ANNUAL REPORT 2012/2013

ithala

DEVELOPMENT FINANCE CORPORATION LIMITED

Making It Happen Together

www.ithala.co.za

VISION

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

MISSION

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

VALUES

The values of Ithala, listed below, are underpinned by the overarching ethos of UBUNTU. Ubuntu refers to the spirit of humanity; the humane manner in which Ithala conducts business, and also refers to the manner in which the hearts and souls of all employees care for each other, the customers and the community at large.

- Customer satisfaction
  - Always place yourself in the customer's shoes and deliver exceptional service all the time.
- Respect
  - Treat each and every person the same way you would expect to be treated.
- Innovation
  - Become part of the solution by coming up with ways of making things happen.
- Integrity
  - Always do what is right no matter what.
- Empowerment (internal and external)
  - Go the extra mile by giving clients and staff the necessary support to achieve their goals.
- Equitable employment practices
  - Providing fair and non-biased treatment to all staff no matter what gender or creed, in accordance with best practice.

Wilson's Wharf.

CONTENTS

COMPANY INFORMATION

Group Company Secretary: LS Mahamba

Bankers: ABSA Bank Ltd

Auditors: The Auditor-General

Corporate Attorneys: Garlicke and Bousfield; Ngubane & Partners; Strauss Daly

Business Address: 17 Isilo Drive, Umlazi, 4066

PO Box 2801, Durban, 4000, KwaZulu-Natal, South Africa

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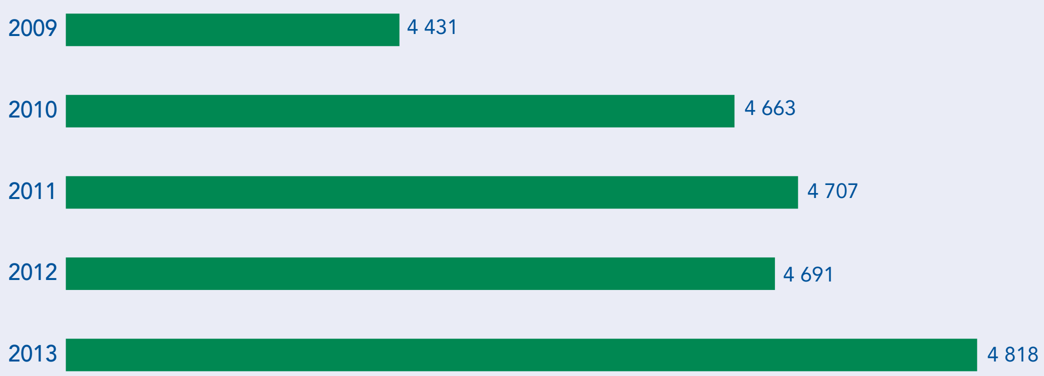
Email: clientservices@ithala.co.za

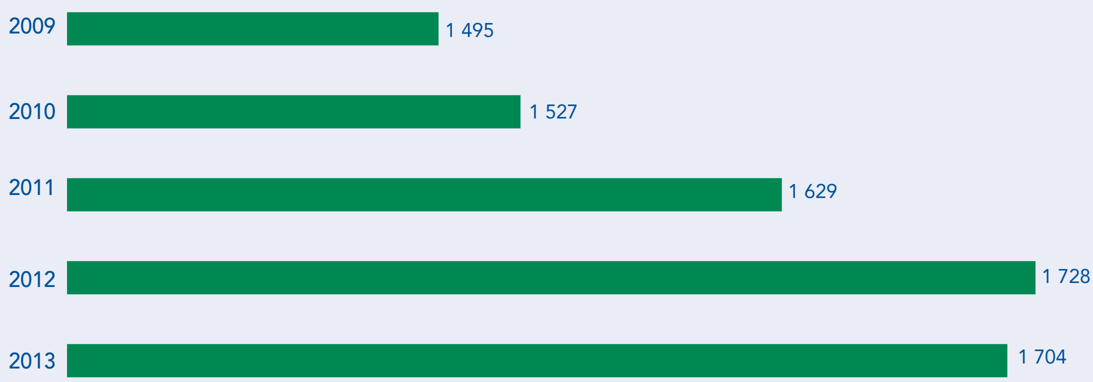
Website: www.ithala.co.za

GROUP FINANCIAL AND DEVELOPMENT INDICATORS

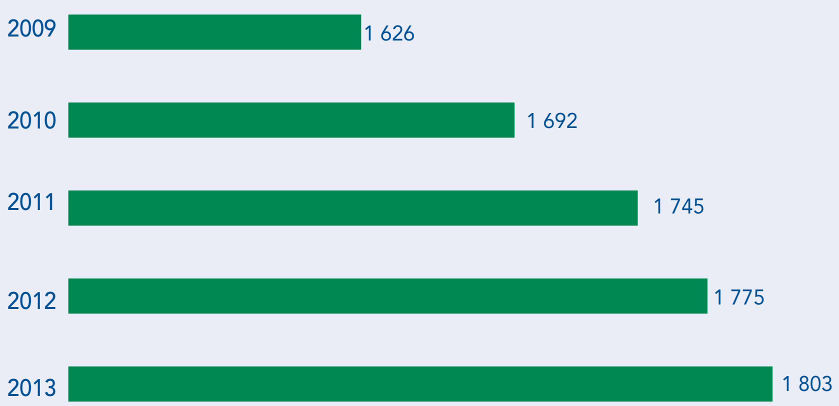
TOTAL ASSETS – R'MILLION



LOAN AND ADVANCES – R'MILLION



DEPOSITS – R'MILLION



Financial Achievements					
	2013	2012	2011	2010	2009
Interest received – R'M	247	279	292	343	497
Interest paid – R'M	57	69	74	97	102
Net income – R'M	74	102	42	75	65
Deposits – R'M	1 803	1 775	1 745	1 692	1 626
Total assets - R'M	4 818	4 691	4 707	4 663	4 431
Change in Total assets – %	3	1	1	4	4
Loans and Advances – R'M	1 704	1 728	1 629	1 527	1 495
Change in Loans & Advances – %	(1)	6	6	3	(2)
Capital invested – R'M	551	634	647	677	437

Developmental Dividend					
Total New Jobs Created					
Business Finance	**3 650**	**1 966**	**1 508**	**2 733**	**2 045**
Agri & Agro Processing	282	440	471	431	279
Construction & Tourism	1 850	870	535	992	972
Manufacturing	50	312	197	188	27
Trade & Services	1 106	242	300	575	706
Co-operatives	362	102	5	547	61
Properties	**404**	**287**	**431**	**624**	**193**
Total Enterprises Assisted	**264**	**125**	**144**	**294**	**240**
Agri & Agro Processing	13	25	29	37	36
Construction & Tourism	34	33	36	69	74
Manufacturing	3	14	10	20	8
Trade & Services	164	46	66	85	110
Co-operatives	50	7	3	83	12
Hectares of Agri-land Financed	**762**	**2 979**	**2 675**	**2 578**	**1 962**
Savings Accounts Opened	**73 476**	**75 143**	**101 073**	**264 515**	**12 934**
Staffing					
Number of staff	**870**	**920**	**955**	**1 033**	**977**

MEC'S FOREWORD

Mr Michael MABUYAKHULU (MPP)
MEC for Economic Development and Tourism

...it is required of Ithala that it take the lead in financing and assisting small, emergent Black-owned enterprises to effectively access new markets...

