , Communications and Technology Governance Committee was constituted.

AUDIT AND RISK COMMITTEE

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

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

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

The Corporation continuously seeks to improve and enhance the risk management process, while maintaining a practical and entrepreneurial approach. The Committee approved the Top 10 Strategic Risks which are identified though a rigorous process where both management and non-executives participate.

During the year under review, the Audit and Risk Committee focused on the Group's financial performance and its performance against its annual performance plan as agreed upon with the Department of Economic Development, Tourism and Environmental Affairs as well as the Provincial Treasury.

The areas of attention by the Audit and Risk Committee were as follows:

1. The internal and external audit findings which management continuously attends to. The resolution of these issues is monitored and reported to the Committee by Internal Audit;
2. Non-adherence to the supply chain management processes, resulting in instances of irregular and/or fruitless and wasteful expenditure continues to be the key focus of the Committee;
3. The decrease in the collection of rental due to vacancies at various sites due to among others the prevailing economic conditions which saw some businesses closing down.

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

i. The Committee's Terms of Reference and Delegated Powers of Authority;
ii. Revised Supply Chain Management/ Procurement Policy;
iii. Corporate Plan 2017/18;
iv. BBBEE Policy;
v. Investigations Policy;
vi. Compliance and Risk Management Framework;
vii. FAIS Conflict of Interest Management Policy;
viii. Debarment Policy.

The Committee also continues to monitor fraud and corruption trends within the organisation. Management developed a fraud and ethics awareness programs including educating employees on the purpose and importance of adhering to internal controls.

BANKING LICENCE COMMITTEE

The Banking Licence Committee continued to focus on the regularisation of Ithala SOC Limited's banking activities with special emphasis on the compliance with the Memorandum of Understanding to which IDFC is a signatory and the "Build the Bank Strategy."

Whilst the Committee continued to deliberate and make recommendations on the capitalisation requirements of the subsidiary, the Committee remains hopeful that the acquisition of the new core digital banking system will elevate the subsidiary to become one of the leading banking institutions in KZN.

CREDIT AND INVESTMENT COMMITTEE

The Credit and Investment Committee focused on the performance of the loan book. Management was requested to present lessons learnt from failure of the different transactions/deals funded by IDFC in order to understand and identify the key risks areas within the different Business Finance Portfolios as a knowledge management tool.
The Committee also focused on Port Shepstone Quarries (Pty) Ltd (PSQ) which was a major client financed in 2013. After PSQ defaulted and IDFC exercised its step in rights, the entity was placed under business rescue in June 2017, and subsequently taken on as a subsidiary in February 2018. The directors of PSQ are currently working on the turnaround plan.

During the current reporting period, the Credit and Investment Committee reviewed and recommended the following for approval by the Board:

- Concentration Risk Policy;
- Properties Management Policy and
- Property Maintenance Plan.

GOVERNANCE ACTIVITIES (continued)

HUMAN RESOURCES, SOCIAL AND ETHICS COMMITTEE

The Human Resources, Social and Ethics Commiittee (HRSEC) oversees and advises on matters of leadership, people, as well as ethical practices in the organisation. Amongst other priority areas the Committee focused on during the period under review are the following:

The organisation's pursuit to achieve a performance-driven culture is ongoing. The Committee requested that the management team takes full accountability for performance practices. In pursuance of this requirement, EXCO introduced qualitative checks wherein the performance of each business unit was reviewed to ensure that performance ratings were properly administered.

The Committee recognised a need for the organisational culture to be transformed in line with the standards for the modern organisation. Based on this, the leadership was directed to apply change management interventions in order to reset the platform for the desired innovative culture.

The age profile of the organisation's workforce also pointed to a requirement to roll-out initiatives for the skills tranfer programmes, as well as entrenchment of retirement readiness support. The skills transfer arrangements are undertaken through partnership in projects initiated internally and externally to the organisation.

The Committee considered an Employee Value Proposition Framework that aims, among other interventions, to position IDFC as an employer of choice, attract young talent and retain employees.

The Committee also considered and approved the Talent Pool Management Framework. It was agreed that succession and talent development plans were to be established as baseline refrence for onward development and hiring practices.

during the financial year, the Committee recommended amendments and adoption of the following policies for Board approval

- Remuneration and Benefits Policy
- General Conditions of Employment Policy
- The Fleet Management Policy

ICT GOVERNANCE COMMITTEE (ICTGC)

In line with the King Codes guidelines, the Board takes responsibility for Information Technology ('IT') governance and has delegated the oversight role of IT risk and governance to the ICTG Committee by way of:

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

The ICTGC reports quarterly to the Board on its oversight responsibilities including that of IT governance. In terms of IT governance, key deliberations of the Committee focused on the IT Strategy, Disaster Recovery Planning (DRP) and as well as Business Continuity testing results.

GOVERNANCE ACTIVITIES (continued)

NOMINATIONS, GOVERNANCE AND REMUNERATION COMMITTEE

The Committee reviewed the range and relevance of the directors' skills and interests to the business of the company to determine whether the mix enables it to bring independent judgment to the Board deliberations and decisions using a skills matrix. This exercise confirmed that the Board was lacking in IT and Legal expertise. Hence the appointment of co-opted members, an IT Specialist to the ICTGC and a Legal specialist to the Audit and Risk Committee. The revised Board training plan which was based on the director's development needs was approved by the Board.

The Board of Directors believe that establishing and implementing good governance practices is one of the most useful activities to create a higher functioning board while building the right foundation for achieving the Corporation's vision and mission. The Board of Directors have mandated the NG & REMCO with the responsibility to ensure that the Corporation follows good governance practices. At the recommendation of the committee, the Board adopted the principles of King IV.

During the reporting period the recommendation of the Committee the Board approved the Declaration of Interest Framework for both Employees and Non-Executive Directors.

With regards to the Remuneration practices, IDFC offers its employees a performance-based remuneration package. This system drives a culture of performance and accountability within the Corporation.

EXECUTIVE COMMITTEE

The Executive Committee (Exco) is appointed under the leadership of the Group Chief Executive to provide the day to day leadership for the activities of Ithala. Exco has the overall responsibility for developing, and delivering against Ithala's corporate and business plans. The committee is the highest management operational structure whose role is to assist the Group Chief Executive in carrying out executive function as delegated by the Board.

The committee comprises the Group Chief Executive as Chairman, all executives and the Group Company Secretary of Ithala. The Head of Internal Audit and the Programme Manager are standing invitees to EXCO meetings.

EXCO members are prescribed officers as define in the Companies Act and are required to act in terms of the roles and responsibilities as is required of a prescribed officer.

The committee holds sufficient scheduled meetings to discharge all its duties as set out in its terms of reference, with a minimum of one meeting per month.

INTERNAL CONTROL

Internal controls exist to ensure reliable financial reporting, effective and efficient operations and compliance with all applicable laws and regulations.

The Board is ultimately responsible for governance, risk management and internal control. Management is accountable to the board for designing, implementing and monitoring the effectiveness of internal financial controls, the general control environment and compliance.

Ithala's internal audit function is responsible for providing independent, objective assurance about the adequacy and effectiveness of the systems of governance, risk management and internal controls to the board and executive management and, in so doing, assists in enhancing the controls culture within IDFC. Furthermore, consultative and forensic investigation services are provided by our internal audit function.

The independence and objectivity of Internal Audit is underpinned by functional reporting to the Audit and Risk Committee and, administratively, to the Group Chief Executive.

Internal audit's mandate is contained in the internal audit charter, which is annually submitted to and approved by the Audit and Risk Committee, in line with the requirements of International Standards for the Professional Practice of Internal Auditing, as well as Treasury regulations.

The combined assurance model allocates responsibility for risk and control activities according to the lines of assurance principle. Management is deemed to own the controls, whereas the other lines of defence are to assist in ensuring their application and viability. Internal audit provides independent and objective assurance to management and the board about the adequacy and effectiveness of the control environment.

Internal audit co-ordinates and liaises with all assurance providers in order to enhance efficiencies in terms of combined assurance and then reports to Audit and Risk Committee.

2017/18 INTEGRATED ANNUAL REPORT

MAKING IT HAPPEN TOGETHER

ANNUAL FINANCIAL STATEMENTS

ANNUAL FINANCIAL STATEMENTS

CONTENTS

The Annual Financial Statements are audited by the Auditor-General, as an 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).

The Annual Financial Statement preparation has been supervised by Ms F Amod CA(SA), CIA, CFSA, the Group Chief Financial Officer of Ithala Development Finance Corporation.

REPORT OF THE AUDIT AND RISK COMMITTEE

Report of the audit and risk committee of the board in terms of regulation 27.1.10(B) and (c) of the treasury regulations [in terms of sections 51(1)(a)(ii) and 76(4)(d) of the public finance management act of 1999 as amended] and the requirements of the king iv on code of governance

BACKGROUND

The Board Audit and Risk Committee (ARC), in addition to having specific statutory responsibilities in terms of the Companies Act, assists the Board of Directors in fulfilling its oversight responsibilities, with regard to the evaluation of the adequacy and effectiveness of accounting policies, internal controls, risk management and financial reporting processes of the Corporation and Group. In addition, the ARC assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors.

TERMS OF REFERENCE

The Audit and Risk Committee has adopted formal terms of reference that have been approved by the Board of Directors and has executed its duties during the past financial year in accordance with these terms of reference.

COMPOSITION

The Audit Committee consisted of three independent Non-Executive Directors from the previous board whose term ended on 31 May 2017. The members were:

- Mr DM McLean, (Chairman), CA (SA)
- Ms NN Afolayan, MBA: Finance; and
- Mr GNJ White, Executive Leadership Programme (USA).

The Audit and Risk Committee consists of four Independent Non-Executive Directors, at 31 March 2018 the Audit and Risk Committee comprised:

- Ms PN Sibiya, (Chairperson), Chartered Accountant (SA)
- Ms K Mbonambi, B Com Honours;
- Mr S Mkhize, Chartered Accountant (SA)
- Mr S Ndlovu, MBA
- Advocate C Mlaba (resigned 15 March 2018)

For the detailed qualifications of the afore-mentioned Audit and Risk Committee members, please refer to pages 17 to 19 of the Integrated Annual Report.

The Group Chief Executive, the Group Chief Financial Officer, Chief Risk Officer, Head of Internal Audit, other executives and representatives from the external audit attend committee meetings by invitation only. The internal and external auditors have unrestricted access to the Audit and Risk Committee.

MEETINGS

The previous Audit Committee held 2 meetings before 31 May 2017. Attendance at these meetings is reflected in the table below:

Members	7 April 17	25 May 17
Mr DM McLean	√	√
Mr GNJ White	√	√
Ms NN Afolayan	√	√

The Audit and Risk Committee held 5 meetings during the period. Attendance at these meetings is reflected in the table below:

Members	Dates of meetings						
	30-Aug-17	06-Sep-17	20-Sep-17	13-Nov-17	12-Feb-18	26-Feb-18	23-Mar-18
Ms P Sibiya	√	√	√	√	√	√	√
Mr S Ndlovu	√	√	√	√	√	√	
Mr S Mkhize	√	√	√	□	√	√	√
Ms K Mbonambi	□	√	□	√	√	√	√
Mr C Mlaba (resigned wef 15/3/18)	-	-	-	-	√	-	-

√ = Present
□ = Apology

STATUTORY DUTIES

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

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

REPORT OF THE AUDIT AND RISK COMMITTEE (continued)

INTERNAL CONTROLS

The Audit and Risk Committee has:

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

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

REGULATORY COMPLIANCE

The Audit and Risk Committee:

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

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

EXTERNAL AUDIT

The Audit and Risk Committee has:

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

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

INTERNAL AUDIT

The Audit and Risk Committee has:

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

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

FINANCE FUNCTION

The Audit and Risk Committee:

- Believes that the Group Chief Financial Officer, Ms Farhana Amod, possesses the appropriate expertise and experience to meet her responsibilities in this position.
- Is satisfied with the expertise and adequacy of resources within the finance function.
- Is satisfied with the quality of the monthly management reporting to the Executive Committee, as well as the quarterly management reporting to both the Board and the shareholder, the Department of Economic Development, Tourism and Environmental Affairs.

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

RISK MANAGEMENT FUNCTION

The Audit and Risk Committee:

- Believes that the Group Chief Risk Officer possesses the appropriate expertise and experience to meet her responsibilities in this position;
- Has adopted the Enterprise Risk Management Framework;
- Considered the risk maturity assessment which

  indicated that the organisational risk management is adequate and implemented in most projects.

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

COMBINED ASSURANCE MODEL

In compliance with King IV on Corporate Governance, the Audit and Risk Committee adopted 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 this financial year, providing the audit and risk committee an overall assurance on the adequacy and effectiveness of controls on strategic risks for the organisation. Amongst others, combined assurance provide »

REPORT OF THE AUDIT AND RISK COMMITTEE (continued)

assurance to the Audit and Risk Committee that significant risks, including strategic risks and controls to mitigate the risks are assessed by different assurance providers.
With the changes in King IV, assurance providers will be reviewing organisational external reports to provide assurance on the accuracy, validity and completeness of the reports.

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

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

On behalf of the Audit and Risk Committee

Ms PN Sibiya
Chairman: Audit and Risk Committee

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP).

In preparing the Annual Financial statements, the following have been adhered to:

- The KwaZulu-Natal Ithala Development Finance Corporation Act No. 5 of 2013;
- The Public Finance Management Act (PFMA), No.1 of 1999
- The South African Statements of Generally Accepted Accounting Practice (SA GAAP).

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, 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 the Group.

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

The Corporation and Group Annual Financial Statements have been prepared on the going concern basis. This basis of accounting has been adopted by the Board of Directors 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 the Corporation and the 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 2004 (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 69 to 145.
The Annual Financial Statements which appear on pages 69 to 145 were approved by the Board of Directors on 28 August 2018 and are signed on its behalf by:

Mr R Morar
Chairman

Mr BTT Mathe
Acting 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 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 LEGISLATURE ON ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OPINION

1. I have audited the financial statements of the Ithala Development Finance Corporation Limited (IDFC) and its subsidiaries (the group) set out on pages 66 to 145, which comprise consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 March 2018, and their financial performance and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

BASIS FOR OPINION

3. conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.

4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA 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.

SIGNIFICANT UNCERTAINTIES

7. As disclosed in note 1.3 to the consolidated and separate financial statements, losses of R41,44 million (2016: R21,70 million) were reported by the group as a result of a write-off of previously impaired loans and advances. This included a write-off of capital amounting to R31,52 million (2016: R13,59 million) and a further R9,92 million (2016: R8,10 million) relating to non-realisable revenue.

MATERIAL LOSSES

8. The accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with SA Standards of GAAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

9. 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 accounting authority either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

10. 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.

AUDITOR-GENERAL'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

11. 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.

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

REPORT OF THE AUDITOR-GENERAL

TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE ON ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

13. My procedures address the reported performance information, which must be based on the approved performance planning documents of the group. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the group for the year ended 31 March 2018:

15. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

Objectives	Pages in the annual performance report
Objective – Financial sustainability	38
Objective – Property Investments	38
Objective – Financial Efficiency	38
Objective – SMME Capacity Development	38

16. I did not raise any material findings on the usefulness and reliability of the reported performance information for the above selected objectives.

17. I draw attention to the matters below.

OTHER MATTER

18. The annual performance report on pages 38 to 39 contains information on the achievement of planned targets for the year.

19. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of SMME capacity development objective. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information

REPORT ON AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

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

21. The material findings on compliance with specific matters in key legislation are as follows:

ANNUAL FINANCIAL STATEMENTS

22. The consolidated and separate financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(a) of the PFMA. Material misstatements of financial risk management disclosures identified by the auditors in the submitted consolidated and separate financial statements were corrected, resulting in the consolidated and separate financial statements receiving an unqualified audit opinion.

EXPENDITURE MANAGEMENT

23. Effective and appropriate steps were not taken to prevent irregular expenditure disclosed in note 32 to the consolidated and separate financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority was caused by expenditure incurred on expired contracts.

24. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

25. My opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT OF THE AUDITOR-GENERAL (continued)

TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE ON ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

INTERNAL CONTROL DEFICIENCIES

26.In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

FINANCIAL MANAGEMENT

27. 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

28. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

INVESTIGATIONS

29. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

FINANCIAL AND PERFORMANCE MANAGEMENT

30. Management did not perform a proper review of the disclosure notes to the annual consolidated and separate financial statements at the major subsidiary, to ensure that they reconcile to the underlying records.

31. Management have not implemented proper monitoring systems around contract management to ensure it complies with the entity's policy.

OTHER REPORTS

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

INVESTIGATIONS

33. The group's internal audit and risk assurance services conducted a number of investigations during the period 01 April 2017 to 31 March 2018.The investigations were initiated based on the allegations of irregularities arising from deviation from internal controls on supply chain management processes, the outcomes of which were communicated and are currently being attended by management.

AUDIT-RELATED SERVICES

34. A report was issued to the National Credit Regulator on compliance with the National Credit Act of South Africa, 2005 (Act No.34 of 2005).

35. An agreed upon procedures engagement report was submitted to management on the completeness of the rental income generated at the Flamingo Industrial Park.
Auditor-General

Auditor-General

Pietermaritzburg
31 July 2018

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

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

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

- identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
- conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a entity to cease continuing as a going concern
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2018

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 2018

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 29 Canal Quay Road, Point Waterfront, Durban.

B. NATURE OF OPERATIONS

A general overview of the Corporation's business operations is included in the Group Chief Executive's Review on page 76. In addition to its core business activities, the Corporation from time to time 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 6 and 7 and Annexures 2 and 3 of the AFS.

There has been no material changes to the nature of the Corporation's business from the prior year.

C. FINANCIAL RESULTS

A financial overview of the Corporation's results is presented in the Group Chief Financial Officer's Review on page 12.

The results of the Corporation and the Group for the year ended 31 March 2018 are disclosed in the annual financial statements set out on pages 69 to 145.

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 6 and 7 Annexure 2 and 3 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 2018.

E. EVENTS SUBSEQUENT TO THE DATE OF STATEMENT OF FINANCIAL POSITION

There were no events identified subsequent to year end that may have a significant impact on the Annual Financial Statements.

FAIR VALUE OF INVESTMENTS

The fair value of listed investment as disclosed in Note 10 is R18.2 million at year end (2017: R20.5million) and was quoted at R 17.9million on 21 May 2018.

F. ORDINARY SHARE CAPITAL

The Share Capital of the Corporation has remained unchanged during the financial year under review. The authorised and issued share capital of the company is R1 billion (2017: R1 billion).

G. DIVIDENDS

No dividend is declared or payable to the Department of Economic Development, Tourism and Environmental Affairs, the shareholder, as retained income attributable to the ordinary shareholder is reinvested in projects that promote economic development.

H. INTERESTS IN CONTRACTS

Contracts entered into during the year, in which Directors and Officers of the Corporation had an interest, are disclosed in Note 27 of the AFS.

I. SOURCES OF FUNDING

The Corporation did not raise any new long-term borrowings during the year under review - refer to Annexure 1 of the AFS for more details on existing Borrowings.

During the year under review, the Corporation received government grants of R40.022 million (2017: R66.009 million) from EDTEA for SMME on-lending and R40.050million for the Radical Agrarian Socio Economic Transformation Programme (RASET).

The Corporation received a grant of R5.5 million from EDTEA during the year for the refurbishment of existing units at the Thokazi Royal Lodge.

J. GOING CONCERN BASIS OF ACCOUNTING

- **Corporation**

  The Corporation's business activities, together with the factors likely to affect its future development, performance and position as at 31 March 2018, 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 33 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 8 and 33 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 R77.7 million from major financial banking institutions.

DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2018

The Group posted a profit of R282.5 million for the year ended 31 March 2018 (2017: R69.9 million). The Group is solvent since its total assets exceeded its total liabilities by R3.9billion (2017: R3.7 billion) with a solvency ratio of 2.3:1 (2017 restated: 2.3:1). The Group is able to pay its debts as they become due and its liquidity is evident by its current assets exceeding its current liabilities by R1.8 billion (2017 : R1.8 billion).

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**
  Refer to the Group Chief Executive's Report for an operational review of the subsidiary companies.

  The going concern ability of the Corporation's subsidiary companies has been assessed by the Directors at year-end. All subsidiaries have adopted the going concern basis in preparing their financial statements for the year under review, with the exception of Sibaya Conservation Projects (Pty) Ltd which is under voluntary liquidation and KwaZulu Natal Property Development Holdings SOC

  Limited which is winding up. The annual financial statements of these subsidiaries have been prepared on a liquidation basis.