At a time when much of the developed world, and especially the Euro-zone, continues to struggle in the wake of the after-shocks of the global economic crisis of 2008/09, there is growing sentiment in international economic circles that would indicate that Africa is regarded as having the potential now to effectively flex its economic muscle.

This surge in interest in Africa as a potential investment destination is mirrored by the fact that in its 2013 Competitiveness Report, the World Bank suggests that Africa is positioned on an encouragingly positive growth trajectory. It further indicates that our continent is actively fostering stronger regional integration and is embarking on the delivery of infrastructural upgrades for sustained trade growth. Importantly, too, the report details the creation of a resilient business environment and the removal of obstacles precluding the growth of small business amongst the prerequisites necessary for Africa to achieve its economic renaissance.

We are all too aware of the fact that while the global economic meltdown wreaked havoc with the world's advanced economies, South Africa was, itself, not immune to the crisis and we, too, suffered a significant economic downturn. However, while world recovery is proving sluggish, as an emerging market economy South Africa has shown greater resilience in weathering the economic storm than most. KwaZulu-Natal, by extension, and since registering a contraction in the provincial economy of 1,5% in 2009, has posted economic growth of 3,6% in 2011 and 2,8% in 2012 and is tipped to grow by 3% this year. There can be no doubt, then, that our Province is particularly well-placed to finally shake off the shackles of the impact of the recessionary trends of recent times.

In the face of this scenario, our objective must be to create in KwaZulu-Natal an environment conducive to foreign direct investment and the promotion of a vibrant business sector. As a leading investment destination, ours enjoys particular competitive advantages; advantages we must nurture, so advancing our cause as a world-class investment destination. It is no secret that our Province is richly endowed with superb natural resources, wonderful productive capacity and a geographically advantageous coastal location. In addition, the Province already boasts well-developed infrastructural resources, such as Dube TradePort – home of the world-class King Shaka International Airport – two of Africa's primary harbours, Durban, the busiest in Africa, and Richards Bay, the biggest on the continent, and has an advanced road and rail system, all offset with an enviable lifestyle and idyllic climate.

Our Province is unquestionably positioned to drive intra-continental and international business and trade, especially with regard to other buoyant emerging market economies.

Much of the necessary groundwork has been undertaken and a solid foundation laid by virtue of our active participation in the emerging nations collective, comprising Brazil, Russia, India, China and South Africa and widely referred to as BRICS. The 5th BRICS Summit, hosted by KwaZulu-Natal and held in Durban earlier this year, has served to further strengthen the bonds between these nations, providing the means to international best practice approaches to economic growth and employment creation initiatives. Further, the agreement by the partners to establish a BRICS development bank, geared towards financing infrastructure programmes and sustainable development proposals undoubtedly stands us in good stead.

In order to maximise this advantageous position and to capitalise on the Province's many attributes, we have a collective responsibility to ensure the careful and methodical implementation of existing policies, inclusive of the National Development Plan and our own Provincial Growth and Development Strategy. Key to our continued growth and development is the need to vigorously promote our region, so continuing efforts to actively address the critical socio-economic challenges of unemployment, inequality and poverty. In line with the tenet of the National Development Plan, our task is clear if we are to contribute meaningfully to the 2030 goals regarding economic growth. We must take up the gauntlet, accept the challenges we face and fight to make a real and lasting difference to the lives and economic livelihoods of all in KwaZulu-Natal.

In the Ithala Development Finance Corporation Limited (Ithala), we have an entity of the Provincial Government which is up to the challenge. As a facilitator of development finance and economic growth in KwaZulu-Natal, Ithala occupies a particularly important space.

Our first point of attack is the creation of Special Economic Zones, with the establishment of industrial hubs throughout KwaZulu-Natal, capable of acting as catalysts for economic activity and, thus, growth. We envisage that this model, already a proven success in BRICS partner, China, will give effect to the development of a culture of entrepreneurship and, critically, assist in stimulating latent economic activity in our Province. We expect that Ithala should assume a leading role in such an initiative.

Ithala has a vast industrial and small business portfolio and, with it, the developmental offering and expertise to enable both new small and large businesses the opportunity to establish operations across the Province, whilst simultaneously assisting established enterprises to expand.

We know and understand that in today's business world, small enterprises have emerged as the true creators of employment and should be considered the core for the growth and development of our Provincial economy, together with sustainable job creation and poverty alleviation efforts.

Importantly, as a development body geared to correcting the imbalances of the past and as reflected in both the Provincial Growth and Development Strategy and the KwaZulu-Natal Broad-Based Black Economic Empowerment Strategy, it is required of Ithala that it take the lead in financing and assisting small, emergent Black-owned enterprises to effectively access new markets, whilst unapologetically dedicating a sizeable proportion of its own procurement spend to Black-owned enterprises. Funding provision notwithstanding, Ithala's responsibility extends to the delivery of adequate advisory and other support to small, medium and micro enterprises and co-operatives Province-wide in order that they may become more meaningful business players and contributors to the economy.

To this end and in view of growing world interest in our continent from an investment, business and trade perspective, Ithala is following an essential Repositioning Strategy; a strategy which will better enable the organisation's operating units to deliver effectively and provide for increased funding for Small, Medium and Micro Enterprises and co-operatives. Critically, too, this paradigm shift will also serve to rejuvenate the organisation's existing industrial property portfolio in support of our Industrial Economic Hubs initiative.

Ithala's repositioning, as a crucial catalyst for the socio-economic growth and development of KwaZulu-Natal, is deemed as critical if we are to successfully optimise available opportunities, ensuring our continued competitiveness and attractiveness as a business destination of choice.

Returning Ithala to its rightful status as a premier driver of socio-economic development and the key enabler of the upliftment of, especially, our historically disadvantaged communities will most certainly assist in keeping KwaZulu-Natal on its upward growth trajectory.

I am most grateful to and must sincerely thank Dr Mandla Gantsho, the Chairman of Ithala's Board, and his fellow Directors for the gargantuan effort they have made in the past year, strategically charting the organisation's way forward with the innovative development and implementation of a comprehensive organisational Repositioning Strategy.

I have every confidence that the organisation's leadership, at both Board and Executive Management levels, has both the expertise and, most importantly, the will to restore public and client confidence in Ithala and its challenging developmental task.

Mr Michael MABUYAKHULU (MPP)
MEC for Economic Development and Tourism

Ntingwe Tea Estate.

GROUP CORPORATE PROFILE

A RICH HISTORY OF EMPOWERMENT AND DEVELOPMENT

Ithala Development Finance Corporation Limited (Ithala), KwaZulu-Natal's provincial development agency, boasts a rich history of development and empowerment among the historically disadvantaged communities of KwaZulu-Natal.

Ithala was a pioneer in SMME development long before the phrase was coined by other institutions. The organisation was also the first to bank unbanked communities and establish shopping centres in rural areas, stimulating development in remote regions of the Province.

As a development finance institution with an established history of empowerment, Ithala is well-placed to provide financial and supportive services to communities in KwaZulu-Natal. In delivering its development mandate, Ithala continues to provide development and empowerment solutions to address the needs of the historically marginalised people of the Province.

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OBJECTIVES

The mandate of Ithala is the ultimate guide that informs the organisation's business goals and the manner in which such goals should be pursued. As articulated in the KwaZulu-Natal Ithala Act No. 2 of 1999, the mandate states that Ithala Limited is tasked "with the primary purpose of promoting, supporting and facilitating social and economic development in the Province of KwaZulu-Natal, in accordance with the Province's growth and development strategy and in an appropriate and sustainable manner".

In terms of Section 3 of the Act, Ithala's objectives provide for the organisation:

- To mobilise financial resources and to provide financial and supportive services to the people of KwaZulu-Natal;
- To plan, execute, finance and monitor the implementation of development projects and programmes in the Province;
- To promote, assist and encourage the development of the Province's human resources and its social, economic, financial and physical infrastructure;
- To 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 contributing to economic growth and development; and
- To act as the Government's agent for performing any development-related tasks and responsibilities the Government considers may be more efficiently or effectively performed by a corporate entity.

Ithala Group engages in a wide range of activities including:

- Funding business enterprises, SMMEs and co-operatives;
- Entrepreneurial support and skills development aimed at creating meaningful broad-based black economic empowerment;
- Commercial and industrial property development and management;
- Savings, lending, insurance and banking services; and
- Funding for infrastructural projects.

BUSINESS FINANCE

Ithala's Business Finance unit plays an integral role in facilitating development and empowerment for business enterprises domiciled in the Province of KwaZulu-Natal. Ithala Business Finance offers a range of products and services to assist businesses with finance and skills development and actively promotes a culture of entrepreneurship.

Focus Sectors

- Trade and Services;
- Manufacturing;
- Construction and Tourism;
- Commercial Property; and
- Agriculture and Agro-processing.

Products Offered

Ithala Business Finance unit packages various products and services to stimulate entrepreneurship, especially among previously disadvantaged individuals and communities.

- Agricultural Loans;
- Co-operatives Finance;
- Bridging Finance;
- Empowerment Equity Finance;
- Land and Building Finance;
- Order and Invoicing Finance;
- Plant and Equipment Finance;
- VAT Loans; and
- Working Capital Finance.

Business Support

According to the mandate, Ithala has a responsibility to extend non-financial mechanisms such as enterprise development support as a means to drive economic empowerment in the Province. Whilst entities in the first world economies have the skills and expertise to adapt to a changing economic environment, SMMEs and Co-operatives are recognised as having major limitations in this regard. Many of the clients served by Ithala are emerging entrepreneurs who require business support to successfully implement their business plans.

In addition, Ithala's business centres, located throughout municipal districts of KwaZulu-Natal, have broadened participation and brought much needed access to information for communities in both rural and urban areas.

Ithala Business Finance client in Paulpietersburg.

PROPERTIES

As one of the largest property portfolio holders in KwaZulu-Natal, Ithala is ideally placed to service the various business sectors spread throughout the Province. Ithala Properties undertakes the development and management of industrial and commercial properties. The unit undertakes projects related to the development of new industrial and commercial properties as well as the redevelopment and expansion of existing properties. The purpose of Ithala Properties is to stimulate economic growth through the provision of business premises.

Ithala's property portfolio comprises over 1 million square metres of industrial property and 177 000 square metres of commercial shopping facilities, across 22 shopping centres spread throughout the Province.

Ithala has been the pioneer of development in many rural areas. The organisation has brought services, shopping and banking facilities closer to rural communities, which allowed rural communities access to these services. The establishment of these commercial centres in remote regions of the Province serves as a stimulus for development. Small businesses mushroom around the centres and in most areas, additional shopping malls and facilities have been built.

Industrial Property

The industrial property portfolio comprises large industrial estates in Isithebe (Mandeni on the North Coast), Ezakheni (Ladysmith) and Madadeni (Newcastle). In addition, some eight industrial parks are situated in and around the Durban metropolitan area. Small industrial units are also located in areas such as Umlazi, KwaMashu, uMnini and Plessislaer (Pietermaritzburg). Properties are available for lease or purchase.

Commercial Property

The commercial property portfolio consists of strategically placed shopping centres and office blocks which are owned and operated by Ithala. Commercial properties provide tenants with various options and opportunities to access emerging markets.

Property Asset Management Division

The primary function of the Property Asset Management Division is to drive Ithala's property strategy through defining appropriate return levels, cost structure, investment and disposal criteria, acquisition strategies and maintenance plans for each property under management. Key to the success of Ithala's development mandate is the application of commercial property principles and practices in pursuit of economic upliftment of local communities in the Province.

Property Development Division

Ithala has experience in establishing and maintaining one of the largest property portfolios in KwaZulu-Natal. The Property Development division services include:

- Project Packaging;
- Programme Co-ordination;
- Contracts Management;
- Emerging Contractor Development;
- Technical Support;
- Feasibility Studies;
- Viability Assessments; and
- Development Packaging and Project Finance.