BANKING LICENCE EXEMPTION OF ITHALA SOC LIMITED

The Minister of Finance extended the banking licence exemption until 30 November 2019 subject to Ithala SOC Limited, together with its stakeholders fulfilling certain conditions. The Ithala SOC Limited Board has implemented processes to ensure that these conditions are met by the agreed dates.

K. BOARD OF DIRECTORS

Information pertaining to Board Members and Committees is covered in the Corporate Governance Report, on pages 52 to 57.

The following changes were made to the Board of Directors during the period under review:

CORPORATION

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 Act, the Board must consists of at least seven (7), but no more than thirteen (13) members. The previous Chairman; Dr Gantsho whose 2nd term of office ended retired on 31 May 2017. The 3rd term of office of Ms Afolayan ended on 20 April 2017 but was extended to 31 May 2017 in order to comply with the requirements of Section 6 (1) (a) of the Act. The term of office of the other previous board members and co-opted member was capped to 31 May 2017. A new board comprising of the following eight (8) members was appointed with effect from 1 June 2017.

Mr R Morar Chairman, Mr S Mkhize (Deputy Chairman), Inkosi S Mkhize Mr S Ndlovu, Mr N Nzuza, Mr C Gina Ms P Sibiya and Ms K Mbonambi.

Ithala SOC Limited

The following appointments occurred in the Board of Directors during the period under review:
Ms Given Refilwe Sibiya 01 August 2017

Mr Danny Zandamela – Executive Director (CEO) 01 September 2017, Mr Lebogang Serithi – Executive Director (CFO) 01 October 2017, Mr Themba Mathe 20 October 2017

Ms Martina Madali	31 January 2018
INkosi Sbonelo Mkhize	23 March 2018

KwaZulu Natal Property Development Holdings SOC Limited

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

Ms EB Mokgatle	12 September 2017
Mr BM Shangase	12 September 2017

L. COMPANY SECRETARIAT

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

M. INFORMATION DISCLOSED IN TERMS OF SECTION 55(2)(B) OF THE PFMA

- Particulars of irregular expenditure and fruitless and wasteful expenditure incurred are disclosed in Note 32 of the AFS.
- In the ordinary course of business and in accordance with prevailing business rules, the Group wrote-off bad loans of R41.4million (2017: R21.7 million), comprising a capital portion of R31.5million (2017: R13.6 million) and non-realised revenue (NRR) of R9.9 million (2017: R8.1 million). None of the bad debts written off were un-provided for.

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 Corporation. During the year under review a total of R10.5 million (2017: R8.4 million) was recovered from bad debts previously written off.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

	Note	Group 2018	Group 2017	Group 2016	Corporation 2018	Corporation 2017	Corporation 2016
		R'000	R'000	R'000	R'000	R'000	R'000
			Restated	Restated		Restated	Restated
ASSETS							
Non-current assets		**4 850 678**	4 522 599	4 543 246	**3 730 288**	3 453 542	3 412 912
Loans and advances	1.1	**1 704 811**	1 685 192	1 838 436	**316 477**	437 740	523 415
Properties in possession	1.4	**7 027**	8 703	8 731	**31**	-	389
Investment properties	2	**2 703 247**	2 401 688	2 300 768	**2 469 687**	2 195 065	2 106 513
Property, plant and equipment	3	**312 705**	302 579	271 640	**270 226**	268 739	228 701
Intangible assets	4	**43 415**	55 752	65 978	**25 109**	35 575	50 885
Straightlining of operating lease income	5	**58 107**	45 008	38 740	**49 624**	35 913	30 320
Subsidiaries	6.1	**-**	-	-	**577 768**	456 833	453 736
Goodwill	6.2	**305**	300	300	**305**	300	300
Joint ventures	7.3	**2 796**	2 796	-	**2 796**	2 796	-
Investments	10	**18 234**	20 550	18 047	**18 234**	20 550	18 047
Associated companies	7.1	**31**	31	606	**31**	31	606
Current assets		**2 246 607**	2 138 599	1 850 456	**914 330**	766 005	599 583
Loans and advances	1.1	**469 146**	395 244	238 500	**302 813**	243 822	160 716
Straightlining of operating lease expenditure	5	**-**	344	2 266	**-**	344	2 089
Cash and cash equivalents	8.1	**1 494 861**	1 447 705	1 362 369	**527 314**	419 305	344 505
Statutory liquid assets	8.2	**187 714**	177 769	129 882	**-**	-	-
Trade and other receivables	9	**88 770**	111 622	113 039	**79 518**	98 052	87 873
Inventory and contracts in progress	11	**6 116**	5 915	4 400	**4 685**	4 482	4 400
Total assets		**7 097 285**	6 661 198	6 393 702	**4 644 618**	4 219 547	4 012 495
EQUITY AND LIABILITIES							
Capital and reserves		**3 997 913**	3 715 459	3 645 486	**4 059 658**	3 738 015	3 594 863
Ordinary share capital	12	**1 008 582**	1 008 582	1 008 582	**1 008 582**	1 008 582	1 008 582
Retained income		**2 989 331**	2 706 877	2 636 904	**3 051 076**	2 729 433	2 586 281
Non-controlling interest	13	**(166)**	(166)	(262)	**-**	-	-
Total equity		**3 997 747**	3 715 293	3 645 224	**4 059 658**	3 738 015	3 594 863
Non-current liabilities		**2 649 065**	2 590 150	2 559 146	**218 573**	224 754	291 037
Borrowings	14	**49 008**	66 998	86 279	**46 938**	64 923	84 204
Deposits due to customers	15	**2 309 560**	2 285 509	2 193 805	**-**	-	-
Post-retirement medical obligation	16.1	**102 714**	95 973	87 477	**65 691**	62 247	57 234
Long service obligation	16.3	**28 787**	26 438	26 410	**14 922**	13 443	14 193
Government grants	17	**109 079**	65 147	127 638	**71 093**	65 147	127 638
Straightlining of operating lease expense	24.2	**2 113**	2 187	542	**2 113**	2 187	2 260
Deferred tax	26	**25 667**	27 142	24 325	**-**	-	-
Provision for landfill restoration	35	**17 816**	16 807	5 508	**17 816**	16 807	5 508
Cell captive insurance fund	36	**4 321**	3 949	7 162	**-**	-	-
Current liabilities		**450 473**	355 755	189 333	**366 387**	256 778	126 595
Straightlining of operating leases income	5	**1 255**	-	-	**1 729**	-	-
Borrowings	14	**18 613**	19 045	18 541	**18 167**	19 045	18 541
Post-retirement obligation	16.1	**5 954**	4 641	3 389	**4 646**	3 478	2 473
Long service obligation	16.3	**2 145**	3 799	2 040	**1 126**	2 036	924
Trade and other payables	18	**421 883**	327 514	163 102	**340 645**	232 143	104 582
Straightlining of operating lease expense	24.2	**623**	756	2 260	**74**	75	75
Total liabilities		**3 099 538**	2 945 905	2 748 478	**584 960**	481 532	417 632
Total equity and liabilities		**7 097 285**	6 661 198	6 393 702	**4 644 618**	4 219 547	4 012 495

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

	Note	Group 2018	Group 2017	Corporation 2018	Corporation 2017
		R'000	R'000	R'000	R'000
			Restated		Restated
Interest income	19.1	343 987	353 925	83 319	95 616
Interest expenditure	19.2	105 573	108 814	7 882	9 699
Net interest income before credit impairment charges		238 414	245 111	75 437	85 917
Credit impairment charges		70 214	66 832	55 571	46 255
Loans and advances	1.3	58 766	50 914	45 573	33 663
Properties in possession	1.4	(367)	382	(676)	(438)
Straightlining of operating lease income	5	790	(1 039)	676	(661)
Trade and other receivables	9	11 025	16 575	9 998	13 691
Net interest income after credit impairment charges		168 200	178 279	19 866	39 662
Other operating income	20	1 182 309	952 164	1 001 297	772 350
Operating income before operating expenditure		1 350 509	1 130 443	1 021 163	812 012
Operating expenditure	21	1 061 119	1 050 359	699 520	668 254
Operating expenses		1 039 697	1 041 654	695 977	664 731
Non-credit related impairments	21.4	18 523	5 721	1 705	1 654
Indirect taxation	22.1	2 899	2 984	1 838	1 869
Equity accounting loss		-	(606)	-	(606)
Operating profit before taxation		289 390	79 478	321 643	143 152
Taxation expense	22.2	6 936	9 505	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		282 454	69 973	321 643	143 152
Attributable to:					
Equity holders of the parent		282 454	69 973	321 643	143 152
Non-controlling interest		-	-	-	-
		282 454	69 973	321 643	143 152

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2018

	Ordinary Share Capital	Retained Income	Attributable to Equity Holders of Parent	Non-Controlling Interest	Total
	R'000	R'000	R'000	R'000	R'000
2018					
Group					
Restated balance at 31 March 2017	**1 008 582**	**2 706 877**	**3 715 459**	**(166)**	**3 715 293**
Income attributable to the shareholder	-	**282 454**	**282 454**	-	**282 454**
Balance at 31 March 2018	**1 008 582**	**2 989 331**	**3 997 913**	**(166)**	**3 997 747**
Corporation					
Restated balance at 31 March 2016	**1 008 582**	**2 729 433**	**3 738 015**	-	**3 738 015**
Restated income attributable to the shareholder	-	**321 643**	**321 643**	-	**321 643**
Balance at 31 March 2018	**1 008 582**	**3 051 076**	**4 059 658**	-	**4 059 658**
2017					
Group					
Balance at 31 March 2016	1 008 582	2 636 904	3 645 486	(262)	3 645 224
Restated income attributable to the shareholder	-	69 973	69 973	96	70 069
Restated balance at 31 March 2017	1 008 582	2 706 877	3 715 459	(166)	3 715 293
Corporation					
Balance at 31 March 2016	1 008 582	2 586 281	3 594 863	-	3 594 863
Restated income attributable to the shareholder	-	143 152	143 152	-	143 152
Restated balance at 31 March 2017	1 008 582	2 729 433	3 738 015	-	3 738 015

Refer to note 28 for a reconciliation between the opening balance of retained income in the prior years and the restated opening balance.

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 MARCH 2018

	Note	Group 2018	Group 2017	Corporation 2018	Corporation 2017
		R'000	R'000 Restated	R'000	R'000 Restated
Cash flow from operating activities					
Cash generated from operating activities	23.1	115 693	68 871	99 146	101 359
Decrease/(increase) in working capital	23.2	114 696	165 544	126 833	117 300
Taxation paid	23.3	(4 660)	(7 916)	-	-
Net cash generated from operating activities		225 728	226 498	225 979	218 659
Cash flow from investing activities					
Investments to promote economic development in KwaZulu-Natal:					
Loans and advances					
- granted		(312 806)	(454 768)	(211 042)	(178 636)
- repaid		370 802	670 042	261 162	223 965
- other loan movements		(217 477)	(265 583)	(28 687)	(73 873)
Additions to and transfers from investment properties		(144 220)	(136 091)	(115 677)	(131 123)
Additions to property, plant and equipment		(54 782)	(66 777)	(25 533)	(59 805)
Additions to intangible assets		4 782	6 163	5 616	13 289
Additions to properties in possession		(9 510)	(4 206)	(6 814)	(388)
Proceeds on disposal of investment properties and property, plant and equipment		270	1 882	45	1 977
Proceeds on disposal of properties in possession		10 360	4 591	7 316	1 895
Increase in goodwill		(5)	-	(5)	-
Decrease/(increase) in cell captive insurance fund		372	(3 213)	-	-
Decrease/(increase) in liquid assets		(9 945)	(47 887)	-	-
Decrease/(increase) in subsidiaries, associated companies joint ventures		-	(2 221)	(126 528)	(5 318)
Net cash generated/(utilised) by investing activities		(362 158)	(298 068)	(240 147)	(208 017)
Cash flow from financing activities					
Borrowings received/(capital repaid)		(18 422)	(18 777)	(18 863)	(18 777)
Increase in fixed, short-term deposits and savings accounts		24 051	91 704	-	-
Post-retirement medical paid		(5 869)	(5 304)	(4 624)	(4 113)
Long service obligations paid		(3 915)	(2 128)	(2 091)	(960)
Net Government grants received/(utilised)		187 742	91 411	147 756	88 008
Net cash generated/(utilised) by financing activities		183 587	156 906	122 178	64 158
Net increase/(decrease) in cash and cash equivalents		47 156	85 336	108 010	74 800
Cash and cash equivalents at beginning of year		1 447 705	1 362 369	419 305	344 505
Cash and cash equivalents at end of year	8.1	1 494 861	1 447 705	527 314	419 305

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2018

1. REPORTING ENTITY

Ithala Development Finance Corporation (Ithala) is a company domiciled in the Republic of South Africa. The address of its registered offices and principal place of business is 29 Canal Quay Road, Point Waterfront, Durban. The consolidated financial statements of Ithala as at and for the year ended 31 March 2017 comprise Ithala and its subsidiaries, together referred to as the Group and individually, referred to as the Corporation. The words "Group" and "Ithala" are used interchangeably throughout the Annual Financial Statements.

2. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (Statements of GAAP), as prescribed by the Accounting Standards Board. Statements of GAAP are based on the International Financial Reporting Standards (IFRS) with the exception of seven new IFRSs (IFRS 10,11,12,13,14,15 and 16), amendments to IFRSs, including amendments made under the annual improvements process (namely amendments to IFRS 1, 3, 5, 7, 9, 10, 11 12 and 13 and amendments to IAS 1, 16, 19, 27, 28, 32, 34, 38 and 40 and 2 IFRCs (IFRC 20 and 21), which have not been included in Statements of GAAP due to a joint announcement by the Accounting Practices Board and the Financial Reporting Standards Council withdrawing Statements of GAAP, which ceased to apply from financial years commencing on or after 1 December 2012. Although no longer formally issued by a particular standard-setter, the Accounting Standards Board adopted and defined Statements of GAAP as the reporting framework for Government Business Enterprises, like Ithala, through its amendments to Directive 5.

The financial statements were approved and authorised for issue by the Board of Directors on 24 August 2017.

3. BASIS OF PREPARATION

3.1 BASIS OF MEASUREMENT

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

- Non-derivative financial instruments are measured at fair value;
- Financial instruments at fair value through profit or loss are measured at fair value;
- Post-retirement medical and defined benefit obligations are measured at actuarial values;
- Listed Equity investments are measured at closing bid prices; and
- Investment properties are measured at fair value.

One of Ithala's subsidaries, KwaZulu-Natal Property Development Holdings SOC Limited, is not considered to be a going concern. However, it is unlikely that a different basis (to going concern) would be more appropriate than the application of SA GAAP. This is due to the fact that the remaining assests and liabilities are other receivables, cash and other payables and the requitment of IAS 39 would provide sufficient guidance to the measurement of these assets and liabilities.

3.2 FUNCTIONAL AND PRESENTATION CURRENCY

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

3.3 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements 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. 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' revisions affect both current and future periods.

3.4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

GOING CONCERN

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

IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES AND PROPERTIES IN POSSESSION

The Group assesses its credit portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans. For purposes of these judgements, the following factors are taken into consideration:

- Historical loss patterns over the back testing period;
- Default rates;
- Estimated cash flows; and
- Time taken to realise securities.

SUMMARY OF ACCOUNTING POLICIES (continued) FOR THE YEAR ENDED 31 MARCH 2018

The time period selected for back testing is based on the following factors:

- The consistency of the base period in relation to the current financial period; and
- Consideration of the prevailing economic conditions.

Estimates of loss ratios and similar risk indicators are based on an analysis of internal and, where appropriate, external data. Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS

The impairment of assets, except investment properties, is based on the estimated remaining useful lives and original costs or market value of the assets. Furniture and fittings in the subsidiary branches are estimated to be replaced in line with the branch refurbishment programme. Management expects this programme to be executed as scheduled. However, any changes in the programme will affect the impairment of the related assets. During the period under review, there were no other areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

DEFINED BENEFIT AND DEFINED CONTRIBUTION PENSION PLAN

The cost of the defined benefit and defined contribution pension plans are determined using actuarial valuations. The actuarial valuations involve assumptions on discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Refer to Note 16 for the assumptions used.

3.5 COMPARATIVE FIGURES

Where necessary, comparative figures have been adjusted to conform to changes in presentation and change in accounting policy in the current year.

3.6 SIGNIFICANT ACCOUNTING POLICIES

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

3.6.1 BASIS OF CONSOLIDATION

The consolidated financial statements include those 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) BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method as at the acquisition date, i.e., when control is transferred to the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

(b) SUBSIDIARIES

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in companies acquired to protect advances or as a conduit for advances, which assets are included in advances, and investments in companies acquired to facilitate the funding of Government projects with no benefits accruing to the Group from those companies' activities, are not consolidated.

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

(c) SPECIAL PURPOSE ENTITIES

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation;
- The Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers;
- The Group has rights to obtain the majority of the benefits of the SPE and, therefore, may be exposed to risks incident to the activities of the SPE; and

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2018 (continued)

- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Group and the SPE and, in such instances, the Group determines whether the change warrants a reassessment of control, based on thes pecific facts and circumstances.

Information about the Group's cell captive activities is set out in Note 36 to the AFS.

(d) LOSS OF CONTROL

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

(e) TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(f) ASSOCIATES AND JOINT VENTURES

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

Joint ventures are those entities over which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The Group recognises its interest in a jointly controlled entity using the proportionate consolidation method. The consolidated financial statements include the Group's share of assets, liabilities, income and expenses that it jointly controls. The Group discontinues the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.

3.6.2 INTANGIBLE ASSETS

Intangible assets, other than goodwill (refer to basis of consolidation policy above), are recognised if it is probable that future economic benefits will flow to the entity from the intangible assets and the costs of the intangible assets can be reliably measured. Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite life are not amortised. 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. Intangible assets with an indefinite useful life are tested annually for impairment and whenever there is an indication that the asset may be impaired.

(a) COMPUTER SOFTWARE AND LICENCES

Acquired computer software and licences are capitalised as assets on the basis of the costs incurred to acquire and bring the specific software into use. Capitalised computer software is carried at cost less accumulated amortisation and impairment losses. Computer software is tested annually for impairment or changes in estimated future benefits. 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 it is available. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

Costs associated with maintaining computer software programmes are recognised as an expense, as and when incurred. Direct software development costs that enhance the benefits of computer software programmes and are clearly associated with an identifiable and unique software system, which will be controlled by the Group and has a probable benefit exceeding one year, are recognised as intangible assets. These costs are initially capitalised as work-in-progress up to the date of completion of projects after which the asset is transferred to computer software and accounted for as per the computer software and licences policy. Management reviews the carrying value of capitalised work-in-progress on an annual basis, irrespective of whether there is an indication of impairment.

SUMMARY OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 MARCH 2018 (continued)

(b) SYSTEM DEVELOPMENT COSTS
Development costs are recognised as intangible assets when the following criteria are met:
- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

3.6.3 FINANCIAL INSTRUMENTS
(a) NON-DERIVATIVE FINANCIAL INSTRUMENTS
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and advances, borrowings and deposits.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below. A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual right to the cash flows from the financial assets expires or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

3.6.4 FINANCIAL ASSETS
The Group classifies its financial assets in one of the following categories:
- Loans and receivables;
- Held to maturity;
- Available for sale; or
- At fair value through profit or loss and within the category as:
  - Held for trading; or
  - Designated at fair value through profit and loss.

(a) LOANS AND RECEIVABLES
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near-term. Loans and advances are initially measured at fair value plus origination transaction costs and subsequently accounted for at amortised cost using the effective interest rate method, less any impairment losses.Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and other receivables are measured at amortised cost using the effective interest method, less any impairment charges.

(b) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS
An instrument is recognised at fair value through profit and loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit and loss if the Group manages such investments and makes purchases and sale decisions based on their fair values. Financial instruments at fair value through profit or loss are measured at fair value, and changes in value are recognised in profit or loss. The fair value of publicly traded investments is based on quoted bid prices.

(c) NON-CURRENT ASSETS HELD FOR SALE
Non-current assets (or properties in possession) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of the carrying amount and fair value less costs to sell.

(d) CASH AND CASH EQUIVALENTS
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(e) OTHER
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

3.6.5 DERECOGNITION OF FINANCIAL ASSETS
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2018 (continued)

3.6.6 IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

Loans and advances are stated after the deduction of provisions for credit impairment. Loans and advances are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Loans and advances are impaired and impairment losses are incurred if there is objective evidence of impairment, resulting from one or more loss event that occurred after initial recognition that indicates it is probable the Group will be unable to realise all amounts due.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indication that the borrower or issuer will enter bankruptcy, the disappearance of an active market for a security or other observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

The carrying amount of a financial asset identified as impaired is reduced to its estimated recoverable amount. The estimated recoverable amount of the advance is calculated as the present value of expected future cash flows discounted at the original effective interest rate at inception of the advance. In estimating the expected future cash flows from the realisation of permission to occupy securities, past experience in realising this type of security has been taken into account. Subsequent to impairment, the effects of discounting unwind over time, based on the original effective interest rate.

The Group considers evidence of impairment for loans and advances and held to maturity investment securities at both a specific asset and collective level. The impairment of non-performing loans and advances is based on periodic evaluations of loans and advances and take account of past loss experience and the economic climate in which the borrowers operate. Impairment of individually performing loans and advances is accounted for if there is observable evidence that a loss event has occurred after the initial recognition of the financial asset. In order to provide for latent losses in a portfolio of loans and advances that have not yet been individually identified as impaired, a credit impairment for incurred, but not reported losses, is created. In assessing collective impairment, the Group uses statistical modeling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement, as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Rental debtors that form part of trade and other receivables, are impaired once the account is 60 days in arrears. The impairment comprises the full debtors balance, less the deposits/guarantees held. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held to maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss. Once all reasonable attempts have been made at collection and there is no realistic prospect of recovering outstanding amounts, an advance is written-off against the related impairment. Loans and advances impairments and any subsequent reversals thereof or recoveries of amounts previously written-off are either charged or credited to the income statement.

3.6.7 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE GROUP

(a) SPLIT BETWEEN DEBT OR EQUITY

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual agreement.

(b) EQUITY INSTRUMENTS

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(c) OTHER FINANCIAL LIABILITIES

Borrowings and deposits are initially measured at fair value, net of transactions costs, when the Group becomes party to contractual provisions of the instrument. After initial recognition borrowings and deposits are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis in profit or loss.

3.6.8 DERECOGNITION OF FINANCIAL LIABILITIES

The Group derecognises financial liabilities when, and only when, the Group's obligations under the contract are discharged, cancelled or they expire.

3.6.9 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 GAAP, or for gains and losses arising from a group of similar transactions, such as in the Group's trading activity.

3.6.10 AMORTISED COST MEASUREMENT

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

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2018 (continued)

amount recognised and the maturity amount, minus any reduction for impairment.

3.6.11 FAIR VALUE MEASUREMENT

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing third parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted bid prices in an active market for that instrument. A market is regarded as active if quoted bid prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

3.6.12 PROPERTY, PLANT AND EQUIPMENT

RECOGNITION AND MEASUREMENT

Items of property, plant and equipment and capital work-in-progress is included at cost and are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes all expenditure directly attributable to bringing the assets to working condition for their intended use. Borrowing costs are capitalised in relation to plant requiring a substantial period of time for preparation for intended use. Owner-occupied properties are held for administrative purposes and are recognised and measured as property, plant and equipment.

SUBSEQUENT COSTS

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, only 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. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

DEPRECIATION

Buildings, infrastructure, plant, equipment and vehicles are depreciated on a straight-line basis at rates that will reduce the historical costs to estimated residual values over the anticipated useful lives of the assets. 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. Property, plant and equipment acquired under finance lease arrangements are capitalised. Such assets are depreciated on a straight-line basis at rates considered appropriate to reduce capitalised cost to estimated residual value over the anticipated useful lives of the assets. Lease finance charges are amortised over the duration of the finance leases using the effective interest rate method. Properties subject to sale and lease-back transactions, where the lease is classified as a finance lease and the value of the property implicit in the lease is higher than the carrying value, the carrying value is not adjusted and no gain is recognised. The residual value of assets is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already at the age and in the condition expected at the end of its useful life. A review of residual value is performed at balance sheet date each year, as well as an adjustment, if appropriate. The assets useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. The anticipated useful lives of the assets are as follows:

• Infrastructure and buildings	50 years
• Plant and equipment	5-25 years
• Vehicles	4 years

Land is not depreciated as it is deemed to have an infinite life. Buildings and plant under construction include all direct building costs, allocated overhead costs and capitalised borrowing costs. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written-down to its recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

3.6.13 INVESTMENT PROPERTY

Investment property is property (land or buildings) held to earn rentals or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property (other than land) is initially measured at cost. Transaction costs are included in the initial measurement. After initial recognition all investment properties are measured at fair value. Property that is being constructed and developed for future use as investment property is accounted for as investment property. A gain or loss arising from a change in the fair value of investment property is recognised in the profit or loss in the period in which it arises. This basis is consistent with the procedure described above as required by AC135 (IAS 40).

3.6.14 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. 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

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2018 (continued)

of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro-rata basis.

3.6.15 INVENTORIES AND CONTRACTS IN PROGRESS

Inventories are measured at the lower of cost or net realisable value. The cost of inventories is based on weighted average principle, and includes expenditure incurred in acquiring, converting the inventories and bringing them to their present location and condition. In the case of manufactured or constructed inventories and work-in-progress, costs include an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated completion costs and selling expenses.

3.6.16 EMPLOYEE BENEFITS

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee-administered funds. All employees of the Group are entitled to membership of one of these plans, which are governed by the Pension Fund Act of 1956. The schemes are funded by payments from the employees and the Group, taking into account recommendations of independent qualified actuaries.

(a) DEFINED BENEFITS PLANS

A defined benefit plan is a post-employment benefit pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

Under this method, the cost of providing pensions is charged to the income statement to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a valuation of the plan every three years. The liability in respect of the defined benefit plan is the present value of the defined obligation at the statement of financial position date minus the fair value of the plan assets, together with adjustments for actuarial gains or losses and past service cost.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future outflows using interest rates of Government securities that have terms to maturity approximating the terms of the related terms of the related liability. Contributions made during the year are charged to the income statement when plan assets exceed the liability for accrued benefits.

(b) DEFINED CONTRIBUTION PLANS

A defined contribution plan is a post-employment pension plan under which the company pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The regular contributions constitute net periodic costs for the year in which they are due and, as such, are included in staff costs.

(c) POST-RETIREMENT MEDICAL BENEFITS

Eligible employees and pensioners are entitled to certain post-retirement medical benefits in the form of medical aid contribution subsidies. Employees who commenced service after 1 August 2000 are not entitled to post-retirement medical benefits. Except for the transitional liability which arose at 31 March 2002, which was recognised over a period not exceeding five years, all legal and constructive liabilities are provided for on the accrual basis over the service lives of eligible employees. Actuarial gains are recognised over the average remaining service lives of employees, to the extent that the unrecognised actuarial gains exceed the unrecognised transitional liability. Actuarial losses are recognised over the average remaining service lives of employees.

(d) LONG SERVICE AWARD BENEFITS

Employees are entitled to a long-term benefit, based on various periods of long service to the Group. The long service award liability is calculated by independent actuaries using the projected unit credit method. The long service award liability is an unfunded liability in that there are no separate plan assets out of which obligations are to be settled. The amount recognised as a long service award liability is therefore the present value of the defined benefit obligation at the end of the reported period. Current service costs and interest costs are recognised as expenses. All actuarial gains and losses and past service costs are recognised immediately as expenses.

3.6.17 BORROWING COSTS

Borrowing costs directly attributable to the acquisition, constructing or production of qualifying assets that take a substantial period of time to get ready for their intended use or sale, are capitalised to the costs of those assets. The capitalisation of borrowing costs is suspended during periods of extended suspension of construction, development or production of qualifying asset. The Group ceases capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.6.18 GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that the Group has complied with the conditions

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2018 (continued)

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. Except for non-current assests that are measured at fair value, 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. Other Government grants are recognised as income over the periods necessary to match them 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 or for the purposes of giving immediate financial support to the Group with no future related cost are recognised in profit or loss in the period in which they are received. Government grants received for specific loans and advances programmes are recognised as income when all the conditions of the grant have been fulfilled and there is reasonable assurance that the grant will be received.

3.6.19 TAXATION

Ithala Development Finance Corporation is exempt from normal tax in terms of Section 10(1) (cA) (i) of the Income Tax Act. Consequently, all wholly-owned subsidiaries of the Corporation are exempt from normal tax in terms of Section 10(1) (cA)(ii) of the Income Tax Act. Subsidiaries that are not wholly-owned are subject to normal taxation. Tax expense for subsidiaries that are not wholly-owned comprise current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.6.20 PROVISIONS AND CONTINGENT LIABILITIES

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

A provision for an onerous contract is recognised by the Group when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligation under the contract. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Contingent liabilities, which include certain guarantees other than financial guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events, not wholly within the Group's control. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements unless they are remote.

3.6.21 REVENUE AND OTHER OPERATING INCOME

(a) RENTAL INCOME

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the of the total rental income, over the term of the lease.

(b) INTEREST INCOME AND INTEREST EXPENSE

Interest income and expenses are recognised in profit or loss on an accrual basis, with reference to the principal outstanding using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument. In terms of IAS 39, interest is accrued in respect of impaired advances based on the original effective interest rate used to determine the recoverable amount.

(c) FEE INCOME

Project management fee income is recognised on an accrual basis when the service is rendered, based on stage of completion basis. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised. Other fee income is recognised as the related services are performed.

(d) COMMISSION INCOME

Commission income is recognised on an accrual basis when the service has been provided.

(e) SALE OF GOODS

Sale of goods is recognised when significant risks and rewards of ownership have passed and the collectability of the related receivable is reasonably assured. Revenue from the sale of electricity, water, sewage and refuse removal services are recognised when consumed by the customer.

(f) DIVIDENDS RECEIVED

Dividend income is recognised when the Group's right to receive payment has been established.

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2018 (continued)

3.6.22 LEASED ASSETS

OPERATING LEASE

Assets leased by the Group under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Rentals payable under the operating leases are charged to profit or loss on a straight-line basis over the term of the lease.

FINANCE LEASE

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as a finance lease. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.7 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Below are new standards, amendments to standards and interpretations not yet effective for the year ended 31 March 2017, these have not been applied in preparing these consolidated financial statements. In addition, new standards, amendments to standards and interpretations not yet effective for the year ended 31 March 2013, 31 March 2014, 31 March 2015 and 31 March 2016 have also not been applied in preparing these consolidated financial statements, as these have not been incorporated into SA GAAP, since SA GAAP ceased to apply for financial years beginning on or after 1 December 2012.

Standard	Description	Annual periods beginning on or after
IFRS 1 (AC 138) amendment	**First-time adoption of International Financial Reporting Standards** • Annual Improvements 2011-2013 Cycle: Amendments to the Basis of Conclusion clarify the meaning of 'effective IFRSs'. • The Group will apply IFRS 1 in the 2017/18 AFS as the Accounting Standards Board (ASB) has determined that Government business enterprises, like Ithala should comply with IFRS going forward.	1 July 2014
IFRS 3 (AC 140)	**Business Combinations** • Annual Improvements 2010-2012 Cycle: Amendments to the measurement requirements for all contingent consideration assets and liabilities including those accounted for under IFRS 9. • Annual Improvements 2011-2013 Cycle: Amendments to the scope paragraph for the formation of a joint arrangement.	1 July 2014 1 July 2014
IFRS 5 (AC 142)	**Non-current asset Held for Sale and Discontinued Operations** • Annual Improvements 2012-2014 Cycle: Amendments clarifying that a change in the manner of disposal of a non-current asset or disposal group held for sale is considered to be a continuation of the original plan of disposal and, accordingly, the date of classification as held for sale does not change.	1 January 2016
IFRS 7 (AC 144)	**Financial Instruments: Disclosures** • Annual Improvements 2012-2014 Cycle: Amendments clarifying under what circumstances an entity will have continuing involvement in a transferred financial asset as a result of servicing contracts. • Annual Improvements 2012-2014 Cycle: Amendments clarifying the applicability of previous amendments to IFRS 7 issued in December 2011 with regard to offsetting financial assets and financial liabilities in relation to interim financial statements prepared under IAS 34.	1 January 2016 1 January 2016
IFRS 9 (AC 146) (amendment not adopted into SA GAAP)	**Financial Instruments: Classification and Measurement** • Annual Improvements 2010-2012 Cycle: Amendments to the measurement requirements for all contingent consideration assets and liabilities included under IFRS 9. • A finalised version of IFRS 9 has been issued which replaces IAS 39 Financial Instruments: Recognition and Measurement. The completed standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and Derecognition: - IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cashflow characteristics. A new business model was introduced which does allow certain financial assets to be categorised as 'fair value through other comprehensive income' in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk; - The new model introduces a single impairment model being applied to all financial instruments, as well as an 'expected credit loss' model for the measurement of financial assets; - IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements; and - IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39. • Given the nature of the Group's operations, this standard is expected to have a significant impact on the Group's Annual Financial Statements when applied.	1 July 2014 1 January 2018

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2018 (continued)

Standard	Description	Annual periods beginning on or after
IFRS 10 (not adopted into SA GAAP)	**Consolidated financial statements** • Standard that replaces the consolidation requirements in SIC-12 Consolidation Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. Standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. • Investment Entities: Applying the Consolidation Exception: Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. • Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28): Narrow scope amendment address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contibution of assests between an investor and its associate or joint venture. • The Group is currently assessing the impact of the new Standard on the Group's consolidation requirements.	1 January 2016
IFRS 11 (not adopted into SA GAAP)	**Joint arrangements** Standard that deals with the accounting for joint arrangements and focuses on the rights and obligations of the arrangement, rather than its legal form. Standard requires a single method for accounting for interests in jointly controlled entities. • Amendments adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business which specifies the appropriate accounting treatment for such acquisitions. • Investment Entities: Applying the Consolidation Exception: Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. • The Group is currently assessing the impact of the new Standard as there is currently a joint arrangement in the properties department.	1 January 2016
IFRS 12 (not adopted into SA GAAP)	**Disclosure of interest in other entities** Comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. • Investment Entities: Applying the Consolidation Exception: Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. • The Group is currently assessing the disclosure requirements for interest in subsidiaries, joint arrangements, associates and unconsolidated structures in comparison with the existing disclosures.	1 January 2016
IFRS 13 (not adopted into SA GAAP)	**Fair value measurements** IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. • Annual Improvements 2010-2012 Cycle: Amendments to clarify the measurement requirements for those short-term receivables and payables. • Annual Improvements 2011–2013 Cycle: Amendments to clarify that the portfolio exception applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9. • Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in level 3.	 1 July 2014 1 July 2014

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2018 (continued)

Standard	Description	Annual periods beginning on or after
IFRS 15 (not adopted into SA GAAP)	**Revenue from Contracts from Customers** New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers. • The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. • The new Standard supersedes: (a) IAS 11 Construction Contracts; (b) IAS 18 Revenue; (c) IFRIC 13 Customer Loyalty Programmes; (d) IFRIC 15 Agreements for the Construction of Real Estate; (e) IFRIC 18 Transfers of Assets from Customers; and (f) SIC-31 Revenue - Barter Transactions Involving Advertising Services	1 January 2018
IFRS 16 (AC105)	**Leases** • New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows. • IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. • IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. • IFRS 16 supersedes the following Standards and Interpretations: (a) IAS 17 Leases; (b) IFRIC 4 Determining whether an Arrangement contains a Lease; (c) SIC-15 Operating Leases - Incentives; and (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. • Given the nature of the Group's operations, this Standard is expected to have a significant impact on the Group's Annual Financial Statements when applied.	1 January 2019
IFRS 17 (AC141)	**Insurance Contracts** • IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS. • IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts. • This standard replaces IFRS 4 – Insurance contracts. • This standard is not applicable to the Group.	1 January 2021
IAS 1 (AC 101) (amendment not adopted into SA GAAP)	**Presentation of Financial Statements** • Disclosure Initiative: Amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures.	1 January 2016
IAS 7 (AC 118)	**Statement of Cash Flows** • Disclosure Initiative: Amendments requiring entities to disclose information about changes in their financing liabilities. The additional disclosures will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).	1 January 2017

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2018 (continued)

Standard	Description	Annual periods beginning on or after
IAS 12 (AC 102)	**Income Taxes** • Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12): Narrow-scope amendment to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017
IAS 16 (AC 123)	**Property, Plant and Equipment** • Annual Improvements 2010-2012 Cycle: Amendments to the Revaluation method – proportionate restatement of accumulated depreciation. • Amendment to both IAS 16 and IAS 38 establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets. • Amendment to IAS 16 and IAS 41 which defines bearer plants and includes bearer plants in the scope of IAS 16 Property, Plant and Equipment, rather than IAS 41, allowing such assets to be accounted for after initial recognition in accordance with IAS 16.	1 July 2014 1 January 2016
IAS 19 (AC 116) (amendment not adopted into SA GAAP)	**Employee Benefits** • IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. • For defined benefit plans, removal of the accounting policy for recognising actuarial gains and losses is expected to have an impact on the Group as the Group currently utilises the corridor method to account for such gains and losses. Should the amended IAS 19 be adopted, unrecognised actuarial losses in the balance sheet of R13,5 million for the Corporation and R4,3million for a subsidiary would have to be released to the income statement. The net impact to the Group would be a reduction of R17,8 million net profit. • Amendments to Defined Benefit Plans: Employee Contributions whereby the requirements in IAS 19 for contributions from employees or third parties that are linked to service have been amended.	1 January 2013 1 July 2014
IAS 27 (AC 132)	**Consolidated and Separate Financial Statements** • Amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.	1 January 2016
IAS 28 (AC 110)	**Investments in Associates and Joint Ventures** • Investment Entities: Applying the Consolidation Exception: Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. • Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28): Narrow-scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.	1 January 2016 1 January 2016
IAS 38 (AC 129)	**Intangible Assets** • Annual Improvements 2010-2012 Cycle: Amendments to the Revaluation method – proportionate restatement of accumulated depreciation. • Amendments to IAS 16 and IAS 38 to clarify the basis for the calculation of depreciation and amortisation, as being the expected pattern of consumption of the future economic benefits of an asset. • Amendment to both IAS 16 and IAS 38 establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets.	1 July 2014 1 January 2016
IAS 40 (AC 135)	**Investment Property** • Annual Improvements 2011-2013 Cycle: Amendments to clarify the inter-relationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	1 July 2014
IFRIC Interpretation 21	**Levies** • IFRIC 21 defines a levy as an outflow from an entity imposed by a Government in accordance with legislation. It confirms that an entity recognises a liability when, and only when, the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Group's financial statements.	1 January 2014

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2018 (continued)

ASB has decided that Government business enterprises, like Ithala, must comply with IFRS. Therefore, all Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity.)

3.8 AMENDMENTS TO THE BASIS OF ACCOUNTING

Section 55 1(b) of the PFMA requires Public Entities to prepare financial statements for each financial year in accordance with Generally Accepted Accounting Practice (SA GAAP). The Group has accordingly prepared its Annual Financial Statements on this basis to date.

However, during the 2012 financial year, the Accounting Practices Board (APB), together with the Financial Reporting Standards Council (FRSC), jointly announced the withdrawal of SA GAAP, which ceased to exist from financial years commencing on or after 1 December 2012.

The Accounting Standards Board (ASB) approved a directive in July 2015 permitting Government Business Entities (GBEs) to use IFRS.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
1. LOANS AND ADVANCES				
1.1. Sectoral analysis				
Housing and commercial property	**1 550 897**	1 401 661	**-**	-
Micro-finance - secured	**74 408**	63 913	**-**	-
Micro-finance - unsecured	**24 287**	37 979	**16 734**	14 920
Agri-finance	**267 308**	269 995	**267 308**	269 995
Franchise finance	**25 526**	17 890	**25 526**	17 890
Procurement finance	**54 943**	43 175	**54 943**	43 175
Commercial property finance	**160 036**	208 321	**160 036**	208 321
Asset finance	**168 398**	133 587	**168 398**	133 587
Structured finance	**147 031**	185 469	**147 031**	185 469
	2 472 834	2 361 990	**839 976**	873 357
Credit impairment for loans and advances	**(298 877)**	(281 554)	**(220 686)**	(191 795)
Net loans and advances including current portion	**2 173 957**	2 080 436	**619 290**	681 562
Less: current portion included under current assets	**(469 146)**	(395 244)	**(302 813)**	(243 822)
Net loans and advances	**1 704 811**	1 685 192	**316 477**	437 740
Non-performing loans	**330 060**	309 575	**229 042**	201 598
Impairment of loans and advances	**(244 904)**	(151 061)	**(189 881)**	(151 001)
Unimpaired portion of non-performing loans	**85 156**	158 514	**39 161**	50 597

* In the prior year the Primary Agriculture business loans and advances amounting to R214.1 million were ceded and assigned to the Land and Agricultural Bank of South Africa. The loan was fully paid up in the current year.