ITHALA SOC LIMITED (ITHALA LIMITED)

Ithala Limited, a wholly-owned subsidiary of Ithala Group, provides a range of retail financial services offering home loan products and insurance services throughout the Province via a network of 48 branches and 73 ATMs. Ithala Limited is the pioneer of rolling out financial services to the unbanked citizens of the Province. Ithala Limited has a developmental objective as part of its mandate, and as such participates in developmental finance activities. It is through this strategic imperative that the core target market will be differentiated, in order to ensure that tailor-made products and services are designed and rolled out to respond to the market demand. Social grant recipients will remain one of the core pillars of Ithala Limited's customer base.

Home ownership remains a key component to improving the lives of communities, and homeowners from rural, township and metropolitan areas in KwaZulu-Natal have benefitted from Ithala's home loan products.

Ithala Insurance Services seeks to be the preferred provider of insurance products and services within the communities served with both personal and commercial offerings. In addition, Insurance Services manages cover for the entire Ithala Group.

Loans

- Cash Loan products;
- Home Loan products;
- Personal Loan products; and
- Home Improvement Loan services.

Savings and Investment

- Ordinary Savings;
- Target Save;
- Club Save;
- Fixed Deposit;
- Call Deposit; and
- Notice Deposit.

Insurance Services

- Short-term Insurance:
  - Domestic Insurance;
  - Commercial and Industrial Business Insurance;
  - Corporate Insurance; and
  - Specialised Insurance Cover, including taxi, livestock, liability classes etc.
- Long-term Insurance:
  - Life and Disability Cover;
  - Business Assurance Cover;
  - Funeral Plans;
  - Income Booster and Tombstone Cover; and
  - Credit Life.

KZN GROWTH FUND MANAGERS SOC LTD

The KZN Growth Fund ('the Fund') is an innovative initiative, uniquely structured as a private-public partnership project finance house. The Fund is the facilitator of private-sector promoted infrastructure and industrial investment projects aimed at unlocking KwaZulu-Natal's economic development potential, creating sustainable employment and promoting broad-based black economic empowerment (BBBEE).

The Fund's objectives are aligned with the Provincial Growth and Development Strategy as well as the New Growth Path Framework and, in particular, the various sector priorities. It also subscribes to all the prevailing BBBEE policies as set out in the DTI's Code of Good Practices for BBBEE, and the BBBEE Codes issued by the National Treasury's PPP Unit.

The Fund provides various forms of long-term debt and structured finance to medium and large scale projects throughout the KZN Province. The Fund provides minimum funding from R30 million up to the maximum exposure of R100 million per project.

UBUCIKO TWINES AND FABRICS (PTY) LTD

Ubuciko Twines and Fabrics (Pty) Ltd, a wholly owned subsidiary of Ithala, was formed in July 2006 by members who possess skills and expertise in the manufacturing of polypropylene twines, woven materials and polypropylene bags and sacks.

A manufacturing concern, it deals in a wide variety of sectors and industries ranging from: the mining sector, agricultural sector, geo textiles, chemical, sugar and the furniture industry, with products set to international standards.

The company is located in Mkondeni, Pietermaritzburg and employs local people in order to transfer skills for community upliftment.

INSURANCE CELL CAPTIVE

Ithala entered into a cell captive arrangement with Mutual & Federal Risk Financing (Pty) Ltd that regulates the running of the cell in line with the regulatory requirement imposed by the Financial Services Board. A Cell Captive is a legal method enabling a non-insurance entity to share in the insurance licence of an insurance company. The Cell Captive is embodied as a special purpose vehicle and all assets and liabilities belong to the corporation.

BOARD OF DIRECTORS

During the year under review, the Ithala Board Members comprised ten non-executive directors and one executive director, who is also the Group Chief Executive. The Chairman and Group Chief Executive are Dr Mandla SV Gantsho and Ms Yvonne Zwane.

The Board composition optimises the business, professional and management abilities of its individual directors as well as their collective experience in a way that adds value to Ithala and its diverse business activities.

In terms of the Ithala Act, the MEC for Economic Development and Tourism is responsible for Ithala and, when necessary, appoints directors after consulting with the Economic Development Portfolio Committee and the KwaZulu-Natal Premier in Cabinet.

DR MSV GANTSHO CA (SA), MSc, MPhil, PhD
Board Chairman

Date appointed: *1 June 2011*

Other Boards on which he serves:
South African Reserve Bank, Sasol Limited, Impala Platinum Limited, Africa Rising Capital (Pty) Ltd t/a Nova Capital Africa

Areas of Expertise:
Corporate Strategy Formulation and Execution
Infrastructure Development Finance
Financial Management and Reporting
Investment and Corporate Banking

MR MF KEKANA BCom (Hons)
Deputy Chair

Date appointed: *13 September 2009*

Other Boards on which he serves:
Council for the Support of National Defence, Baswa Investments (Pty) Ltd, Waterberg Economic Development Agency, Ideco

Areas of Expertise:
SMME Financing and Business Support
Public Sector Finance
Corporate Finance
Private Equity Finance

MS NN AFOLAYAN MBA
Director

Date appointed: *21 April 2008*

Other Boards on which she serves:
Umgeni Water, Natal Sharks Board, Durban Chamber of Commerce

Areas of Expertise:
Enterprise Risk Management
Strategy Development and Projects
Organisational and Change Management
Qualified Cost Accountant

MS BC BAM BA, BA (Hons)
Director

Date appointed: *15 September 2009*

Areas of Expertise:
Strategic Management
Organisational Development
Change Management
Training and Development
Policy Development, Implementation, Monitoring and Evaluation

MR WJ JACOBS BPharm
Director

Date appointed: *15 September 2009*

Other Boards on which he serves:
Jacobs Capital (Pty) Ltd, Fascor (Pty) Ltd, Seashore Properties (Pty) Ltd, Wessel Jacobs Properties (Pty) Ltd, Indium (Pty) Ltd, VSM Investments (Pty) Ltd, Freecall Trading (Pty) Ltd, Central Component Distributors (Pty) Ltd, Genrics (Pty) Ltd, Ubuciko Twines & Fabrics (Pty) Ltd

Areas of Expertise:
Management Structures and Systems
Business Plans
Business Risk
Business Turnaround Strategies

MR N KHAMBULE NDip (Agrculture), BTech (Business Management)
Director

Date appointed: *15 September 2009*

Areas of Expertise:
Strategic Management
Performance Audits
Human Resources
Economic Modelling
Corporate Finance
Property Development