	Group		Corporation	
1.2. Maturity analysis				
Maturing:				
Up to 1 month	**228 498**	268 991	**162 142**	212 002
From 1 month to 6 months	**120 252**	68 438	**69 412**	21 130
From 6 months to 1 year	**120 396**	57 815	**71 259**	10 690
From 1 year to 5 years	**623 629**	530 233	**283 043**	205 689
After 5 years	**1 380 058**	1 436 513	**254 120**	423 846
	2 472 833	2 361 990	**839 976**	873 357

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
1.3. Credit impairment for loans and advances				
Balance at beginning of the year	**281 554**	252 340	**191 795**	164 560
Amounts written-off	**(41 443)**	(21 701)	**(16 682)**	(6 429)
Bad debt write-off	**(31 525)**	(13 598)	**(12 757)**	(4 278)
Non-realised revenue (NRR) write-off	**(9 917)**	(8 103)	**(3 924)**	(2 151)
Charge to income statement	**58 766**	50 914	**45 573**	33 663
Balance at end of the year	**298 877**	281 554	**220 686**	191 795
Comprising:				
Impairment for performing loans (IBNR)*	**(53 972)**	57 201	**(30 805)**	35 290
Impairment for non-performing loans	**(244 905)**	224 353	**(189 881)**	156 505
Impairment for loans and advances	**(298 877)**	281 554	**(220 686)**	191 795

*Impairment for performing loans is referred to as Incurred But Not Yet Reported (IBNR). These relate to latent losses in a portfolio of loans and advances that have not been individually identified as impaired.

	Group		Corporation	
	2018	2017	**2018**	2017
1.4. Properties in possession				
Balance at beginning of the year	**16 899**	16 545	**2 871**	3 698
Acquisitions	**9 510**	4 206	**6 814**	388
Disposals	**(11 553)**	(3 852)	**(7 460)**	(1 215)
Carrying amount before impairment	**14 856**	16 899	**2 225**	2 871
Accumulated impairment loss	**(7 829)**	(8 196)	**(2 194)**	(2 871)
Net carrying amount	**7 027**	8 703	**31**	-
Accumulated impairment loss				
Balance at beginning of the year	**8 196**	7 814	**2 871**	3 309
Reversal of impairment to income statement	**(367)**	382	**(676)**	(438)
Balance at end of the year	**7 829**	8 196	**2 194**	2 871

Properties in possession relate to immovable properties that have been repossessed by the Group. These assets are valued in terms of AC 142: Non–Current Assets Held for Sale.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
		Restated		Restated
2. INVESTMENT PROPERTIES				
Cost				
Land and buildings	**2 703 247**	2 401 688	**2 469 687**	2 195 065
Net book value	**2 703 247**	2 401 688	**2 469 687**	2 195 065

The fair values of investment properties were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The independent valuers provide the fair values of the investment property portfolio annually.

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
2.1. Amounts recognised in profit or loss for:				
- Rental income from investment properties	**345 241**	320 832	**332 272**	284 727
- Direct operating expenses arising from investment property that generated rental income	**304 917**	272 423	**269 821**	237 327
- Direct operating expenses arising from investment property that did not generate rental income	**37**	27	**37**	27

2.2. A register containing information regarding land and buildings is available for inspection at the registered offices.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Land & Buildings	Total
	R'000	R'000
2.3. Movement in investment properties		
2018		
Group		
Net book value at beginning of year	2 401 688	2 401 688
Additions	157 101	157 101
Fair value movements	157 339	157 339
Transfers	(12 881)	(12 881)
Net book value at end of year	2 703 247	2 703 247
Corporation		
Net book value at beginning of year	2 195 065	2 195 065
Additions	128 558	128 558
Fair value movements	158 945	158 945
Transfers	(12 881)	(12 881)
Net book value at end of year	2 469 687	2 469 687
2017		
Group		
Net book value at beginning of year	**2 300 768**	2 300 768
Additions	**136 091**	136 091
Disposals	**(1 140)**	(1 140)
Fair value movements	**(34 031)**	(34 031)
Net book value at end of year	**2 401 688**	**2 401 688**
Corporation		
Net book value at beginning of year	**2 106 513**	2 106 513
Additions	**131 710**	131 710
Disposals	**(1 141)**	(1 141)
Fair value movements	**(41 144)**	(41 144)
Transfers	**(873)**	(873)
Net book value at end of year	**2 195 065**	**2 195 065**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
3. PROPERTY, PLANT AND EQUIPMENT				
Cost	**596 893**	571 551	**423 838**	403 265
Land, infrastructure and buildings	**274 139**	250 737	**274 139**	250 737
Buildings on leasehold land	**12 665**	12 665	**12 665**	12 665
Plant, equipment and vehicles	**310 090**	308 150	**137 033**	139 863
Accumulated depreciation	**274 781**	248 934	**144 205**	125 119
Infrastructure and buildings	**69 653**	61 329	**69 653**	61 329
Buildings on leasehold land	**3 259**	3 259	**3 258**	3 258
Plant, equipment and vehicles	**201 869**	184 346	**71 293**	60 532
Accumulated impairment				
Land, infrastructure and buildings	**9 407**	9 407	**9 407**	9 407
Plant, equipment and vehicles	**-**	10 632	**-**	-
Net book value	**312 705**	302 579	**270 226**	268 739
Fair value of land and buildings in property, plant and equipment	**129 064**	143 469	**129 064**	143 469

3.1. A register containing information regarding land and buildings is available for inspection at the registered offices.

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
3.2. Property, plant and equipment with nil book values				
Original Cost	**68 894**	51 528	**26 784**	17 730

This represents property, plant and equipment that are still in use and have a nil book value and relates mainly to assets with a cost of R2000 and below that have been fully depreciated in line with the Group's policy.

The reassessment of useful life is performed at each balance sheet date.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Land, infra-structure & buildings	Plant, equipment & vehicles	Total
	R'000	R'000	R'000
3.3. Movements in property, plant and equipment			
2018			
Group			
Net book value at beginning of year	189 408	113 171	302 579
Additions	3 303	6 313	9 616
WIP Additions	4 025	821	4 846
Depreciation charge	(7 023)	(36 549)	(43 572)
Disposals	-	(1 084)	(1 084)
Transfers	15 239	25 081	40 320
Net book value at end of year	204 952	107 753	312 705
Corporation			
Net book value at beginning of year	189 408	79 331	268 739
Additions	3 303	2 095	5 398
WIP Additions	4 025	821	4 846
Depreciation charge	(7 021)	(16 189)	(23 210)
Disposals	-	(844)	(844)
Transfers	14 771	526	15 297
Net book value at end of year	204 486	65 740	270 226
2017			
Group			
Net book value at beginning of year	170 334	101 306	271 640
Additions	36 514	11 647	48 161
Depreciation charge	(5 702)	(21 352)	(27 054)
Impairment charge	-	(5 721)	(5 721)
Disposals	(126)	(2 937)	(3 063)
Transfers	(11 612)	30 228	18 616
Net book value at end of year	189 408	113 171	302 579
Corporation			
Net book value at beginning of year	170 322	58 379	228 701
Additions	36 526	4 663	41 189
Depreciation charge	(5 702)	(11 002)	(16 704)
Disposals	(126)	(2 937)	(3 063)
Transfers	(11 612)	30 228	18 616
Net book value at end of year	189 408	79 331	268 739

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
4. INTANGIBLE ASSETS				
Cost	113 099	120 510	49 015	56 879
Software	109 697	117 109	45 614	53 478
Other	1 600	1 600	1 600	1 600
Licences and Warranties	1 801	1 801	1 801	1 801
Accumulated amortisation	36 918	31 992	23 906	21 304
Software	33 620	29 370	20 609	18 682
Other	1 150	821	1 150	821
Licences and warranties	2 147	1 801	2 147	1 801
Accumulated impairments				
Software	32 766	32 766	-	-
Net book value	43 415	55 752	25 109	35 575

	Software	Licences & other	Total
	R'000	R'000	R'000
4.1. Movement in intangible assets			
2018			
Group			
Net book value at beginning of year	54 972	780	55 752
Additions	1 894	-	1 894
Amortisation	(6 880)	(675)	(7 555)
Transfers	(6 676)	-	(6 676)
Net book value at end of year	43 310	105	43 415
Corporation			
Net book value at beginning of year	34 795	780	35 575
Additions	1 060	-	1 060
Amortisation	(4 175)	(675)	(4 850)
Transfers	(6 676)	-	(6 676)
Net book value at end of year	25 004	105	25 109

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Software	Licences & other	Total
	R'000	R'000	R'000
2017			
Group	**65 067**	911	65 978
Net book value at beginning of year	**12 433**	-	12 433
Additions	**(3 932)**	(131)	(4 063)
Amortisation	**(18 596)**	-	(18 596)
Transfers	**54 972**	780	55 752
Net book value at end of year			
Corporation			
Net book value at beginning of year	**49 976**	909	50 885
Additions	**6 360**	-	6 360
Amortisation	**(1 892)**	(129)	(2 021)
Transfers	**(19 649)**	-	(19 649)
Net book value at end of year	**34 795**	780	35 575

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
5. STRAIGHT-LINING OF OPERATING LEASE INCOME				
Opening balance	**45 352**	41 006	**36 257**	32 409
Straight-line accrual during the year	**12 290**	3 307	**12 314**	3 187
Decrease/(increase) in provision for bad debts	**(790)**	1 039	**(676)**	661
	56 852	45 352	**47 895**	36 257
Current portion of long-term debtor	**1 255**	(344)	**1 729**	(344)
Closing balance	**58 107**	45 008	**49 624**	35 913

Minimum future rental receivable under non-cancellable operating leases are as follows:

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
Next 12 months	**(1 255)**	344	**(1 729)**	344
From 2 to 5 years	**29 478**	28 091	**22 805**	22 730
Later than 5 years	**30 852**	18 350	**28 683**	14 371
	59 075	46 785	**49 759**	37 445
Less: Provision for doubtful debts	**(2 223)**	(1 433)	**(1 864)**	(1 188)
	56 852	45 352	**47 895**	36 257
Analysis of provisions				
Balance at the beginning of the year	**1 433**	2 472	**1 188**	1 849
Reversal/(charge) to income statement	**790**	(1 039)	**676**	(661)
Balance at end of the year	**2 223**	1 433	**1 864**	1 188

Operating leases relate to investment property owned by the Group with lease terms of between 3 to 10 years and 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
6. SUBSIDIARIES (ANNEXURE 2)				
6.1. Subsidiaries	**-**	-	**424 061**	364 061
Shares at cost	**-**	-	**435 061**	375 061
Less provisions	**-**	-	**(11 000)**	(11 000)
Net loans	**-**	-	**153 707**	92 772
Loans to subsidiaries	**-**	-	**242 235**	178 310
Less provisions	**-**	-	**(88 529)**	(85 538)
Total investment in subsidiaries	**-**	-	**577 768**	456 833
6.2. Goodwill	**305**	300	**305**	300

Goodwill arises from the purchase of minority shares in Sundumbili Plaza Limited and Nongoma Plaza Limited.

	Group		Corporation	
	2018	2017	**2018**	2017
7. ASSOCIATED COMPANIES (ANNEXURE 3)				
7.1. Unlisted Investments				
Shares at cost	**3**	3	**3**	3
Less: provisions	**(2)**	(2)	**(2)**	(2)
Group carrying value	**1**	1	**1**	1
Net loans	**30**	30	**30**	30
Loans to associates	**56 047**	57 333	**56 047**	57 333
Less: provisions	**(56 017)**	(57 303)	**(56 017)**	(57 303)
Total interest in associated companies	**31**	31	**31**	31

As the associates have been incurring losses and not generating cash to settle the loans with Ithala, the loans with Ithala have been impaired.

	Group		Corporation	
	2018	2017	**2018**	2017
7.2. Significant financial information of associated companies				
Total assets	**41 043**	45 629	**41 043**	45 629
Total non-current assets	**34 645**	34 327	**34 645**	34 327
Total current assets	**6 398**	11 302	**6 398**	11 302
Total liabilities	**250 588**	227 367	**250 588**	227 367
Total non-current liabilities	**220 517**	197 046	**220 517**	197 046
Total current liabilities	**30 071**	30 321	**30 071**	30 321
Net liabilities	**(209 545)**	(181 738)	**(209 545)**	(181 738)
Group's share of net liabilities of associates	**(80 342)**	(67 186)	**(80 342)**	(67 186)
Total revenue	**11 056**	12 400	**11 056**	12 400
Total losses	**(9 296)**	(14 036)	**(9 296)**	(14 036)
Unrecognised share of losses:				
- Current period	**(3 130)**	(4 931)	**(3 130)**	(4 931)
- Cumulative	**(63 200)**	(60 071)	**(63 200)**	(60 071)

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
7.3 JOINT VENTURES (ANNEXURE 4)				
Loans to joint venture	**2 796**	2 796	**2 796**	2 796
	2 796	2 796	**2 796**	2 796
8. CASH AND LIQUID ASSETS				
8.1. Cash and cash equivalents				
Coin and bank notes	**34 477**	87 235	**32**	58
Investment and balance with banks	**1 460 384**	1 360 470	**527 283**	419 247
	1 494 861	1 447 705	**527 314**	419 305

Included in cash is an amount of R12.1 million (2017: R8 million) relating to cash in transit at year-end to be delivered by security company to branches.Also, Included in cash is an amount of R96 million relating to ring-fenced collections derived from advances made from the EDTEA Fund. The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings ranging from AA- to AAA+ excluding those with Ithala SOC Limited which is not independently rated but has been approved as an authorised intermediary by the Directors. Due to investments being held in institutions that are highly-rated, these instruments are neither past due nor impaired.

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
8.2. Statutory liquid assets				
Treasury bill	**187 714**	177 769	**-**	-
	187 714	177 769	**-**	-
Undrawn facilities available are as follows:				
Absa Bank				
Overdraft Facility	**77 663**	71 463	**77 663**	71 463
Financial Guarantees	**22 337**	22 337	**22 337**	22 337
Day Light Facility	**25 000**	25 000	**-**	-
	125 000	118 800	**100 000**	93 800

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
9. TRADE AND OTHER RECEIVABLES				
Trade receivables	**65 418**	63 239	**59 785**	56 450
Other receivables	**82 679**	105 897	**74 006**	93 365
	148 098	169 136	**133 790**	149 815
Provision	**(59 328)**	(57 514)	**(54 272)**	(51 763)
Net trade and other receivables	**88 770**	111 622	**79 518**	98 052
Ageing of past due but not impaired trade and other receivables				
<30 days	**44 425**	46 476	**38 189**	38 371
30 to 60 days	**6 054**	3 551	**5 784**	3 113
60 to 90 days	**1 176**	9 965	**358**	9 778
>90 days	**55 554**	43 995	**51 318**	37 186
	107 210	103 987	**95 649**	88 447
Ageing of past due and impaired trade and other receivables				
<30 days	**4 753**	647	**3 889**	2 208
30 to 60 days	**8 785**	7 480	**7 421**	6 518
60 to 90 days	**3 305**	7 010	**2 786**	5 261
>90 days	**24 045**	50 012	**24 045**	47 380
	40 888	65 149	**38 141**	61 367
Analysis of provisions				
Balance at beginning of year	**57 514**	78 029	**51 763**	72 975
Amounts written-off	**(9 211)**	(37 090)	**(7 489)**	(34 903)
Charge to income statement	**11 025**	16 575	**9 998**	13 691
Balance at end of year	**59 328**	57 514	**54 272**	51 763
10. INVESTMENTS				
Designated at fair value through profit and loss				
Balance at beginning of year	**20 550**	18 047	**20 550**	18 047
Additions	**-**	-	**-**	-
Fair value movement	**(2 317)**	2 503	**(2 317)**	2 503
Balance at end of year	**18 234**	20 550	**18 234**	20 550

Investments comprise of 3,736,400 units in SA Corporate Real Estate Fund (2017: 3,736,400).
Fair value is determined by reference to stock exchange quoted bid prices.

	Group 2018 R'000	Group 2017 R'000	Corporation 2018 R'000	Corporation 2017 R'000
11. INVENTORY AND CONTRACTS IN PROGRESS				
Consumables	**3 255**	4 427	**1 824**	2 994
Contracts in progress	**2 861**	1 488	**2 861**	1 488
	6 116	5 915	**4 685**	4 482

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
12. ORDINARY SHARE CAPITAL				
Authorised				
1 008 582 361 (2017: 1 008 582 361) ordinary shares of R1 each	**1 008 582**	1 008 582	**1 008 582**	1 008 582
Issued				
1 008 582 361 (2017: 1 008 582 361) ordinary shares of R1 each	**1 008 582**	1 008 582	**1 008 582**	1 008 582
13. NON-CONTROLLING INTEREST				
Balance at beginning of year	**(166)**	(262)	**-**	-
Movement	**-**	96	**-**	-
Balance at end of year	**(166)**	(166)	**-**	-

Non-controlling interest represents the share of profit and losses attributable to minority shareholders of the subsidiary companies.

	Group		Corporation	
14. BORROWINGS (ANNEXURE 1)				
At amortised cost				
Total borrowings	**67 621**	86 043	**65 105**	83 968
Portion repayable within 12 months	**(18 613)**	(19 045)	**(18 167)**	(19 045)
Long-term portion	**49 008**	66 998	**46 938**	64 923

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
15. DEPOSITS DUE TO CUSTOMERS				
Call deposit accounts	**70 349**	72 601	**-**	-
Savings accounts	**967 945**	871 760	**-**	-
Term deposits	**1 271 266**	1 341 148	**-**	-
	2 309 560	2 285 509	**-**	-
Maturity analysis repayable:				
On demand	**1 131 455**	1 026 676	**-**	-
Up to 1 month	**46 369**	185 357	**-**	-
From 1 month to 6 months	**717 057**	676 242	**-**	-
From 6 months to 1 year	**373 753**	359 623	**-**	-
From 1 year to 5 years	**40 926**	37 611	**-**	-
	2 309 560	2 285 509	**-**	-

The maturity analysis is based on the remaining periods to contractual maturity from year end. At 31 March 2018, the balance of funds deposited by various trusts for land restoration compensation exceeded 5% of total deposits.The Department of Land Affairs disburses these funds to community trusts for land restitution. The current condition of this disbursement is that the funds are placed with the Company.

Savings accounts are further analysed as follows:

Pass book*	**649 639**	622 554	**-**	-
Trust accounts	**57 844**	56 661	**-**	-
Debit card	**212 181**	168 105	**-**	-
Corporate	**48 281**	24 440	**-**	-
Total savings	**967 945**	871 760	**-**	-

Term deposits are further analysed as follows:

Retail accounts	**899 035**	892 513	**-**	-
Corporate accounts	**372 231**	448 635	**-**	-
Total term deposits	**1 271 266**	1 341 148	**-**	-

* A Pass Book is a paper book used to record bank transactions on a depositor's account and is an alternative means of banking for customers who do not prefer electronic banking.
Savings accounts, as disclosed in the table above, have no fixed terms and are available to customers on demand. Term deposits are available to customers upon maturity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

16. EMPLOYEE BENEFITS

16.1. Post-retirement medical obligations (closed fund)

The Group provides post-retirement medical benefits to substantially all employees who commenced employment prior to 1 August 2000. An actuarial valuation of post-retirement medical obligations at 31 March 2018 quantified the present value of unfunded obligations at R112.4 million (2017:R118.4 million) for Group and R73.9 million (2017:R79.3 million) for Corporation. These actuarial valuations are conducted annually, as at balance sheet date. The principal actuarial assumptions used included a discount rate of 9.60% (2017:9.80%), and a health care cost inflation rate of 8.40% (2017: 9.90%).

	Group				
	2018	2017	2016	2015	2014
	R'000	R'000	R'000	R'000	R'000
The movement in the liability recognised in the balance sheet is as follows:					
Balance at beginning of year	**100 614**	90 866	83 776	77 001	71 591
Expensed during the year	**13 923**	15 052	11 439	10 649	8 989
Contributions paid	**(5 869)**	(5 304)	(4 349)	(3 874)	(3 579)
Balance at end of year	**108 668**	100 614	90 866	83 776	77 001
Amounts recognised in the balance sheet are as follows:					
Present value of unfunded obligations	**112 363**	118 386	113 817	102 033	90 355
Unrecognised actuarial (loss)/gain	**(3 695)**	(17 772)	(22 951)	(18 257)	(13 354)
Liability at end of year	**108 668**	100 614	90 866	83 776	77 001
Short-term portion	**5 954**	4 641	3 389	3 130	2 876
Long-term portion	**102 714**	95 973	87 477	80 646	74 125
Liability at end of year	**108 668**	100 614	90 866	83 776	77 001
Amounts recognised in the income statements are as follows:					
Current service cost	**1 644**	1 828	1 805	1 766	1 623
Interest cost	**11 299**	11 547	8 577	8 037	6 794
Net actuarial gain/(loss) recognised in the year	**980**	1 677	1 057	846	572
	13 923	15 052	11 439	10 649	8 989
Membership statistics:					
In-service members	**101**	105	131		
Continuation members	**172**	175	162		
	273	280	293		

Sensitivity Analysis - unfunded accrued liability

Assumptions	**Change**				
Central assumptions:		**112 363**	**118 386**	113 817	102 032
CPI Inflation	+1%	**127 453**	**135 280**	130 536	102 168
	+1,50%	**136 196**	**145 126**	114 001	102 249
	+1,75%	**140 913**	**150 455**	113 980	102 224
	-1%	**99 885**	**104 524**	100 154	101 868
Post-retirement mortality	+1 year	**109 507**	**115 372**	110 195	93 851
Average retirement age	-1 year	**115 140**	**121 428**	117 518	105 556

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Corporation				
	2018	2017	2016	2015	2014
	R'000	R'000	R'000	R'000	R'000
Balance at beginning of year	**65 725**	59 707	55 539	51 490	48 302
Expensed during the year	**9 236**	10 131	7 596	7 293	6 225
Contributions paid	**(4 624)**	(4 113)	(3 428)	(3 245)	(3 037)
Balance at end of year	**70 337**	65 725	59 707	55 538	51 490
Amounts recognised in the balance sheet are as follows:					
Present value of unfunded obligations	**73 980**	79 260	76 374	68 823	63 040
Unrecognised actuarial (loss)/gain	**(3 643)**	(13 535)	(16 667)	(13 285)	(11 550)
Liability at end of year	**70 337**	65 725	59 707	55 538	51 490
Short-term portion	**4 646**	3 478	2 473	2 385	2 270
Long-term portion	**65 691**	62 247	57 234	53 153	49 220
Liability at end of year	**70 337**	65 725	59 707	55 538	51 490
Amounts recognised in the income statements are as follows:					
Current service cost	**757**	957	918	866	811
Interest cost	**7 529**	7 718	5 763	5 581	4 844
Net actuarial gain/(loss) recognised in the year	**950**	1 456	915	846	570
	9 236	10 131	7 596	7 293	6 225
Membership statistics:					
In-service members	**48**	50	64		
Continuation members	**134**	138	126		
	182	188	190		

Sensitivity Analysis - unfunded accrued liability

Assumptions	**Change**				
Central assumptions:		**73 980**	79 260	76 374	68 824
CPI Inflation	+1%	**82 679**	89 201	86 238	68 940
	+1,50%	**87 652**	94 917	76 535	69 011
	+1,75%	**90 316**	97 988	76 517	68 989
	-1%	**66 658**	70 959	68 162	68 687
Post-retirement mortality	+1 year	**72 569**	77 712	74 368	64 802
Average retirement age	-1 year	**75 186**	80 718	78 412	70 702

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group				
	2018	2017	2016	2015	2014
	R'000	R'000	R'000	R'000	R'000

16.2. Pension and Provident Fund Schemes

The Group provides retirement benefits substantially to all employees by contributing to pension and provident funds. Membership of either pen-sion or provident fund is compulsory for all Corporation and Ithala 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 2018 showed that in re-spect 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 an-nual financial years by Old Mutual Corporate Consultants, fellow of the Institute of Actuaries of South Africa. The present value of the defined benefits obligations and the related current service cost were measured using the Projected Unit Credit Method.

16.2.1 Defined Benefit Pension Fund (closed fund)

	2018	2017	2016	2015	2014
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**1 625**	1 469	1 304	1 071	27 945
Fair value of plan assets	**(7 176)**	(17 301)	(14 243)	(11 883)	(32 960)
	(5 551)	(15 832)	(12 939)	(10 812)	(5 015)
Unrecognised actuarial gain	**5 551**	15 832	12 939	10 812	5 015
Liability at end of year	**-**	-	-	-	-
The movement in the defined benefit obligation over the year is as follows:					
Balance at beginning of year	**1 469**	1 304	1 071	27 945	44 128
Interest cost	**132**	131	78	1 313	2 364
Current service cost	**-**	-	-	-	-
Benefits paid	**-**	-		(25 518)	(15 775)
Contributions by plan participants (employees)	**-**	-	-	-	-
Actuarial (gain)/loss on obligation	**24**	34	155	(2 669)	(2 772)
Balance at end of year	**1 625**	1 469	1 304	1 071	27 945
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**17 301**	14 243	11 883	32 960	44 644
Expected return on assets	**1 558**	1 424	867	1 741	2 030
Contributions received	**-**	-	-	-	-
Benefits paid	**-**	-	-	(25 518)	(15 775)
Investment gain/(loss) on assets	**(12 350)**	-	-	-	-
Balance at end of year	**667**	1 634	1 493	2 700	2 061
	7 176	**17 301**	**14 243**	**11 883**	**32 960**
Amounts recognised in the income statement are as follows:					
Current service cost	**-**	-	-	-	-
Interest cost	**132**	131	78	1 313	2 364
Expected return on plan assets	**(1 558)**	(1 424)	(867)	(1 741)	(2 030)
	(1 426)	(1 293)	(789)	(428)	334

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

		Group				
		2018	2017	2016	2015	2014
		R'000	R'000	R'000	R'000	R'000
Plan assets portfolio:						
Investment assets		**14 226**	23 926	19 426	35 588	32 878
Annuity contracts		**(7 050)**	(6 625)	(5 183)	(23 705)	82
Current (liabilities)/assets		**7 176**	17 301	14 243	11 883	32 960
Effective rate of return on plan assets (actual)		**9.08%**	13.21%	9.82%	16.02%	20.67%
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (Annualised Yield on R186, 2017: R186)		**8.70%**	9.00%	10.00%	7.30%	8.50%
Expected rate of return on plan assets		**8.10%**	9.00%	10.00%	7.30%	8.50%
Future salary increases (Inflation plus 1%)		**6.70%**	7.50%	9.00%	6.90%	7.60%
Inflation		**5.70%**	6.50%	8.00%	5.90%	6.60%
Sensitivity analysis (Fund liability)	**Change**					
At valuation assumptions:						
Discount rate	+1%	**28 781**	1 469	1 304	1 071	27 945
	-1%	**33 368**	1 469	1 304	1 071	27 945
Expected rate of salary increases	+1%	**33 216**	1 469	1 304	1 071	27 945
	-1%	**28 873**	1 469	1 304	1 071	27 945

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Corporation				
	2018	2017	2016	2015	2014
	R'000	R'000	R'000	R'000	R'000
16.2.1. Defined Benefit Pension Fund (Closed Fund) (continued)					
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**731**	661	587	482	12 574
Fair value of plan assets	**(3 229)**	(7 785)	(6 409)	(5 347)	(14 831)
	(2 498)	(7 124)	(5 822)	(4 865)	(2 257)
Unrecognised actuarial gain	**2 498**	7 124	5 822	4 865	2 257
Liability at end of year	**-**	-	-	-	-

The Trustees have apportioned the surplus in the fund to the employer and the surplus has been recognised in the balance sheet under accounts receivable.

	2018	2017	2016	2015	2014
The movement in the defined obligation is as follows:					
Balance at beginning of year	**661**	587	482	12 574	19 856
Interest cost	**59**	59	35	591	1 063
Benefits paid	**-**	-	-	(11 482)	(7 098)
Actuarial (gain) / loss on obligation	**11**	15	70	(1 201)	(1 247)
Balance at end of year	**731**	661	587	482	12 574
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**7 785**	6 409	5 347	14 831	20 090
Expected return on assets	**701**	641	390	783	914
Contributions received	**-**	-	-	(11 482)	(7 098)
Benefits paid	**(5 557)**	-	-	-	-
Investment gain/(loss) on assets	**300**	735	672	1 215	925
Balance at end of year	**3 229**	7 785	6 409	5 347	14 831
Amounts recognised in the income statement are as follows:					
Interest cost	**59**	59	35	591	1 063
Expected return on plan assets	**(701)**	(641)	(390)	(783)	(1 068)
Recognised actuarial losses	**-**	-	-	-	-
	(642)	(582)	(355)	(192)	(5)
Plan assets portfolio					
Investment assets	**6 401**	10 766	8 741	16 013	14 794
Annuity contracts	**-**	-	-	-	-
Current assets/(liabilities)	**(3 172)**	(2 981)	(2 332)	(10 666)	37
	3 229	7 785	6 409	5 347	14 831
Effective rate of return on plan assets (actual)	**9.12%**	13.27%	9.29%	15.96%	21.53%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

		Corporation				
		2018	2017	2016	2015	2014
		R'000	R'000	R'000	R'000	R'000
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (Annualised Yield on R186, 2017:R186)		**8.70%**	9.00%	10.00%	7.30%	8.50%
Expected rate of return on plan assets		**8.10%**	9.00%	10.00%	7.30%	8.50%
Future salary increases (Inflation plus 1%)		**6.70%**	7.50%	9.00%	6.90%	7.60%
Inflation		**5.70%**	6.50%	8.00%	5.90%	6.60%
Sensitivity analysis (Fund liability)	**Change**					
At valuation assumptions:						
Discount rate	+1%	**14 993**	661	587	482	12 574
	-1%	**17 236**	661	587	482	12 574
Expected rate of salary increases	+1%	**17 158**	661	587	482	12 574
	-1%	**15 043**	661	587	482	12 574

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group				
	2018	2017	2016	2015	2014
	R'000	R'000	R'000	R'000	R'000
16.2.2. Defined Benefit Provident Fund (Closed Fund)					
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**38 584**	28 134	45 903	46 409	50 683
Fair value of plan assets	**(43 919)**	(51 234)	(63 993)	(66 395)	(63 444)
	(5 335)	(23 100)	(18 090)	(19 986)	(12 761)
Unrecognised actuarial gain	**5 335**	23 100	18 090	19 986	12 761
Liability at end of year	**-**	-	-	-	-
Balance at beginning of year	**28 134**	45 903	46 409	50 683	55 557
Interest cost	**2 544**	3 700	3 152	3 104	3 506
Current service cost	**732**	1 156	1 455	1 676	1 675
Benefits paid	**19 410**	-	-	-	-
Contributions by plan participants (employees)	**(11 082)**	(20 015)	(8 569)	(8 390)	(5 654)
Benefit increase	**-**	612	569	757	677
Actuarial (gain)/loss on obligation	**(1 154)**	(3 222)	2 887	(1 421)	(5 078)
Balance at end of year	**38 584**	28 134	45 903	46 409	50 683
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**51 234**	63 993	66 395	63 444	53 159
Expected return on assets	**3 753**	5 480	4 583	3 915	3 331
Contributions received	**374**	1 193	1 199	1 845	1 809
Benefits paid	**(11 082)**	(20 015)	(8 569)	(8 390)	(5 654)
Investment gain/(loss) on assets	**(360)**	583	385	5 581	10 799
Balance at end of year	**43 919**	51 234	63 993	66 395	63 444
Amounts recognised in the income statement are as follows:					
Current service cost	**732**	1 156	1 455	1 676	1 675
Interest cost	**2 544**	3 700	3 152	3 104	3 506
Expected return on plan assets	**(3 753)**	(5 480)	(4 583)	(3 915)	(3 331)
Benefit increase	**-**	-	-	-	(3 292)
Recognised actuarial (gains)/losses	**-**	-	-	-	-
	(477)	(624)	24	865	(1 442)
Plan assets portfolio					
Investment assets	**52 881**	50 814	65 779	69 402	61 685
Net current liabilities	**(8 962)**	(420)	(1 786)	(3 007)	1 759
	43 919	51 234	63 993	66 395	63 444
Effective rate of return on plan assets (actual)	9.08%	13.21%	9.82%	16.02%	20.67%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

		Group				
		2018	2017	2016	2015	2014
		R'000	R'000	R'000	R'000	R'000
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (Annualised Yield on R186, 2017: R186)		**8.70%**	9.00%	10.00%	7.30%	8.50%
Expected rate of return on plan assets		**8.10%**	9.00%	10.00%	7.30%	8.50%
Future salary increases (inflation plus 1%)		**6.70%**	7.50%	9.00%	6.90%	7.60%
Inflation		**5.70%**	6.50%	8.00%	5.90%	6.60%
Sensitivity analysis (Fund liability)	**Change**					
At valuation assumptions:		**38 584**	28 134	47 207	46 000	49 996
Discount rate	+1%	**42 095**	26 984	45 901	44 568	48 333
	-1%	**35 073**	29 387	48 636	47 570	51 815
Expected rate of salary increases	+1%	**41 516**	29 093	48 176	47 061	51 276
	-1%	**36 037**	27 240	46 318	45 052	48 819
No salary increases		**38 584**	22 908	41 827	41 225	43 431





NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Corporation				
	2018	2017	2016	2015	2014
	R'000	R'000	R'000	R'000	R'000
16.2.2 Defined Benefit Provident Fund (Closed Fund) (continued)					
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**14 339**	9 972	30 066	29 445	28 380
Fair value of plan assets	**(19 035)**	(22 206)	(41 915)	(42 126)	(35 525)
	(4 696)	(12 234)	(11 849)	(12 681)	(7 145)
Unrecognised actuarial gain	**4 696**	12 234	11 849	12 681	7 145
Liability at end of year	**-**	-	-	-	-
Balance at beginning of year	**9 972**	30 066	29 445	28 380	29 929
Opening adjustment	**2 222**	(10 171)	-	-	-
Interest cost	**893**	1 604	2 065	1 969	1 962
Current service cost	**317**	501	954	1 063	938
Past service cost (vested)	**8 413**	-	-	-	-
Benefits paid	**(4 593)**	(8 675)	(5 613)	(5 323)	(3 165)
Contributions by plan participants (employees)	**-**	265	372	480	380
Benefit increase/ (decrease)	**-**	-	-	-	1 179
Actuarial (gain)/loss on obligation	**(2 885)**	(3 618)	2 843	2 876	(2 843)
Balance at end of year	**14 339**	9 972	30 066	29 445	28 380
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**22 206**	41 915	42 126	35 525	28 637
Opening adjustment	**-**	(14 179)	-	-	-
Expected return on assets	**1 787**	2 375	3 002	2 484	2 995
Contributions received	**162**	517	785	1 171	1 012
Benefits paid	**(4 964)**	(8 675)	(5 613)	(5 323)	(3 165)
Investment gain/(loss) on assets	**(156)**	253	1 615	8 269	6 046
Balance at end of year	**19 035**	22 206	41 915	42 126	35 525
Amounts recognised in the income statement are as follows:					
Current service cost	**317**	501	954	1 063	938
Interest cost	**893**	1 604	2 065	1 969	1 962
Expected return on plan assets	**(1 787)**	(2 375)	(3 002)	(2 484)	(1 865)
Benefit (decrease)/increase	**-**	-	-	-	(3 292)
Recognised actuarial (gains)/losses	**(577)**	(270)	17	548	(2 257)
Plan assets portfolio:					
Investment assets	**22 920**	22 024	43 085	44 034	34 540
Net current liabilities	**(3 885)**	182	(1 170)	(1 908)	985
	19 035	22 206	41 915	42 126	35 525
Effective rate of return on plan assets (actual)	**9.12%**	13.27%	15.96%	15.96%	21.53%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

		Group				
		2018	2017	2016	2015	2014
		R'000	R'000	R'000	R'000	R'000
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (Annualised Yield on R186, 2017: R186)		**8.70%**	9.00%	10.00%	7.30%	8.50%
Expected rate of return on plan assets		**8.10%**	9.00%	10.00%	7.30%	8.50%
Future salary increases (Inflation plus 1%)		**6.70%**	7.50%	9.00%	6.90%	7.60%
Inflation		**5.70%**	6.50%	8.00%	5.90%	6.60%
Sensitivity analysis (Fund liability)	**Change**					
At valuation assumptions:		**14 339**	12 194	30 066	29 186	28 932
Discount rate	+1%	**15 644**	11 695	29 211	28 277	27 955
	-1%	**13 034**	12 737	31 003	30 182	30 001
Expected rate of salary increases	+1%	**15 429**	12 609	30 702	29 859	29 692
	-1%	**13 393**	11 806	29 484	28 584	28 236
No salary increases		**14 339**	9 929	26 542	26 156	25 040

The overall expected rate of return is a weighted average of the expected returns of the various categories of fund assets held. The Directors' assessment of the expected returns is based on historical trends and analysts' predictions of the market for the asset over the life of the related obligation.

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000

16.3. Long service obligation

The Company provides long service awards to permanent employees in the form of cash from Ten years of continuous service and every five years thereafter. An actuarial valuation of the provision for long service awards is conducted annually. The principal actuarial assumptions used included a discount rate of 8.7% (2017: 8.8%) and an average salary inflation of 6.7% (2017: 7.2%).

The most recent actuarial valuation of the long service awards was carried out for the current financial year by Alexander Forbes, fellow of the Institute of Actuaries of South Africa. The present value of the liability was measured using the Projected Unit Credit Method.