REV NNA MATYUMZA CA (SA), LLB
Director

Date appointed: *1 June 2011*

Other Boards on which she serves:
African Methodist Episcopal Church, Born Free Investments 42 (Pty) Ltd, Cadiz Holdings, COASAD Southern Africa (Pty) Ltd, Hulamin Limited, KZN Growth Fund Managers (Pty) Ltd, Imvusa Trading 1253 CC, Wilson Bayly Holmes-Ovcon Limited

Areas of Expertise:
Financial Management and Reporting
Audit
Law
Strategy

MR DM MCLEAN B.Acc, CA(SA)
Director

Date appointed: *15 September 2009*

Other Boards on which he serves:
KZN Growth Fund Managers (Pty) Ltd

Areas of Expertise:
Financial Management and Reporting
Banking and Financing (Corporate, Private Equity, Treasury and Trading, Capital and Debt Markets)
Taxation

MR GNJ WHITE BA (Economics), BA Admin (Hons)
Director

Date appointed: *1 June 2011*

Other Boards on which he serves:
Trans-Caledon Tunnel Authority; Ithala SOC Limited

Areas of Expertise:
Infrastructure Finance
Business Strategy Formulation and Management

MS AN ZONDI BProc
Director

Date appointed: *21 April 2008*

Areas of Expertise:
Legal
Mediation and Dispute Resolution

MS YEN ZWANE BCom, UED, CAIB, MBL
Group Chief Executive

Date appointed: *1 December 2011*

Other Boards on which she serves:
Ithala Limited

Areas of Expertise:
Banking
Strategy

EXECUTIVE MANAGEMENT

ITHALA GROUP EXECUTIVE COMMITTEE (EXCO)

MS YEN ZWANE
Group Chief Executive

MR FA FERGUSON
Acting Group Chief Financial Officer

MR S ADAM
CEO, KZN Growth Fund Managers SOC Ltd

MR S KHOZA
CEO, Ithala SOC Limited

MR SE MADONDO
Corporate Services Executive

MR BTT MATHE
Group Strategy Executive

MR MM MATIBE
Group Chief Information Officer

MR NW NHLANGULELA
Business Finance Executive

MR B SILUNGWE
Properties Executive

CHAIRMAN'S REPORT

Dr Mandla SV GANTSHO
Chairman

Ithala Development Finance Corporation Limited looks forward to further expanding its support for sustainable development in the Province and is proactively seeking to mobilise the required resources to fulfill this role.

The critical counter-cyclical support role of development finance institutions, such as the Ithala Development Finance Corporation Limited, has been brought into sharp focus against the background of ongoing economic challenges, in both global and domestic spheres.

As a leading citizen in the global community of developing nations, South Africa did not escape the impact of recession and ongoing economic volatility in developed economies. In the 2012/2013 financial year, the multiple domestic challenges of slowing economic growth, declining interest rates, rising costs and job losses in key economic sectors compounded the demands on Ithala to maintain and accelerate its role as a catalyst for development in KwaZulu-Natal.

It is against this backdrop that, during the period under review, and following the approval of a Repositioning Strategy by the Board, the Ithala Group commenced the implementation of major organisational reforms aimed at sharpening its alignment with key elements of the Provincial Growth and Development Strategy and priorities, significantly enhancing its operational efficiency and development effectiveness in the Province. As a result, I am pleased to report that the organisation's Business Finance Department, which is at the core of its concessional financial and non-financial support for small, medium and micro enterprises (SMMEs), has been re-organised and resourced to broaden both the scope and scale of Ithala's support interventions in this key economic sector.

This included the introduction of a business support facility to provide mentorship and technical support to borrowers. Consequently, a sum of R825 million is to be set aside for onlending to SMMEs during the forthcoming three years.

The Ithala Group also owns a strategically important portfolio of industrial, commercial and retail property assets; assets which provide essential infrastructure for manufacturing and other business activities throughout KwaZulu-Natal. This asset base has enormous potential in terms of supporting key provincial development initiatives, including the introduction of special economic zones and industrial hubs. As such, Ithala's Properties Department will be the primary focus of organisational reforms in the forthcoming financial year.

In preparation for this, the initial phases of a new property strategy were implemented during the 2012/2013 financial year, inclusive of initiating an extensive refurbishment and rehabilitation programme for existing properties, encompassing a total investment of R682 million during the next three years, the development of R248 million worth of new retail properties, and the potential sale of certain non-core assets, the proceeds of which will be utilised for new investments.

The Ithala Group's wholly-owned deposit-taking subsidiary, Ithala SOC Limited, has played a pioneering role in providing financial services to communities that historically have lacked access to banking services. During recent years, Ithala SOC Limited has faced a number of challenges, which have had an unfortunate impact on its profitability and sustainability.

However, it remains a crucially important asset and vehicle for the facilitation of economic empowerment in the Province. Accordingly, and as part of the Group's organisational reforms, a comprehensive turn-around strategy was introduced during the year under review. As an integral part of these reforms, key Ithala SOC Limited Board vacancies have been filled, a new Chief Executive was appointed and the Corporation, as sole shareholder of Ithala SOC Limited, approved an additional capital injection in the amount of R105 million, which will be effected in the 2013/2014 financial year. This significant investment will place Ithala SOC Limited in a position to reassert its leadership role in its key market niche.

During the next three years, additional reforms for Ithala SOC Limited will aim to secure the permanent status of its banking licence, the possible invitation to a strategic equity and/or technical partner, and the introduction of a full suite of banking services. Ultimately, the objective of all these reforms is to position Ithala SOC Limited as a bank of choice for the Provincial Government, the business community and the people of KwaZulu-Natal and beyond.

In addition, and as part of this organisational streamlining process, it has been agreed with our shareholder that the restructured KZN Growth Fund SOC will no longer be managed by the Ithala Group through its subsidiary fund management company.

The preparatory work for the radical turn-around of the Ithala Group has been completed. The 'bleeding' of the Group has been stemmed and the foundation for sustainable business growth is in place. Both the Board and the organisation's Executive Management are confident that positive results will become evident in the year ahead and in the future.

On behalf of the Board, I wish to extend my most sincere gratitude to our shareholder representative, the Honourable MEC for Economic Development and Tourism, Mr Michael Mabuyakhulu. His ongoing support and guidance has been of great value to the Board and Management. I would also like to express my gratitude to the Head of Department of the Department of Economic Development and Tourism, Mr Desmond Golding, together with his staff, for their ongoing support.