	Group 2018 R'000	Group 2017 R'000	Corporation 2018 R'000	Corporation 2017 R'000
Balance at beginning of year	**30 237**	28 450	**15 479**	15 117
Expensed during the year	**5 953**	6 143	**3 084**	3 375
Contributions paid	**(3 915)**	(2 128)	**(2 091)**	(960)
Unrecognised actuarial gain	**(1 343)**	(2 228)	**(424)**	(2 053)
Balance at end of year	**30 932**	30 237	**16 048**	15 479
Amounts recognised in the balance sheet are as follows:				
Present value of unfunded obligations	**30 932**	32 465	**16 048**	17 532
Unrecognised actuarial gain	**-**	(2 228)	**-**	(2 053)
Liability at end of year	**30 932**	30 237	**16 048**	15 479
Short-term portion	**2 145**	3 799	**1 126**	2 036
Long-term portion	**28 787**	26 438	**14 922**	13 443
Liability at end of year	**30 932**	30 237	**16 048**	15 479

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

		Group		Corporation	
		2018	2017	**2018**	2017
		R'000	R'000	**R'000**	R'000
Amounts recognised in the income statements are as follows:					
Current service cost		**3 510**	3 546	**1 845**	1 990
Interest cost		**2 442**	2 597	**1 237**	1 385
Net actuarial loss recognised in the year		**(1 343)**	(2 228)	**(424)**	(2 053)
		4 609	3 915	**2 658**	1 322
Membership statistics:					
In-service members		**701**	733	**339**	351
Sensitivity analysis - unfunded accrued liability					
Assumptions	Change				
Central assumptions:		**30 932**	30 234	**16 048**	15 479
CPI Inflation	+1%	**33 216**	32 427	**16 532**	16 532
	-1%	**28 874**	28 268	**14 529**	14 529
Average retirement age	-2 years	**27 083**	26 409	**13 318**	13 318
	+2 years	**34 857**	33 827	**17 638**	17 638

17. GOVERNMENT GRANTS

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
17.1. Government grants - deferred income				
BEE Risk Fund	**6 599**	6 599	**6 599**	6 599
Share participation	**7 098**	7 098	**7 098**	7 098
Co-operatives - Business	**-**	10 675	**-**	10 675
Co-operatives - Agriculture	**170**	170	**170**	170
DTI Grant	**7 089**	8 963	**7 089**	8 963
SMME Onlending	**-**	27 218	**-**	27 218
Hubs	**299**	299	**299**	299
Ndumo	**2 648**	2 648	**2 648**	2 648
SBGE	**837**	-	**837**	-
KPDH	**-**	-	**-**	-
RASET	**40 050**	-	**40 050**	-
Thokazi Royal Lodge	**4 825**	-	**4 825**	-
Ithala SOC Limited	**37 986**	-	**-**	-
Drakensberg Cable Car	**1 369**	1 369	**1 369**	1 369
	108 969	65 037	**70 983**	65 037
17.2 Government Grants - Other				
EDTEA equity fund	**111**	110	**111**	110
Total Government grants	**109 079**	65 147	**71 093**	65 147

18. TRADE AND OTHER PAYABLES

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
Trade creditors	**25 655**	11 126	**19 698**	7 335
Accruals	**40 626**	91 332	**27 128**	81 484
South African Revenue Service	**25 445**	22 212	**5 368**	(2)
Audit fee accrual	**7 236**	6 560	**2 934**	2 499
Sundry creditors	**288 398**	161 855	**266 728**	122 065
Leave pay accrual	**31 100**	31 497	**17 219**	17 304
Bonus pay accrual	**3 423**	2 932	**1 570**	1 458
	421 883	327 514	**340 645**	232 143

The audit fee accrual is in repect of the audit fee to be incurred for the financial year under review. The audit fee is approved by the Audit Committee. The bonuses accrual relates to a "13th cheque" payable to "A – C band" employees only that are employed by the Company at the time of payment being annually in November each year. Sundry creditors include funds held on behalf of the Department of Human Settlements for the Vulindlela Development Agency and Military Veterans projects.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
19. INTEREST				
19.1. Interest income				
Balances with banks and short-term funds	**107 164**	120 230	**17 790**	25 880
Advances	**236 438**	233 695	**65 529**	69 736
Other	**384**	-	**-**	-
	343 986	353 925	**83 319**	95 616
Analysis per financial instrument category				
Interest on financial assets at amortised cost	**343 986**	353 925	**83 319**	95 616
19.2. Interest expenditure				
Interest on:				
Savings and deposit accounts				
Borrowings	**92 323**	90 093	**-**	-
Other	**13 250**	18 721	**7 882**	9 699
	105 573	108 814	**7 882**	9 699
Analysis per financial instrument category				
Interest on financial liabilities at amortised cost	**105 573**	108 814	**7 882**	9 699
20. OTHER OPERATING INCOME	**1 182 309**	952 164	**1 001 297**	772 350
Other operating income is stated after crediting the following items:				
20.1. Surplus/(loss) on sale of investment properties, property, plant and equipment and properties in possession	**933**	2 621	**99**	2 658
20.2. Profit/(loss) on valuation of listed investments	**(2 317)**	2 503	**(2 317)**	2 503
20.3. Dividends received	**669**	1 326	**669**	17 227
Listed investments	**669**	1 326	**669**	1 326
Unlisted investments	**-**	-	**-**	15 901
20.4. Grants applied	**143 810**	153 902	**141 810**	150 499
SMME onlending	**77 913**	113 282	**77 913**	113 282
Projects	**1 873**	28 282	**1 873**	28 282
Share participation	**-**	5 590	**-**	5 590
SBGE operations	**2 023**	3 345	**2 023**	3 345
KPDH operations	**2 000**	3 403	**-**	-
Share capital Ithala SOC Limited	**60 000**	-	**60 000**	-
20.5. Rental received	**355 561**	321 587	**320 831**	285 445
20.6. Sale of electricity, water and sewage	**260 991**	249 282	**260 991**	249 282
20.7. Fees, commission and services recovered	**184 551**	155 575	**47 251**	35 906
20.8. Fair value adjustment	**157 339**	34 655	**158 994**	41 386

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
21. OPERATING EXPENDITURE	**1 061 119**	1 050 359	**699 520**	668 254
Operating expenditure is stated after charging/(crediting) the following items:				
21.1. Auditor's remuneration				
Audit fees - current year	**8 386**	6 792	**3 538**	2 549
21.2. Depreciation of property, plant and equipment	**35 163**	27 054	**23 209**	16 704
21.3. Amortisation of intangible assets	**7 555**	**4 063**	**4 850**	2 021
21.4. Non-credit related impairments				
Impairment of machinery	**-**	5 721	**-**	-
Amounts due from subsidiaries	**18 523**	-	**1 705**	1 654
21.5. Professional fees	**34 294**	20 496	**22 151**	11 188
21.6. Purchases of electricity, water and sewage	**195 314**	190 276	**195 314**	190 276
21.7. Rent, rates and utilities	**145 103**	134 815	**110 036**	98 524
21.8. Directors' emoluments				
ITHALA CORPORATION				
Emoluments paid to Executive Directors:				
BTT Mathe - Acting Chief Executive Officer	**2 777**	-	**2 777**	-
YEN Zwane - Chief Executive Officer (Passed on June 2017)	**2 178**	3 554	**2 178**	3 554
Emoluments paid to Non-Executive Directors:				
R Morar - Chairperson (Appointed June 2017)	**911**	-	**911**	-
S Mkhize (Appointed June 2017)	**775**	-	**775**	-
Inkosi S Mkhize (Appointed June 2017)	**443**	-	**443**	-
P Sibiya (Appointed June 2017)	**627**	-	**627**	-
C Gina (Appointed June 2017)	**278**	-	**278**	-
N Nzuza (Appointed June 2017)	**327**	-	**327**	-
S Ndlovu (Appointed June 2017)	**581**	-	**581**	-
K Mbonambi (Appointed June 2017)	**510**	-	**510**	-
K Cele (Appointed June 2017)	**37**	-	**37**	-
C Mlaba (Appointed June 2017)	**18**	-	**18**	-
MSV Gantsho - Past Chairperson (Term ended May 2017)	**55**	999	**55**	999
B Bam (Term ended May 2017)	**50**	440	**50**	440
R Ramdew (Term ended May 2017)	**25**	198	**25**	198
D McLean (Term ended May 2017)	**140**	854	**99**	647
GNJ White (Term ended May 2017)	**101**	554	**101**	554
NN Afolayan (Resigned May 2017)	**61**	522	**61**	522
AN Matyumza (Resigned December 2016)	**-**	282	**-**	282

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
ITHALA SOC LIMITED				
M Kekana	**950**	934	-	-
M Mia	**744**	624	-	-
G Sibiya (Appointed August 2017)	**318**	-	-	-
M Madali (Appointed January 2018)	**62**	-	-	-
B Ngonyama	**700**	579	-	-
S Ngidi	**304**	340	-	-
T Nyoka	**32**	571	-	-
P Radebe	**621**	510	-	-
KWAZULU-NATAL PROPERTY DEVELOPMENT HOLDINGS SOC LIMITED				
AN Matyumza (Term ended May 2017)	**61**	350	-	-
G Simelane (Term ended May 2017)	**37**	203	-	-
P Langeni (Term ended May 2017)	**156**	720	-	-
BA Khumalo (Term ended May 2017)	-	60	-	-
CM Cronje (Term ended May 2017)	-	166	-	-
D Mclean	**61**	-	-	-
RS Garach (Term ended May 2017)	**72**	340	-	-
	14 012	12 800	**9 853**	7 196
21. OPERATING EXPENDITURE (continued)				
21.9 Executive management remuneration				
ITHALA CORPORATION				
BTT Mathe (Acting Chief Executive Officer - 2018 Remuneration included under Executive Directors)	-	2 350	-	2 350
F Amod	**2 106**	1 957	**2 106**	1 957
MM Matibe	**2 081**	2 165	**2 081**	2 165
NW Nhlangulela (Resigned September 2017)	**1 808**	2 772	**1 808**	2 772
M Muthusamy (Acting to May 2017)	**108**	1 450	**108**	1 450
B Shangase (Appointed June 2017)	**1 439**	-	**1 439**	-
EB Mokgatle	**1 807**	1 616	**1 807**	1 616
F Abdool Kader (Acting from October 2017)	**872**	-	**872**	-
T Galelekile (Acting from August 2017)	**1 164**	-	**1 164**	-
	11 385	12 310	**11 385**	12 310
ITHALA SOC LIMITED				
M Mia (Appointed June 2017 and Resigned August 2017)	624	-	-	-
D Zandamela (Appointed September 2017)	4 079	-	-	-
L Serithi (Appointed October 2017)	1 251	-	-	-
NF Dikgale (Resigned December 2016)	1 476	1 527	-	-
P Ireland (Resigned May 2017)	990	2 617	-	
	8 420	4 144	-	-
	19 805	16 454	**11 385**	12 310
21.10. Personnel costs	**415 919**	409 586	**241 803**	238 564

Included in personnel costs is R4.4 million (2017: R4.4 million) paid in respect of staff costs for Ntingwe Tea (Pty) Ltd in terms of an agreement between Ithala and the Department of Agriculture.

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
21.11. Contribution to retirement benefit schemes				
Defined benefit schemes	**470**	1 255	205	814
Defined contribution schemes	**21 157**	42 545	11 598	24 696
	21 627	43 800	11 803	25 510

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
	R'000	R'000	R'000	R'000
22. TAXATION				
22.1. Indirect taxation				
Skills development levies	**2 899**	2 984	**1 838**	1 869
	2 899	2 984	**1 838**	1 869
22.2. Direct taxation				
South African normal taxation	**6 984**	6 687	**-**	-
Deferred taxation	**(49)**	2 818	**-**	-
	6 936	9 505	**-**	-

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

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
23. NOTES TO CASH FLOW STATEMENT				
23.1. Cash generated from operating activities				
Net income before taxation	**289 390**	158 815	**321 643**	218 097
Adjustment for non-cash items:				
Grants applied	**(143 810)**	(153 902)	**(141 810)**	(150 499)
Landfill sites provision	**1 009**	11 299	**1 009**	11 299
Straightlining of operating lease income and expenditure	**(11 707)**	(4 205)	**(11 713)**	(3 921)
Depreciation and amortisation	**39 446**	31 117	**28 046**	18 725
Impairment of assets and inventory	**18 523**	5 721	**1 705**	1 654
Fair value adjustments	**(157 339)**	(45 210)	**(158 940)**	(33 514)
Credit impairment for loans and advances	**58 766**	50 914	**45 573**	33 663
Movement in other provisions	**(367)**	382	**(676)**	(438)
(Profit) / Loss on disposal of assets	**933**	(2 621)	**99**	(2 658)
Post retirement provision	**13 923**	15 052	**9 236**	10 131
Long service provision	**4 609**	3 915	**2 658**	1 322
Movement in non-controlling interest	**-**	96	**-**	-
Revaluation of shares	**2 317**	(2 503)	**2 317**	(2 503)
	115 693	68 871	**99 146**	101 359
23.2. Decrease/(increase) in working capital				
Trade and other payables	**92 045**	165 642	**108 502**	127 561
Trade and other receivables	**22 852**	1 417	**18 534**	(10 179)
Inventory and contracts in progress	**(201)**	(1 515)	**(203)**	(82)
	114 696	165 544	**126 833**	117 300
23.3. Taxation paid				
Opening balance	**1 957**	728	**-**	-
Charge for the year	**(6 984)**	(6 687)	**-**	-
Closing balance	**367**	(1 957)	**-**	-
Taxation paid	**(4 660)**	(7 916)	**-**	-
24. COMMITMENTS				
24.1 Capital commitment				
Authorised and contracted	**50 766**	**112 746**	**44 277**	**103 967**
Authorised but not yet contracted	**200 000**	**150 000**	**180 742**	**150 000**
	250 766	**262 746**	**225 019**	**253 967**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
24. COMMITMENTS (continued)				
24.2. Operating lease commitments				
The future minimum lease payments under non-cancellable leases are as follows:				
Next 12 months	**9 876**	12 902	**74**	75
From 1 - 5 years	**6 363**	8 327	**374**	298
Later than 5 years	**1 739**	1 889	**1 739**	1 889
Total future cash flows	**17 978**	23 118	**2 187**	2 262
Straight-lining of operating lease expenditure accrued on balance sheet:	**(2 736)**	(2 943)	**(2 187)**	(2 262)
Short-term portion	**(623)**	(756)	**(74)**	(75)
Long-term portion	**(2 113)**	(2 187)	**(2 113)**	(2 187)
Future expenses	**15 242**	20 175	**-**	-
Total commitments	**266 008**	282 921	**225 019**	253 967

ITHALA SOC LIMITED
All lease agreements with the holding company expired during the financial year. The lease agreements have not been renewed and is currently running on a month to month basis.

The Company has entered into commercial leases for premises and equipment. These lease agreements contain clauses indicating an average lease period of five years and in some instances, a one term renewal option. Operating lease commitments have been calculated on the original lease term. No renewal periods have been considered due to the uncertainties, amongst others, around the amount to be paid on renewal.

Unutilised facilities on advances at statement of financial position date was R9.2 million (2017: R2.1 million)

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
25. CONTINGENT LIABILITIES				
25.1. Guarantees issued				
Loans by petrol companies to service station operators	**131**	131	**131**	131
South African Insurance Association	**6 000**	6 000	**3 000**	3 000
Eskom guarantees	**19 938**	19 306	**19 857**	19 225
EThekwini Municipality	**111**	111	**111**	111
WBHO Construction *	**-**	1006	**-**	1006
Total	**26 180**	26 554	**23 099**	923 473

* Builders guarantees issued in the ordinary course of business.
No material losses are anticipated as a result of these transactions.

25. Legal matters

The C ompany is currently opposing (defendent) certain claims that have been instituted against it by various parties. At year-end, the outcome of the following lega l disputes is considered uncertain.

ITHALA CORPORATION

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
- Claim by an employee for relocation costs.	**104**	104	**104**	104
- Claim for illegal connection to a neighboring property's pipeline	**84**	-	**84**	-
- Claim by a supplier for electrical installation.	**579**	579	**579**	579
- Claim for services rendered in construction of factory units	**988**	-	**988**	-
- Claim for damages suffered due to Ithala misrepresentation.	**653**	653	**653**	653
- Claim for damages for evicting a tenant	**-**	300	**-**	300
- Claim by tenant for damages suffered when premises were renovated	**-**	14 200	**-**	14 200
- Claim by supplier for professional services rendered	**-**	60	**-**	60
- Claim by supplier for professional services rendered	**-**	200	**-**	200
- Claim for illegal termination of contract	**-**	4 500	**-**	4 500

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
ITHALA SOC LIMITED				
- Claim for a Property in Possession sold to but not transferred to a client.	**300**	300	-	-
- Claim by a client for monies released from the client's bank account.	**900**	900	-	-
- Claim for damages suffered as a result of a client receiving incorrect investment advise.	**300**	300	-	-
- Claim for arrear rentals and damages for failure to put the premises in good order	**700**	700	-	-
- Claim for professional services rendered and funds paid into an incorrect bank account	**500**	-	-	-
- Claim by supplier for breach of contract for early temination	**2 800**	-	-	-
- Claim by former employee for misapporiation of funds from savings account	**60**	-	-	-
	7 968	22 796	**2 408**	20 596

26. DEFERRED TAXATION

	Group 2018 R'000	Group 2017 R'000	Corporation 2018 R'000	Corporation 2017 R'000
Deferred taxation liability comprises:				
- Provision for doubtful debts	**(1 310)**	(1 470)	-	-
- Straight-line rental debtors	**2 689**	10 520	-	-
- Fair value adjustment	**24 409**	16 782	-	-
- Provision for straight-line rental debtors	**(121)**	(83)	-	-
- Assessed losses	**-**	-	-	-
	25 667	25 749	-	-
The movement is reconciled as follows:				
Balance at beginning of year	**(25 748)**	(26 787)	-	-
Movement during the year:	**-**	-		
- Provision for doubtful debts	**-**	(749)	-	-
- Straight-line rental debtors	**(160)**	3 851	-	-
- Fair value adjustment	**1**	(1 910)	-	-
- Provision for straight-line rental debtors	**202**	(147)	-	-
- Assessed losses	**38**	(6)	-	-
	(25 667)	(25 748)	-	-

27. RELATED PARTIES

Parent/holding company

Ithala Development Finance Corporation Limited (The Corporation) is a 100% held subsidiary of the KwaZulu/Natal Provincial Government, reporting to the Department of Economic Development, Tourism and Environmental Affairs. The Corporation and its subsidiaries, in the ordinary course of business enter into various transactions with related parties. These occur under terms and conditions that are no more favourable to those entered into with third parties in arms length transactions.

27.1. Loans to Members of Provincial Legislature, senior management of the Department of Economic Development, Tourism and Environmental Affairs

Entities controlled or jointly controlled or significantly influenced by any individual referred to above :

	Loans granted	Outstanding balance	Arrears	Specific impairment charge	Security amount	Interest received
	R'000	R'000	R'000	**R'000**	R'000	R'000
2018						
Corporation	**14 175**	**12 614**	**64**	**-**	**12 260**	**639**
2017						
Corporation	**14 175**	12 574	988	-	12 260	641

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

27.2. Loans to key management personnel
These are individuals responsible for planning, directing and controlling the activities of the of Ithala Development Finance Corporation, its subsidiaries and associated companies.

	Loans granted	Outstanding balance	Arrears	Specific impairment charge	Security amount	Interest received
	R'000	R'000	R'000	**R'000**	R'000	R'000
2018						
Corporation	**35 385**	**34 523**	**6 268**	**13 212**	**14 019**	**3 586**
Ithala SOC Limited	**-**	**5 170**	**-**	**-**	**5 896**	**480**
2017						
Corporation	**35 385**	30 726	2 987	**8 712**	18 375	3 151
Ithala SOC Limited	**75 000**	4 942	-	**-**	4 766	433

R13.2 milion relating to specific credit impairments (2017: R8.7 million) have been recognised in respect of loans to Executive and Non-Executive Directors. These loans are secured by mortgage bonds over properties. These transactions occur under terms that are no more favorable to those entered into with third parties at arm's length except for housing and motor vehicle loans where all full time employees qualify for the prime overdraft rate less 1,75% and prime less 1%. The preferential rate for motor vehicle financing has been extended to all government employees.

	2018	2017
	R'000	R'000
27.3. Transactions between the Corporation and its subsidiaries		
These are transactions with wholly-owned subsidiaries of the Corporation. These amounts are only included in the Corporation accounts and are eliminated on consolidation.		
a) Ithala SOC Limited		
Bank charges received	**-**	4
Interest paid on customer deposits and retention accounts	**5 040**	4 656
Shared services	**(14 246)**	(12 682)
Rental	**(4 768)**	(4 915)
Recovery of operating expenses	**925**	1 812
Insurance recovery	**10 935**	-
The outstanding balances of the current and shareholders loan accounts:		
Outstanding balance on savings and fixed deposits	**77 559**	67 668
Ithala Development Finance Corporation inter-company balance	**1 028**	4 455
b) KwaZulu-Natal Property Development Holdings (KPDH)	**-**	-
Balance owed to KPDH - grant income and interest	**-**	(614)
Balance owed by KPDH	**6 882**	-
c) Property subsidiaries		
Dividends Received	**-**	15 901
Rental	**4 317**	4 266
Sale of Refuse	**544**	426
Management fees	**1 866**	1 773
Interest received on retention account	**306**	-
Distribution	**4 050**	5 451
Bank charges paid	**(5)**	(4)
Interest received on loans	**5 271**	5 323

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	2018 R'000	2017 R'000
27.4. Transactions between the Corporation and other subisidiaries under the Department of Economic Development, Tourism and Environmental Affairs		
Rental	**3 512**	3 909
Parking	**499**	593
Recovery of operating expenses	**878**	731

	Deposits due R'000	Interest expense R'000	Outstanding balance R'000	Fees received R'000
27.5. KwaZulu-Natal Provincial Government				
2018				
Group				
Department of Corporate Governance and Traditional Affairs	31 754	1 860	-	-
Department of Agriculture and Environmental Affairs	1 207	25	-	-
KZN Growth Fund Trust	10 000	1 231	-	-
Ezemvelo - KZN Wildlife	30 000	686	-	-
KZN Municipalities	106 757	5 845	-	-
Department of Health	774	17	-	-
Total	180 492	9 664	-	-
Corporation				
Department of Human Settlements	107 000	-	107 000	-
Vulindlela Development Agency	120 000	-	120 000	-
Total	227 000	-	227 000	-
2017				
Group				
Department of Corporate Governance and Traditional Affairs	27 416	1 857	-	-
Department of Agriculture	1 183	24	-	-
Department of Human Settlement	-	-	-	-
KZN Growth Fund Trust	27 800	2 347	-	-
Ezemvelo - KZN Wildlife	-	1 970	-	-
KZN Municipalities	94 156	10 144	-	-
Department of Health	3 096	13	-	-
Total	153 651	16 355	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
28. PRIOR YEAR ADJUSTMENTS				
28.1. Deferred Tax				

The change in policy in the 2015/16 financial year for investment property from the cost model to the fair value model had deferred tax implications which were eroneously omitted. This omission has been corrected in the 2017/18 financial year. The effect is as follows:

Effect on statement of financial position:				
Increase in investment property	**(1 910)**	(22 700)	**-**	-
Effect on statement of comprehensive income:				
Increase in other operating income	**1 910**	22 700	**-**	-

28.2. Investment
The fair value adjustment from inception did not take into consideration work-in-progress. This has been corrected in the current year.