I am particularly grateful to my fellow directors for their strategic stewardship of the Ithala Group during the past year and thank them unreservedly for their dedication to the task. It also gives me pleasure to thank the Acting Chairman of Ithala SOC Limited, Mr Greg White, the Chairman of KZN Growth Fund Managers SOC (Pty) Ltd, Mr David McLean, the Chairman of Ubuciko Twines and Fabrics, Mr Wessel Jacobs, and the Chairman of Ntingwe Tea Estate, Mr Nhlanhla Khambule, for their commitment during the review period.

It is with mixed feelings that I bid farewell to my Deputy Chairman, Mr Malose Kekana, who has resigned from the Board of the Corporation to take up the Chairmanship of Ithala Limited's Board. It is with a great sense of gratitude that I thank him for his wise counsel as my Deputy Chairman during the past year. Our loss is, however, a gain for Ithala SOC Limited and, thus, his invaluable contribution to the Ithala Group will continue.

Last, but not least, I thank the Group Chief Executive, Ms Yvonne Zwane, her Executive Management team and all the members of Ithala's staff for their dedication and loyalty in striving to make a difference in the lives of the people of KwaZulu-Natal.

Dr Mandla SV GANTSHO
Chairman

Wilson's Wharf.

GROUP CHIEF EXECUTIVE'S OVERVIEW

Ms Yvonne EN ZWANE
Group Chief Executive

Our organisation is unequivocally on the road to recovery and with its re-positioning is again ready to make a significant contribution to the socio-economic development of the people of KwaZulu-Natal...

INTRODUCTION

The Ithala Development Finance Corporation Limited (IDFC) is a key role-player in the Provincial socio-economic growth and development, employment creation and poverty alleviation efforts. The 2012/2013 financial year has seen positive progress in supporting sustainable socio-economic development in the KwaZulu-Natal Province, and enhancing its people's quality of life.

The year was characterised by the implementation of a Group repositioning strategy that envisions a quantum leap in reasserting its role as the leading development finance institution in the Province. The initial phases, which have been implemented, focused on strengthening the institutional, financial and governance underpinnings that are essential to support business growth.

The foundation has now been laid for the organisation to position itself on a new trajectory that will result in enhanced business growth, accompanied by improved sustainability, greater depth and impact in its key development role.

FINANCIAL PERFORMANCE

The Group recorded a profit of R73,9 million for the 2012/2013 financial year (2011/2012: R102,0 million), which is below the budgeted projection of R151,0 million. This can largely be attributed to the short-term impacts of major organisational changes that form part of the repositioning strategy.

During the review period, our Business Finance Department posted a profit of R93,8 million (taking into account grant income), against a forecast of R188,6 million. The Properties department achieved a profit of R152,1 million, R47,5 million above budget. The Properties department results must, however, be viewed in the context of a significant underspend on budgeted maintenance and refurbishment, which will result in a concerted effort to accelerate the planned capital and maintenance plans for our property portfolio.

Our deposit taking subsidiary, Ithala SOC Limited, recorded a loss of R41,6 million, after allocation of shared administrative costs. Ithala SOC Limited remains a crucially important developmental and commercial asset in our armoury, and a comprehensive strategy has been implemented to reverse the loss-making trends and return the entity to profitability within eighteen months.

The KZN Growth Fund SOC Ltd posted a profit of R11,5 million, which largely comprises management fees. The restructuring of this business will see it making an exit from our Group in the year ahead.

CORPORATION BUSINESS UNITS PERFORMANCE

Business Finance

Our organisation's principal lending activities are conducted through the Business Finance Department, which plays an integral role in meeting our core mandate of development and empowerment.

Business Finance provides a vital catalytic role in facilitating the development and empowerment of KwaZulu-Natal-based SMMEs and co-operatives. The Corporation extended loan finance of R121,9 million to SMME and co-operatives clients during the course of review period against a budget of R220 million. This facilitated the creation of an estimated 3 650 new employment opportunities in the sector across the Province.

It is gratifying to note that the Corporation funded some 264 SMME and co-operative business ventures during the year, which significantly exceeded our target of 137. Of those funded, 214 comprised SMME operations and 50 were co-operatives. Our continued provision of access to finance for emergent SMMEs and co-operatives remains a critical element of our developmental role.

The need for support to emerging enterprises, from the conceptualisation of a business concept to funding and implementation, remains a key success factor in the challenging market in which we operate. During the year, our Board approved the development of a dedicated capacity within the Corporation which will complement our financial support with the necessary support and mentoring to help establish successful and sustainable businesses. In this regard, we have sought to establish partnerships with both public and private sector entities that operate in this market segment.

Properties

On behalf of its stakeholders, Ithala owns and manages more than 1.2 million square metres of industrial, retail and commercial property, making it a pre-eminent property portfolio holder in KwaZulu-Natal. As custodians of this enormously important asset base, we provide the infrastructure to support retail, commercial and industrial development in support of both provincial and national development imperatives.

A further value-added service comprises a project management role for the development of schools and clinics, on behalf of the Provincial Government. During the year under review, Ithala managed contracts worth R146,8 million for a schools and clinics programme on behalf of the Provincial Government.

In supporting the Province's socio-economic vision, we continue to work with both the public and private sectors to leverage our infrastructure base as a catalyst for development.

SUBSIDIARIES AND ASSOCIATES

Ithala SOC Limited

As the deposit-taking entity of our Group, Ithala SOC Limited plays a critical role in providing financial services to individuals and entities that have lacked access to financial services, and continue to face constraints in this regard. This entity has been a pioneer in its target market, but has faced challenges that impacted on its profitability over recent years. There is a strong conviction regarding the relevance, development impact and potential sustainability of Ithala SOC Limited at all levels, and steps have been taken to support this entity to return to a sustainable business platform over the forthcoming eighteen months.

Umnini Arts and Crafts Centre.

Ubuciko Twines and Fabrics (Pty) Ltd

An appropriate exit from this business is currently being considered. This may entail the establishment of a co-operative. However, the focus remains on assisting this enterprise to achieve a sustainable market position, irrespective of the legal form that is adopted.

KZN Growth Fund Managers SOC Limited

As part of the organisational streamlining process, it has been agreed with our shareholder that the restructured KZN Growth Fund Trust will no longer be managed by the Ithala Group through its subsidiary fund management company.

Ntingwe Tea Estate (Associate)

While not a majority shareholder, stakeholders have entrusted Ithala with an ongoing support responsibility for this business. Ithala owns 38% of Ntingwe Tea Estate and is responsible for the provision of ongoing administrative support on behalf of this entity, a role it continued to play during the course of the 2012/2013 financial year. It is possible that Ntingwe Tea Estate could be converted to a co-operative in the 2013/2014 financial year and, on this basis, would then receive co-operative grant funding from the Department of Economic Development and Tourism.

CONCLUSION

The 2012/2013 financial year has brought many challenges to our organisation. Alongside such challenges, however, there have been solutions! I am confident that the building blocks for a sustainable and vibrant organisation have been built; it is now about implementing the many initiatives that provide the impetus for change.

There are too many acknowledgements to make. To the men and women that have embraced the call for fundamental change in our organisation: I salute you. Our shareholder representative, Mr Michael Mabuyakhulu and the Head of Department, Mr Desmond Golding, have been a wonderful source of support.

To our Chairman, Dr Mandla Gantsho, and the visionary leadership he has provided our deepest thanks. To our Board, my management colleagues, and the foot soldiers that make this organisation a leader, my deepest appreciation for your support.

Ms Yvonne ZWANE
Group Chief Executive Officer

Ntingwe Tea Estate.

CORPORATION BUSINESSES

BUSINESS FINANCE DEPARTMENT

Overview

The SMME sector continues to feel the adverse impact of global economic conditions. In KwaZulu-Natal, most sectors have started to show stagnation over the short-term and although the KwaZulu-Natal economy grew by 4.1% year-on-year in August 2012, there was an overall decline of 0.9% and 0.1% on a quarter-on-quarter and month-on-month basis.

Some sectors have felt the impact more and sooner than others. These include transport, tourism, mining and agriculture. The transport industry has been struggling with the ongoing volatility in the fuel prices, accompanied by lower volumes and strikes. The tourism industry as a whole has not been performing well due to the global economic slowdown. Mining activity has been slowing down for some time now all over South Africa, with the strikes having been a major contributor to this.

Agriculture in KwaZulu-Natal has been declining for the past two years with the main factors dragging this sector down being the decrease in crushed sugar volumes and a decline in forestry. The overall impact felt by SMMEs were clearly evident in a declining sales trend and difficulty in collecting on debtors and paying creditors on time. This further extends to the ability to service both long and short-term debt, with non-performing loans remaining high of the total Business Finance portfolio. The demand for short-term working capital requirements continued to grow for the year under review.

The overall impact of global conditions felt by most credit providers has created a very cautious credit extension environment with little or no relaxation in credit policies, thus making accessibility to credit a serious challenge for SMMEs.

The adverse economic conditions, which place pressure on our clients to service their debt obligations, have necessitated a varied approach on our part, one which demands that we deploy innovative solutions aimed at assisting businesses that are in distress. These solutions focus on the restructuring of debt, rehabilitation of clients and business support for struggling businesses.

Investment Activity

In the year under review, the Division received 447 applications with a total value of R550 million and approved 272 transactions with a total value of R219 million with manufacturing, trade and services sectors contributing the majority (23% for each sector). The advances for the year totalled R121,9 million.

Investment commitments (investments approved but not yet disbursed) currently stand at R109,7 million whilst the investment pipeline (applications received and currently being evaluated) currently stands at R472 million.

The number of jobs facilitated through our funding amounted to 3 650 compared to 1 966 in the previous year.

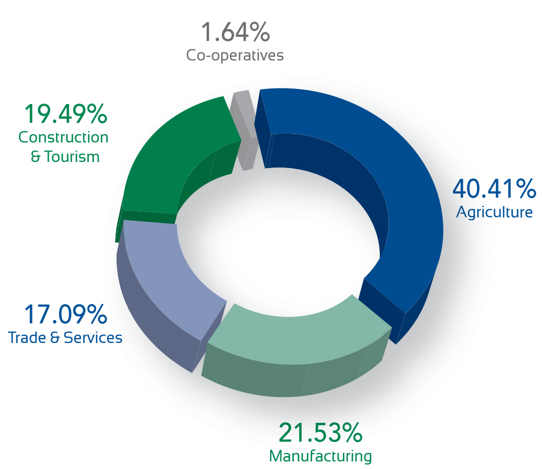
Investment Portfolio

The portfolio under management currently stands at R830 million having contracted by 8.7% in the year under review due to credit impairments and aggressive collections. The quality of the loan book has stabilised and this is evidenced by the credit impairment provisions that have reduced by 16% over the period under review. The agricultural sector constitutes a large part of the portfolio at 40%.

Business Support Programmes

In the 2013/2014 financial year, the Division will be implementing a number of measures aimed at

Portfolio Composition by Sector
as at March 2013



strengthening the quality of the investment portfolio, and these will include:

- The implementation of pre-investment support programmes. The focus of this programme will be on general business advisory services,transactional advisory services, business plan development and feasibility studies and training.
- The implementation of a mentorship programme. The focus of this programme will be two-fold: Firstly, to deploy technical expertise in driving the turnaround of businesses that are already in distress, and secondly, hand-holding the entrepreneurs approved for funding in the implementation of their business plans.
- The implementation of the administrative support programme. The focus of this programme will be on assisting with company registration, compilation of Annual Financial Statements and management accounts, and tax and business compliance.

As a unit, we will continue our focus on improving business processes and product offerings, enhancing the client experience and adopting world-class credit and risk practices.

PROPERTIES DEPARTMENT

Ithala's property portfolio has four main property segments, namely large industrial, retail, light industrial and SMME properties. Each of these property segments has its own unique qualities and contributes uniquely to the developmental needs of KwaZulu-Natal.

Our properties development mandate is fulfilled by offering the cheapest industrial facilities available in many remote and rural areas.

The Properties department has six key capabilities within the unit to service the portfolio and deliver in terms of the mandate. These are: asset management, property management, facilities management, contracts management, project management and engineered services provision (electricity, water, sewer and waste disposal).

Facilities Management undertakes the condition assessment process of built assets as a minimum, rates asset condition, determines the risks associated with letting of assets to remain in a good lettable condition, and identifies maintenance work needed, to restore and retain an asset in its required condition. Further, facilities management determines the long-term structural viability of existing properties and the potential of specific properties to support dynamic client needs.

Project Management is responsible for management and delivery of government projects (e.g. schools and clinics). This division is also tasked with delivering the internal projects allocated through capital budgeting in the construction stage, through a team of professionals (architects, quantity surveyors, engineers etc.).

Contracts Management is responsible for the development of emerging contractors and to make sure that the small and medium-sized previously disadvantaged contractor businesses are trained and mentored to grow and to create job opportunities in the construction industry. They also manage Ithala construction projects.

Property Management is responsible for providing accommodation for clients for which rental income is received.

Services Provisions at estate level provides and manages the supply of high voltage electricity, water supply, sewer management, solid waste disposal management and security provision.