Effect on statement of financial position:				
Decrease in Investment Property	**(129 074)**	(49 833)	**(124 531)**	(49 586)
Effect on statement of comprehensive income:				
Decrease in Other Operating Income	**79 241**	49 833	**74 945**	49 586
28.3. Reconciliation of the Impact on Retained Income				
Retained Income as previously reported	**2 861 943**	2 709 659	**2 853 964**	2 635 867
Decrease in Other Operating Income	**(129 074)**	(49 833)	**(124 531)**	(49 586)
Increase in Taxation Expense	**(24 610)**	(22 700)	**-**	-
Restated Retained Income	**2 708 259**	2 637 126	**2 729 433**	2 586 281

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
29. CHANGE IN ESTIMATES				
29.1. Property, plant and equipment				

Equipment is depreciated over its useful life taking into account their 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:

Effect on Statement of Financial Position:				
Increase in Net Book Value - Equipment	**8 336**	7 306	**6 901**	5 375
Effect on Statement of Comprehensive Income:				
Decrease in depreciation	**(8 336)**	(7 306)	**(6 901)**	(5 375)

30. FRUITLESS AND WASTEFUL EXPENDITURE

There was no fruitless and wasteful expenditure incurred in the current year (2017: Nil).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000

31. EVENTS AFTER DATE OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

32. IRREGULAR EXPENDITURE	Group 2018 R'000	Group 2017 R'000	Corporation 2018 R'000	Corporation 2017 R'000
Opening balance	**25 777**	1 218	**23 215**	596
Add: Irregular Expenditure – current year	**17 406**	5 536	**11 926**	3 919
Add: Prior year amounts identified in current year	**2 077**	20 260	**1 242**	19 314
Less: Amounts condoned	**(7 097)**	(1 237)	**(4 674)**	(614)
Irregular Expenditure awaiting condonation	**38 163**	25 777	**31 709**	23 215
Analysis of expenditure awaiting condonation per age classification				
Current year	**16 954**	5 517	**11 474**	3 901
Prior years	**21 209**	20 260	**20 235**	19 314
Total	**38 163**	25 777	**31 709**	23 215

33. FINANCIAL RISK MANAGEMENT

Introduction

The Board has adopted an integrated risk management strategy in which internal audit, compliance and other specialist functions operate within the Enterprise - Wide Risk Management (ERM) framework.

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.

33.1. Credit Risk

Credit risk is the risk of potential loss from the failure of customers, clients or counter parties to fulfill 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 Group'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 Group while ensuring compliance with credit policies set by the Board. Problem exposures, when they arise, are initially dealt with by Line Management unless further degeneration occurs whereupon they are attended to by the Corporation's Business Support, Legal and collections staff who then administer the recovery process. Exposures are considered to be non-performing when amounts due are unpaid for more than three months or a counter-party is under judicial management or declared insolvent and management believes that further recoveries are no longer probable.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000

Credit Risk Concentration

The Group monitors concentrations of credit risk by sector and location. The Group does not have significant exposure to any single counterparty or to any group of counterparties with similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed R50 million per counterparty at any time during the year.

The credit risk on liquid funds and non-derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies excluding those invested with Ithala SOC Limited.

	Group 2018 R'000	Group 2017 R'000	Corporation 2018 R'000	Corporation 2017 R'000
Concentration risk by product				
Housing and Commercial Property	**1 550 897**	1 401 661	**-**	-
Micro finance - secured	**74 408**	63 913	**-**	-
Micro finance - unsecured	**24 287**	37 979	**16 734**	14 920
Agri Finance	**267 308**	269 995	**267 308**	269 995
Franchise Finance	**25 526**	17 890	**25 526**	17 890
Procurement Finance	**54 943**	43 175	**54 943**	43 175
Commercial Property Finance	**160 036**	208 321	**160 036**	208 321
Asset Finance	**168 398**	133 587	**168 398**	133 587
Structured Finance	**147 031**	185 469	**147 031**	185 469
	2 472 834	2 361 990	**839 976**	873 357
Concentration risk by location				
Staff Loans	**5 236**	4 185	**5 236**	4 185
Amajuba District	**32 450**	30 819	**32 450**	30 819
Ilembe District	**129 104**	122 507	**129 104**	122 507
Sisonke District	**32 654**	30 985	**32 654**	30 985
Thekwini Metropolitan	**350 470**	401 365	**350 470**	401 365
Ugu District	**31 394**	60 234	**31 394**	60 234
Umgungundlovu District	**52 915**	35 043	**52 915**	35 043
Umkhanyakude District	**33 312**	35 096	**33 312**	35 096
Umzinyathi District	**2 420**	2 928	**2 420**	2 928
Uthukela District	**4 471**	4 038	**4 471**	4 038
Uthungulu District	**134 985**	118 623	**134 985**	118 623
Zululand District	**30 565**	27 534	**30 565**	27 534
Ithala Limited Loans - KZN Province	**1 632 857**	1 488 633	**-**	-
	2 472 833	2 361 990	**839 976**	873 357

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000

Ithala SOC Limited does not currently have the concentration risk by location but are amending their procedures to include this in future.

Credit risk exposure
The Group's maximum exposure to credit risk is represented by the balance of outstanding advances, before taking into account the provision for impairment and value of collateral held as security against such exposures and application of grants.

	Group 2018 R'000	Group 2017 R'000	Corporation 2018 R'000	Corporation 2017 R'000
Credit risk exposures relating to on-balance sheet assets are as follows:				
Assets	**4 321 740**	4 177 150	**1 519 313**	1 463 027
Loans and advances	**2 472 834**	2 361 990	**839 976**	873 357
Investments	**18 234**	20 550	**18 234**	20 550
Trade and other receivables	**148 098**	169 136	**133 790**	149 815
Statutory liquid funds	**187 714**	177 769	**-**	-
Cash and cash equivalents	**1 494 861**	1 447 705	**527 314**	419 305
Exposure	**4 321 740**	4 177 150	**1 519 313**	1 463 027
Credit risk exposures relating to off-balance sheet items are as follows:				
Loan commitments:	**109 706**	34 824	**100 480**	30 810
Housing and commercial property	**9 226**	4 014	**-**	-
Micro finance	**1 326**	259	**1 326**	259
Agri finance	**34 775**	10 408	**34 775**	10 408
Franchise finance	**18 854**	-	**18 854**	-
Procurement finance	**2 337**	6 415	**2 337**	6 415
Commercial property finance	**-**	4 202	**-**	4 202
Asset finance	**38 006**	9 526	**38 006**	9 526
Structured finance	**5 182**	-	**5 182**	-
Exposure	**109 706**	34 824	**100 480**	30 810

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	2018			2017		
	Original carrying amount	**Impairment**	**Carrying amount**	Original carrying amount	Impairment	Carrying amount
	R'000	**R'000**	**R'000**	R'000	R'000	R'000
33.1. Credit Risk (continued)						
Analysis of impairment provisions per product						
			Group			
Housing and commercial property	**1 550 897**	65 968	**1 484 929**	1 401 661	**57 498**	1 344 163
Micro finance - secured	**74 408**	6 501	**67 907**	63 913	**15 706**	48 207
Micro finance - unsecured	**24 287**	8 284	**16 003**	37 979	**19 024**	18 955
Agri Finance	**267 308**	32 009	**235 299**	269 995	**18 788**	251 207
Franchise Finance	**25 526**	6 553	**18 973**	17 890	**3 336**	14 554
Procurement Finance	**54 943**	34 157	**20 786**	43 175	**30 082**	13 093
Commercial Property	**160 036**	38 642	**121 394**	208 321	**33 474**	174 847
Asset Finance	**168 398**	68 292	**100 106**	133 587	**44 019**	89 568
Structured Finance	**147 031**	38 471	**108 560**	185 469	**59 627**	125 842
	2 472 834	298 877	**2 173 957**	2 361 990	**281 554**	2 080 436

Analysis of impairment provisions per product

			Corporation			
Micro Finance - unsecured	**16 734**	2 562	**14 172**	14 920	**2 469**	12 451
Agri Finance	**267 308**	32 009	**235 299**	269 995	**18 788**	251 207
Franchise Finance	**25 526**	6 553	**18 973**	17 890	**3 336**	14 554
Procurement Finance	**54 943**	34 157	**20 786**	43 175	**30 082**	13 093
Commercial Property	**160 036**	38 642	**121 394**	208 321	**33 474**	174 847
Asset Finance	**168 398**	68 292	**100 106**	133 587	**44 019**	89 568
Structured Finance	**147 031**	38 471	**108 560**	185 469	**59 627**	125 842
	839 976	220 686	**619 290**	873 357	**191 795**	681 562

33. FINANCIAL RISK MANAGEMENT (continued)

Individually Assessed Exposures

The Group considers certain exposures to be individually significant warranting an assessment of impairment individually. Furthermore, the Group individually assesses other loans and advances for impairment on a case by case basis where they are long overdue, the client shows signs of financial distress and when there is objective evidence that the client is in financial difficulties, and where necessary, a top up provision is created for such loans.The Corporation's large exposures are all loans greater than R2.0 million whilst Ithala SOC Limited's large exposures are the commercial property loans, property development loans and housing loans exceeding R500 000.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Loan balance	Impairment	Carrying amount	Collateral
	R'000	R'000	R'000	R'000
2018		Group		
Housing and Commercial Property	678 101	27 991	650 110	579 213
Agri Finance	41 212	10 737	30 475	31 361
Franchise Finance	-	-	-	-
Procurement Finance	313	253	60	115
Commercial Property	-	-	-	-
Asset Finance	23 624	14 799	8 825	4 658
Structured Finance	41 340	35 585	5 755	15 340
	784 590	89 365	695 225	630 687
2017				
Housing and Commercial Property	539 418	20 061	519 357	422 915
Agri Finance	25 144	4 279	20 865	15 981
Franchise Finance	-	-	-	-
Procurement Finance	2 790	2 721	69	123
Commercial Property	-	-	-	-
Asset Finance	15 797	5 888	9 909	6 792
Structured Finance	48 058	41 666	6 392	16 123
	631 207	74 615	556 592	461 934
2018		Corporation		
Agri Finance	41 212	10 737	30 475	31 361
Franchise Finance	-	-	-	-
Procurement Finance	313	253	60	115
Commercial Property Finance	-	-	-	-
Asset Finance	23 624	14 799	8 825	4 658
Structured Finance	41 340	35 585	5 755	15 340
	106 489	61 374	45 115	51 474
2017				
Agri Finance	25 144	4 279	20 865	15 981
Franchise Finance	-	-	-	-
Procurement Finance	2 790	2 721	69	123
Commercial Property Finance	-	-	-	-
Asset Finance	15 797	5 888	9 909	6 792
Structured Finance	48 058	41 666	6 392	16 123
	91 789	54 554	37 235	39 019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

Credit risk mitigation, collateral and other credit enhancements

The Group uses various techniques to reduce credit risk on its lending activities to an acceptable low level. The most fundamental technique is performing assessment on borrowers liquidity and solvency standing to assess borrowers ability to service the advanced amount without distress. In addition to measures used to reduce credit risk, the Group obtains collateral from borrowers which is held as security against the funds advanced. The Group holds the following collateral against the funds it has advanced.

Assets subject to credit risk on balance sheet	Type of collateral
Loans and advances to customers	Bonds over Properties
	Equipment
	Fixed Deposit Certificates
	Cession over Life Assurance
	Cession over Income
	Cession over Shares
	Deeds of Suretyship

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
33. FINANCIAL RISK MANAGEMENT (continued)				
Valuation of collateral				
The fair value of collateral held at balance sheet date was as follows:				
Housing and Commercial Property	**1 651 831**	1 177 722	**-**	-
Micro Finance	**84 895**	328 223	**33**	46
Agri Finance	**219 958**	251 807	**219 958**	251 807
Franchise Finance	**12 142**	7 044	**12 142**	7 044
Procurement Finance	**5 624**	5 742	**5 624**	5 742
Commercial Property Finance	**103 357**	198 064	**103 357**	198 064
Asset Finance	**63 462**	58 275	**63 462**	58 275
Structured Finance	**50 662**	24 167	**50 662**	24 167
	2 191 931	2 051 044	**455 238**	545 145
Enforcement of collateral				
Carrying amounts of assets held as a result of enforcement of collateral were as follows:				
Properties in possession:				
Opening balance	**16 899**	16 545	**2 871**	3 698
Acquisitions	**9 510**	4 206	**6 814**	388
Disposals	**(11 553)**	(3 852)	**(7 460)**	(1 215)
Closing balance	**14 856**	16 899	**2 225**	2 871

The assets held by the group as a result of enforcement of collateral consists of shops, shopping complexes, farms, residential properties, equipment, vacant land, plant and machinery.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

Loans and advances past due and not impaired

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group

	< 30 days past due	30 - 60 days past due	60 - 90 days past due	> 90 days past due	Total
	R'000	R'000	R'000	R'000	R'000
Loans and advances past due and not impaired					
Group					
2018					
Housing and Commercial Property	**37 904**	**17 915**	**13 456**	**-**	**69 275**
Micro Finance	**6 082**	**2 418**	**626**	**8 541**	**17 667**
Agri Finance	**890**	**3 915**	**905**	**23**	**5 733**
Procurement Finance	**83**	**266**	**168**	**-**	**517**
Asset Finance	**193**	**344**	**12**	**417**	**966**
Structured Finance	**-**	**-**	**-**	**-**	**-**
	45 152	**24 858**	**15 167**	**8 981**	94 158
Group					
2017					
Housing and Commercial Property	**11 786**	9 305	10 339	40 229	71 659
Micro Finance	**411**	289	1 283	2 217	4 200
Agri Finance	**-**	181	419	4	604
Franchise Finance	**103**	-	-	-	103
Procurement Finance	**22**	345	102	-	469
Commercial Property Finance	**64**	-	9 583	-	9 647
Asset Finance	**-**	402	-	384	786
	12 386	10 522	21 726	42 834	87 468

			Corporation		
2018					
Micro Finance	**-**	**563**	**22**	**-**	**585**
Agri Finance	**890**	**3 915**	**905**	**23**	**5 733**
Procurement Finance	**83**	**266**	**168**	**-**	**517**
Asset Finance	**193**	**344**	**12**	**417**	**966**
	1 166	**5 088**	**1 107**	**440**	**7 801**

			Corporation		
2017					
Micro Finance	**21**	83	211	-	315
Agri Finance	**-**	181	419	4	604
Franchise Finance	**103**	-	-	-	103
Procurement Finance	**22**	345	102	-	469
Commercial Property Finance	**64**	-	9 583	-	9 647
Asset Finance	**-**	402	-	384	786
	210	1 011	10 315	388	11 924

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	< 30 days past due	30 - 60 days past due	60 - 90 days past due	> 90 days past due	Total
	R'000	R'000	R'000	R'000	R'000
33.1. Credit risk (continued)					
Loans and advances past due and impaired					
2018			**Group**		
Housing and commercial property	**37 904**	**17 915**	**13 456**	**-**	**69 275**
Micro finance	**6 082**	**1 855**	**604**	**1 760**	**10 301**
Agri finance	**-**	**-**	**-**	**13 058**	**13 058**
Franchise finance	**-**	**-**	**-**	**4 072**	**4 072**
Procurement finance	**-**	**-**	**-**	**29 247**	**29 247**
Commercial property finance	**-**	**-**	**-**	**24 178**	**24 178**
Asset finance	**-**	**-**	**-**	**30 040**	**30 040**
Structured finance	**-**	**-**	**-**	**23 677**	**23 677**
	43 986	**19 770**	**14 060**	**126 032**	**203 848**
Group					
2017					
Housing and commercial property	-	-	-	69 159	69 159
Micro finance	-	-	-	28 054	28 054
Agri finance	-	-	-	4 318	4 318
Franchise finance	-	-	-	2 311	2 311
Procurement finance	-	-	-	28 360	28 360
Commercial property finance	-	-	-	7 928	7 928
Asset finance	-	-	-	22 786	22 786
Structured finance	-	-	-	**30 231**	**30 231**
	-	-	-	193 147	193 147
2018			**Corporation**		
Micro finance	**-**	**-**	**-**	**1 760**	**1 760**
Agri finance	**-**	**-**	**-**	**13 058**	**13 058**
Franchise finance	**-**	**-**	**-**	**4 072**	**4 072**
Procurement finance	**-**	**-**	**-**	**29 247**	**29 247**
Commercial property finance	**-**	**-**	**-**	**24 178**	**24 178**
Asset finance	**-**	**-**	**-**	**30 040**	**30 040**
Structured finance	**-**	**-**	**-**	**23 677**	**23 677**
	-	**-**	**-**	**126 032**	**126 032**
2017			Corporation		
Micro finance	-	-	-	1 255	1 255
Agri finance	-	-	-	4 318	4 318
Franchise finance	-	-	-	2 311	2 311
Procurement finance	-	-	-	28 360	28 360
Commercial property finance	-	-	-	7 928	7 928
Asset finance	-	-	-	22 786	22 786
Structured finance	-	-	-	30 231	30 231
	-	-	-	97 189	97 189

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
Fair value of collateral for loans past due and impaired				
Housing and commercial property finance	**63 708**	63 216	**-**	-
Micro finance	**7 767**	2 366	**33**	46
Agri finance	**44 450**	9 483	**44 450**	9 483
Franchise finance	**442**	525	**442**	525
Procurement finance	**4 875**	4 387	**4 875**	4 387
Commercial property finance	**23 040**	38 910	**23 040**	38 910
Asset finance	**13 967**	14 033	**13 967**	14 033
Structured finance	**15 480**	22 101	**15 480**	22 101
	173 729	155 021	**102 287**	89 585

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 madeconcessions 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:

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
Continuing to be impaired after rescheduling:				
Micro finance	**2 533**	-	**-**	-
Agri Finance	**23**	-	**23**	-
Non–impaired after rescheduling – would otherwise have been impaired:				
Agri Finance	**-**	2 047	**-**	2 047
Procurement Finance	**265**	283	**265**	283
Asset Finance	**-**	3 027	**-**	3 027
Non–impaired after rescheduling – would otherwise not have been impaired				
Micro Finance	**200**	226	**200**	226
Agri Finance	**7 679**	3 091	**7 679**	3 091
Procurement Finance	**43**	4 058	**43**	4 058
Commercial Property Finance	**5 828**	-	**5 828**	-
Asset Finance	**25 116**	2 880	**25 116**	2 880
	41 687	15 612	**39 154**	15 612

Write-off policy
Business loans are written off when management determines that the loan is uncollectible and that security held against the loan is unrealisable. This determination is made after all recovery efforts including litigation have been exhausted.

33.2. Liquidity risk
Liquidity risk is the risk that the Group will be unable to service payment obligations timeously or fund asset growth.

The Board of directors sets the strategy for managing liquidity risk and delegates the responsibility for the oversight of the implementation thereof to the Audit and Risk Committee. The Treasury divisions of the Group are responsible for the management of liquidity risk. Liquidity risk is monitored on a projected cash flow basis, incorporating ongoing review and assessment of assumptions applied and strategies in place to ensure that commitments are timeously funded.

The key focus areas in managing liquidity risk include inter alia:
- The continuous monitoring of actual and projected net cash flows;
- The maintenance of a liquidity "buffer" to fund unforeseen cash flows;
- Daily management of liquidity to support operations and fund asset growth
- Periodic assessment of sources of funding to fund liquidity shortfalls; and
- Advising management on trends emerging from variance analysis to reassess where necessary business plans and assumptions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

The details the group's expected contractual maturity for its financial liabilities has been drawn up based on the summary of the undiscounted contractual maturities of financial liabilities including interest that would be payable. A summary of the Group liquidity profile and the contractual maturity is reflected in the table below:

			Group		
	On demand to 1 month	1 to 6 months	6 months to 1 year	From 1 to 5 years	After 5 years
	R'000	R'000	R'000	R'000	R'000
33.2. Liquidity risk (continued)					
2017					
Financial assets					
Loans and advances	**228 498**	120 252	120 396	623 629	1 380 058
Investments at fair value through profit and loss	**18 234**	-	-	-	-
Trade receivables	**49 178**	98 920	-	-	-
Statutory liquid assets	**187 714**	-	-	-	-
Cash and cash equivalents	**879 439**	413 141	126 651	75 630	-
Total assets	**1 363 063**	632 313	247 047	699 259	1380 058
Financial liabilities					
Borrowings	**982**	8 699	9 236	39 992	8 712
Liability to depositors	**1 177 824**	717 057	373 753	40 926	-
Trade payables	**421 883**	-	-	-	-
Total liabilities	**1600 689**	725 756	382 989	80 918	8 712
Net liquidity (shortfall) / excess	**(237 626)**	(93 444)	(135 942)	618 341	1 371 346
Cumulative liquidity	**(237 626)**	(331 070)	(467 011)	151 329	1 522 675

			Group		
2017					
Financial assets					
Loans and advances	**268 991**	68 438	57 815	530 233	1 436 513
Investments at fair value through profit and loss	**20 550**	-	-	-	-
Trade receivables	**47 123**	122 013	-	-	-
Statutory liquid assets	**177 769**	-	-	-	-
Cash and cash equivalents	**673 881**	594 502	18 700	160 622	-
Total assets	**1 188 314**	784 953	76 515	690 855	1 436 513
Financial liabilities					
Borrowings	**437**	7 601	10 704	40 502	26 789
Liability to depositors	**1 212 033**	676 242	359 623	37 611	-
Trade payables	**327 515**	-	-	-	-
Total liabilities	**1 539 985**	683 843	370 327	78 113	26 789
Net liquidity (shortfall) / excess	**(351 671)**	101 110	(293 812)	612 742	1 409 724
Cumulative liquidity	**(351 671)**	(250 561)	(544 373)	68 369	1 478 093

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Corporation				
	On demand to 1 month	1 to 6 months	6 months to 1 year	From 1 to 5 years	After 5 years
	R'000	R'000	R'000	R'000	R'000
2018					
Financial assets					
Loans and advances	**162 142**	69 412	71 259	283 043	254 120
Investments at fair value through profit and loss	**18 234**	-	-	-	-
Trade receivables	**42 078**	91 712	-	-	-
Cash and Cash equivalents	**417 314**	110 000	-	-	-
Total Assets	**639 768**	271 124	71 259	283 043	254 120
Financial liabilities					
Borrowings	**833**	8 403	9 236	39 992	6 641
Trade payables	**340 645**	-	-	-	-
Total liabilities	**341 478**	8 403	9 236	39 992	6 641
Net liquidity excess/(shortfall)	**298 289**	262 721	62 023	243 051	247 479
Cumulative liquidity	**298 289**	561 011	623 034	866 084	1 113 563

2017	Corporation				
Financial assets					
Loans and advances	**212 002**	21 130	10 690	205 689	423 846
Investments at fair value through profit and loss	**20 550**	-	-	-	-
Trade receivables	**40 579**	109 236	-	-	-
Cash and Cash equivalents	**210 474**	208 831	-	-	-
Total Assets	**483 605**	339 197	10 690	205 689	423 846
Financial liabilities					
Borrowings	**437**	7 601	10 704	40 502	24 724
Trade payables	**232 143**	-	-	-	-
Total liabilities	**232 580**	7 601	10 704	40 502	24 724
Net liquidity excess/(shortfall)	**251 025**	331 596	(14)	165 187	399 122
Cumulative liquidity	**251 025**	582 621	582 607	747 794	1 146 916

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

32.3. Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange risks will affect the Group's income or the value of it's holdings of financial instruments.

33.3.1. Interest rate risk

Interest rate risk refers to the potential adverse impact on earnings as a result of changes in interest rates. Yields on assets and liabilities are monitored monthly. In addition, interest rate shock analysis is performed to assess the sensitivity on net interest due to unanticipated movement in interest rates. Interest rate forecasts are reviewed monthly taking into account market and economic data available. Pricing of assets 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 below has been determined based on the exposure to interest rates for both derivatives and IFRS 7.34(a) non-derivative instruments at balance sheet date. The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 2% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable and possible change in interest rates. If interest rates had been 2% higher/lower and all other variables were held constant, the Group's Profit for the year ended 31 March 2018 would increase by R6.9 million (2017: R7.1 million) or decrease by R6.9 million (2017: R7.1 million). This is mainly attributable to the Group's exposure to interest on its variable financial instruments.

33.3.2. Equity price risk

The Group is exposed to equity risk arising from investments in marketable equity securities at fair value through profit and loss. These investments are held for strategic rather than trading purposes and the Group does not actively trade these investments.

Equity price sensitivity

The sensitivity is based on the exposure to equity price risk at the reporting date. The investments are fair valued annually at the close of business on 31 March 2018. Fair value is determined by reference to stock exchange quoted bid prices. 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 5% higher or lower while other variables were held constant, the fair value of investment and fair value gains would have increased or decreased by R0.9 million (2017: R1.0 million).

33.3.3. Foreign exchange risks

The Group has no exposure to transactions or balances traded or denominated in foreign currencies.

33.4 Operational Risk

Operational risk arises from human or system error within daily product and service delivery. It transcends all divisions and products. This risk includes the potential that inadequate technology and information systems, operational problems, insufficient human resources, breaches of integrity or non-compliance with regulations and laws will result in direct or indirect losses. The primary responsibility for managing operational risk forms part of the day-to-day responsibilities of management and employees at all levels. Business line management is ultimately responsible for owning and managing risks resulting from their activities. The lending Unit has, as part of preventive controls, Operational Policies and Procedures with clear segregation of functions and duties and clear and independent reporting structures. Furthermore, Group Internal Audit and Compliance function act as secondary–level control through systematic and independent continuous review of the operations and controls within the Lending Unit. Results of Internal Audit and Compliance Review Reports are discussed with Business Unit Heads, Executive Committee and submitted to the Audit Committee and the Enterprise Risk Committee.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (continued)

	Group		Corporation	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
34. PROVISION FOR LANDFILL RESTORATION				
Balance at beginning of year	**16 807**	5 508	**16 807**	5 508
Finance costs	**1 009**	951	**1 009**	951
Change in estimated useful life	**-**	10 348	**-**	10 348
Balance at end of year	**17 816**	16 807	**17 816**	16 807

The Landfill Rehabilitation Provision is created for rehabilitation of the current operational sites at future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital, which is currently 6% (2017 - 6%).

The entity has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which the entity incurs as a consequence of having used the property during a particular period for landfill purposes. The entity estimates the useful lives and makes assumptions as to the useful lives of these assets, which influence the provision for future costs.

An independent assessment of the useful life and estimated costs of rehabilitating the landfill site is conducted every three years and an internal review is performed in the two intervening years.

	Group 2018	Group 2017	Corporation 2018	Corporation 2017
35. CELL CAPTIVE INSURANCE FUND				
Balance at beginning of year	**3 949**	7 162	-	-
Movements:				
Unearned premium provision	**210**	(4 067)	-	-
Re-insurance unearned provision	**(278)**	684	-	-
Gross outstanding claims	**(304)**	977	-	-
Deferred acquisition cost	**336**	(204)	-	-
Gross incurred but not reported	**518**	(744)	-	-
Re-insurance incurred but not reported	**(111)**	141	-	-
Balance at end of year	**4 321**	3 949	-	-

BORROWINGS - ANNEXURE 1
FOR THE YEAR ENDED 31 MARCH 2018

	Instalment	Date of final repayment	Interest rate	Group 2018	Group 2017	Corporation 2018	Corporation 2017
	R'000	repayment	%	R'000	R'000	R'000	R'000
Development Bank of Southern Africa Ltd							
Repayable in half-yearly instalments	3 648	2 018	-	**-**	3 648	**-**	3 648
	5 084	2 020	9.05	**10 778**	17 963	**10 778**	17 963
				10 778	21 611	**10 778**	21 611
Land and Agricultural Development Bank of South Africa							
Repayable in annual instalments	2 746	2 017	-	**-**	2 746	**-**	2 746
Nedbank	646	2 026	9.25	**43 645**	47 118	**43 645**	47 118
Repayable in monthly instalments							
Khula Enterprise Finance Ltd							
Repayable in monthly instalments	190	2 025	5.45	**10 682**	12 493	**10 682**	12 493
Sundumbili Plaza Ltd							
No fixed terms of repayment	-	-	11.25	**227**	227	**-**	-
Nongoma Plaza Ltd							
No fixed terms of repayment	-	-	11.25	**60**	65	**-**	-
Sibaya Conservation Projects (Pty) Ltd							
No fixed terms of repayment	-	-	-	**1 783**	1 783	**-**	-
Port Shepstone Quarries - First National Bank				**446**	-	**-**	-
Total borrowings				**67 621**	86 043	**65 105**	83 968

SUBSIDIARIES - ANNEXURE 2
FOR THE YEAR ENDED 31 MARCH 2018

	Issued share capital		Percentage interest		Shares		Dividends		Loans	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Unlisted										
Property development										
Sundumbili Plaza Ltd	**7 570**	7 570	**98**	98	**7**	7	**-**	5 928	**20 319**	19 397
Nongoma Plaza Ltd	**48 016**	48 016	**99**	99	**47**	47	**-**	9 973	**54 016**	29 157
Sibaya Conservation Projects (Pty) Ltd	**1 900**	1 900	**-**	-	**-**	-	**-**	-	**4 163**	**4 162**
Durban Wharfside Trust	**-**	-	**100**	100	**6**	6	**-**	-	**45 568**	38 811
Other										
Ithala SOC Ltd	**434 900 000**	374 900 000	**100**	100	**434 900**	374 900	**-**	-	**1 248**	4 455
2001/2002	**150 000 000**	150 000 000			**150 000**	150 000	**-**	-	**-**	-
2009/2010	**40 000 000**	40 000 000			**40 000**	40 000	**-**	-	**-**	-
2013/2014	**105 000 000**	105 000 000			**105 000**	105 000	**-**	-	**-**	-
2014/2015	**50 000 000**	50 000 000			**50 000**	50 000	**-**	-	**-**	-
2015/2016	**29 900 000**	29 900 000			**29 900**	29 900	**-**	-	**-**	-
2017/2018	**60 000 000**				**60 000**	-	**-**	-	**-**	-
Cowslip Investments (Pty) Ltd	**4 589**	4 318	**100**	100	**-**	-	**-**	-	**-**	-
Ubuciko Twines and Fabric (Pty) Ltd	**100**	100	**100**	100	**-**	-	**-**	-	**83 080**	-
KwaZulu-Natal Property Development Holdings (Pty) Ltd	**100**	100	**100**	100	**-**	-	**7 148**	-	**-**	-
Port Shepstone Quarries	**100**	100	**100**	100	**-**	-	**-**	-	**33 644**	-
					434 960	374 960	7 148	15 901	242 036	95 982

Ithala is exempt from income tax in terms of S10 (1) (cA) (i) (cc) of the Income Tax Act and is hence exempt from dividends tax as well.

ASSOCIATED COMPANIES - ANNEXURE 3
FOR THE YEAR ENDED 31 MARCH 2018

	Number of shares held		Percentage holding		Shares		Loans	
	2018	2017	2018 %	2017 %	2018 R'000	2017 R'000	2018 R'000	2017 R'000
UNLISTED								
Banzi Pan Development Co (Pty Ltd	-	-	42	42	-	-	-	-
Rocktail Bay Devco (Pty) Ltd	763	763	42	42	-	-	-	-
Mabibi Devco (Pty) Ltd	460	460	8	8	1	1	31	31
Ntingwe Tea (Pty) Ltd	384	384	38	38	-	-	-	-
					1	1	31	31

JOINT VENTURES - ANNEXURE 4
FOR THE YEAR ENDED 31 MARCH 2018

	Number of shares held		Percentage holding		Shares		Loans	
	2018	2017	2018 %	2017 %	2018 R'000	2017 R'000	2018 R'000	2017 R'000
UNLISTED								
Ulundi Shopping Centre (Pty) Ltd	50	50	50%	50%	-	-	2 796	2 796

CAPITAL MANAGEMENT - ITHALA SOC LIMITED - ANNEXURE 5
FOR THE YEAR ENDED 31 MARCH 2018

Capital requirements

Tier I and Tier II capital comprises of issued ordinary shares, share premium, (accumulated loss)/retained income and other regulatory adjustments such as deduction of intangible assets. (Accumulated loss)/retained income is appropriated to reserves in July annually, and as such the amounts disclosed exclude profits not approved by the Board.

The capital adequacy assessment process includes identifying the risks that the Company is exposed to, measuring capital requirements for each stand-alone risk and taking into account growth targets. The required capital level is calculated by aggregating the various stand-alone risks and adding a buffer for unforeseen losses.

The primary objective of the Company's capital management strategy is to ensure compliance with the Regulator's requirements as well as the maintenance of a strong credit rating and healthy capital adequacy ratios required in order to support its business, maximise shareholder value and instil market and creditor confidence.

As at statement of financial position date the capital adequacy ratio was 15.23% (2017: 11.93%). This level is above the minimum capital adequacy ratio stipulated by the South African Reserve Bank (SARB).

Capital planning is an integral part of capital management. The Enterprise Risk Committee has been tasked with assisting the Board in discharging its capital management responsibility, and as such, should there be a need for additional capital this Committee will drive the necessary processes in line with contingency capital planning.

Capital adequacy	Regulatory limit	2018	2017
Capital adequacy ratio	≥11,25%	**15.23%**	11.93%
Primary share capital and reserve funds adequacy ratio	≥7.625%	**14.41%**	11.43%
Risk weighted assets			
Risk weighted assets		**1 065 450**	1 294 127
Risk weighted other assets		**61 194**	56 706
Operational risk		**498 810**	467 392
Total risk weighted assets		**1 625 454**	1 818 225
Capital structure			
Share capital		**190**	190
Share premium		**434 710**	374 710
Reserves		**(187 062)**	(146 088)
Prescribed deductions against capital and reserve funds		**(13 692)**	(20 177)
Total tier 1 capital		**234 146**	208 635
General provisions		**13 138**	16 176
Total Tier II capital		**13 138**	16 176
Total qualifying capital		**247 504**	224 811

2017/18 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES

As a state-owned entity, Ithala, each year agrees its performance objectives, measures and indicators, as well as its annual targets with its ultimate shareholder, the Department of Economic Development, Tourism and Environmental Affairs and Provincial Treasury, in line with the PFMA. This section presents actual performance against targets for Ithala SOC Limited.

<table>
<tr><th colspan="5">FINANCIAL & SHAREHOLDER PERSPECTIVE (WEIGHTING = 25%)</th><th></th></tr>
<tr><th>Strategic Objective</th><th>Key Performance Indicators</th><th>2016/17 Target</th><th>4th Quarter Planned Output</th><th>Actual 2017/18</th><th>Brief Comment on Variance on Preliminary Output</th></tr>
<tr><td rowspan="3">Increase & Enhance Capital Base & Assets</td><td>Achieve the budgeted capital adequacy ratio (CAR) by 31 March 2018*</td><td>11.93%</td><td>18.22%</td><td>15.24%</td><td rowspan="5">Target not achieved

The failure to achieve the targets is attributable to:

The negative variance in unsecured advances which resulted in fee income from advances being below budget.

The customer deposit target was not achieved, resulting in the return on surplus funds being below budget.

The growth in electronic transactional accounts was not achieved, resulting in electronic transactional account fee income being below budget.

The negative variance in insurance income, due to certain insurance products performing below expectations.</td></tr>
<tr><td>Achieve the budgeted return on equity (ROE) by 31 March 2018</td><td>-19.01%</td><td>-1.28%</td><td>-13.96%</td></tr>
<tr><td>Achieve the budgeted return on assets (ROA) by 31 March 2018</td><td>-1.79%</td><td>-0.13%</td><td>-1.21%</td></tr>
<tr><td rowspan="2">Sustainable Profitability</td><td>Achieve the budgeted annual net profit/(loss) (R'000)</td><td>-46 326</td><td>-3 641</td><td>-32 684</td></tr>
<tr><td>Achieve the budgeted cost to income ratio (CTIR) by 31 March 2018</td><td>111.57%</td><td>98.07%</td><td>108.72%</td></tr>
<tr><td>Sound Governance & Stakeholder Management</td><td>Clear all the outstanding internal and external audit issues within the agreed upon timeframes</td><td>80.11% completed within the stipulated timeframe</td><td>90% completed within the stipulated timeframe</td><td>84.81% completed within the stipulated timeframe</td><td>Target not achieved

Some audit issues are taking longer than the planned time to address due to other urgent deliverables required by the business and limited capacity."</td></tr>
</table>

2017/18 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES (continued)

FINANCIAL & SHAREHOLDER PERSPECTIVE (WEIGHTING = 25%)					
Strategic Objective	Key Performance Indicators	2016/17 Target	4th Quarter Planned Output	Actual 2017/18	Brief Comment on Variance on Preliminary Output
Increase Market Share	Achieve the budgeted total number of active^ debit cards by 31 March 2018	87 558	107 615	97 859	Target not achieved The failure to achieve the target is attributable to the lower than budgeted sales volumes and account activation.
	Achieve the budgeted insurance revenue amount by 31 March 2018 (R'000)	New KPI not in 2016/17	21 272	14 165	Target not achieved The budget prepared on the assumption that certain product launches would be successul and that the insurance managment system (IMS) would be available, this was not the case.
	Achieve the budgeted customer deposits amount by 31 March 2018 (R'000)	2 285 509	2 625 731	2 387 119	Target not achieved Although there is growth in the customer deposits balance on a month on month basis, the expected budget has not been achieved, due to the difficult economic conditions and unattractive interest rates.
	Achieve the budgeted secured new advances amount by 31 March 2018 (R'000)	New KPI not in 2016/17	327 862	403 100	Target achieved
	Achieve the budgeted unsecured new advances amount by 31 March 2018 (R'000)	New KPI not in 2016/17	176 202	2 769	Target not achieved The take up of the unsecured loan product has been poor due to system related fulfilment issues.
Establish Public Sector Banking Services	Achieve the budgeted total value of deposits from public sector clients (R'000)	328 174	433 825	253 011	**Target not achieved** A large number of new depositors, declined Ithala's pricing over the period, as well as existing depositors moving the funds to other institutions with higher rates.
Sound Customer Relationship Management	Achieve the targeted score per the customer satisfaction measure by 31 March 2018	87%	80%	91%	Target achieved

^ An active debit card is defined as an account which has a deposit balance greater than zero (0)

2017/18 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES (continued)

BUSINESS PROCESS PERSPECTIVE (WEIGHTING = 25%)					
Strategic Objective	Key Performance Indicators	2016/17 Target	4th Quarter Planned Output	Actual 2017/18	Brief Comment on Variance on Preliminary Output
Effective Distribution Channels	Install and operationalise the budgeted number of new self-service devices (SSDs) by 31 March 2018	0	100	Nineteen (19)	Target not achieved The introduction of the new ATM SSD has been going through protracted internal business readiness, with most of the challenges now having been overcome.
	Install and operationalise the budgeted number of new automatic teller machines (ATMs) by 31 March 2018	9	50	Nine (9)	Target not achieved Acquisition of profitable sites remain challenging; ATM's have been unable to achieve the minimum of 2,000 transactions to maintain financial viability.
Enhanced Business Effectiveness through Technology	Achieve the core banking system centralisation milestones by March 2018	42.50% adherence to the implementation milestones	100% adherence to the implementation milestones	n/a	The IT Governance Committee has approved the cancellation of the Centralization Project and, replacing it with a Stabilization Project which commenced in September 2017. This project will be combined with the implementation of the new integrated enterprise-wide core banking system which will commence in the next financial year.
	Achieve the insurance management system (IMS) implementation milestones by 31 March 2018	86.05% adherence to the implementation milestones	100% adherence to the implementation milestones	34.00% adherence to the implementation milestones	Target not achieved Delays have been experienced due to changes in leadership and business priorities which lead to the need to re-plan the project.

PEOPLE, LEARNING AND GROWTH PERSPECTIVE (WEIGHTING = 25%)					
Strategic Objective	Key Performance Indicators	2016/17 Target	4th Quarter Planned Output	Actual 2017/18	Brief Comment on Variance on Preliminary Output
An Organisational Culture that Promotes Excellence	Implementation of the Investors in People ("IIP") Standard by 31 March 2018	New KPI not in 2016/17	100% adherence to the implementation milestones	62.96% adherence to the implementation milestones	Target not achieved In this years review, Ithala received 17/27, which is encouraging; however, Ithala still did not achieve the Developed standard.

NOTES

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PAVING THE WAY AHEAD

ithala
DEVELOPMENT FINANCE CORPORATION LIMITED

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