The properties portfolio is made up of some one million square metres of industrial space, 177 000 square metres of commercial space and more than two million square metres of vacant land across KwaZulu-Natal.

Large Industrial Estates

These large industrial properties maintain a significant number of jobs estimated at around 33 500 at any one point in time.

Although the South African manufacturing sector has been shrinking as a result of cheap imports from China and India, the estates have remained resilient, with expansions for key client space at Ezakheni and new industrial space in demand at Isithebe in 2012.

Aerial view of Canvas and Tent on Ezakheni Estate.

Isithebe Industrial Estate

Isithebe is the largest of the three industrial estates and is characterised by:

- 414 hectares of industrial land;
- 165 Ithala owned factories;
- 49 private factories;
- 520 000m² of lettable industrial property;
- Over 20 000 jobs at the estate; and
- Units vary in size from 250m² to 37 000m².

Isithebe still has a huge potential for in-fill development on vacant platformed and serviced land. The estate is ideally located between the ports of Durban and Richards Bay.

R28 million capital expenditure was invested back into Isithebe for sprinkler installations, refurbishments and site rehabilitation. These investments have lowered the risk profile of the estate and a corresponding demand for space is starting to be realised at better rental rates. The estate in the year under review improved its yield from 3% to 10.7% as compared to the South African long bond yield which averaged 7.4%.

The estate offices have been refurbished with an addition of a conference centre to cater for both Ithala and client needs.

Ezakheni Industrial Estate

Ezakheni Industrial Estate is located adjacent to Ladysmith, and now covers approximately 640 hectares with some 100 factories ranging in size between 200m² and 30 000m². Key activities at the estate include manufacturing with large corporate tenants like Defy, warehousing and distribution.

The estate, like Isithebe and Madadeni, provides reliable and cost competitive services like water, electricity, sewer, solid waste disposal and security. Equally, Ithala has continued with capital investments in the estate, having spent R14 million at Ezakheni for sprinkler installations and premises refurbishments and maintenance. This has led to the improvement in occupancy levels and increased yields from less than 2% in previous years to 10.2% in 2012/2013.

Madadeni Industrial Estate

Situated at Newcastle, the key activities at the estate are textiles, light manufacturing, warehousing and distribution.

R6 million capital expenditure was invested in Madadeni, which enjoys occupancy levels of above 94%, however paradoxically, yields still remain low, though there has been an improvement from 0.3% over previous years to 6.5% in 2012/2013. This largely is due to developmental reasons because the textiles sector cannot afford better rentals. Ithala Properties has initiated a strategy to attract other sectors of the economy to the estate to be able to improve overall rental rates.

Retail Property

Ithala Properties manages some 22 retail centres spread across KwaZulu-Natal, predominantly in the rural areas of the Province. These centres have

Ezakheni Pump Station.

a significant developmental impact as nodes of economic activity, like banking and trade and remain conduits of social services delivery, like grants.

The retail portfolio yields in Ithala naturally perform the best, yielding on average above 12%. Vacancies are around 11%.

To improve occupancy levels and to sustain rental income streams into the future, some retail centres are being refurbished whilst others are being redeveloped and expanded.

SMME Complexes

Ithala Properties manages a substantial portfolio of SMME complexes to provide affordable business premises to local entrepreneurs. The focus of this portfolio is to provide business space to smaller operators such as funeral undertakers, caterers, tailors, mechanics, etc.

Due to the nature of this sector, the portfolio has performed below expected yields over the years. Yet again, Ithala supports these developments as a significant number of employment opportunities are created and maintained in these facilities.

Key Strategic Deliverables 2013-2017

The key strategic deliverables for the coming years are to:

- Refurbish performing shopping centres to improve the yield and attractiveness within the market;
- Grow Ithala's property portfolio by developing new properties;
- Invest in quality of portfolio by delivering on maintenance targets set for our portfolio;
- Turnaround non-performing properties;
- Attract national tenants to anchor in our facilities for sustained returns;
- Deliver these strategic initiatives efficiently, cost effectively and within the time frames expected;
- Ensure good corporate governance; and
- Provide a catalyst for special economic zones and industrial hubs of the Government.

SUBSIDIARIES

ITHALA SOC LIMITED (ITHALA LIMITED)

Ithala Limited, a wholly-owned subsidiary of Ithala Development Finance Corporation Limited, was incorporated in 2001 to 'ring-fence' the deposit taking activities of the Group into a separately incorporated entity. Ithala Limited operates under an exemption from the Banks Act 94 of 1990 ('Banks Act') as issued in Notice No. 58 of Government Gazette No. 36103 dated 1 February 2013. The company provides a range of retail financial services throughout KwaZulu-Natal through a network of 48 branches and 73 Automated Teller Machines (ATMs).

Ithala Limited was the pioneer in the unbanked sector of the Province and despite mainstream banks having moved into this market, Ithala Limited remains focused and committed to fostering a culture of savings and providing financial solutions to historically disadvantaged communities. Ithala Limited's competitive edge in this market is its insightful understanding of the clients it serves. During the year under review, Ithala Limited continued to act as a conduit to provide access to financial services, particularly in poorer and marginalised areas, as well as to provide access to finance to support the funding of suitably located low-cost and affordable housing for clients who may not be granted financing in the traditional banking sector.

Ithala Limited's strategic intent, as defined in its five-year rolling strategic plan is: "To provide relevant financial services to the people of KwaZulu-Natal and return Ithala Limited to profitable operations".

Ithala Limited's strategic direction is to refocus its activities in line with a multichannel approach, which will see the organisation moving towards a transactional-led customer acquisition approach, whilst maintaining a robust branch distribution framework, particularly, in the rural areas of KwaZulu-Natal. This approach necessitates robust product and service development to respond to the chosen market segment demands. Ithala Limited is still the only financial institution that is able to provide residential and commercial mortgages to rural communities under the permission to occupy (PTO) scheme in South Africa.

Despite the challenging trading environment, Ithala Limited has continued to enjoy the confidence of its customers who have entrusted it with approximately R1,8 billion of their savings as at the end of March 2013. New advances for the year were R354 million, resulting in total advances at 31 March 2013 of R1,4 billion. Ithala Limited advanced R7,3 million on the PTO scheme during the financial year, and total PTO financing as at 31 March 2013 was R82,5 million.

Information on the Company's financial performance can be found in its separate Integrated Financial Report. Some of the key highlights for the financial year were:

- Our introduction of the Ikhwezi debt consolidation product, weekly lifestyle personal loan product and the 32-day notice deposit;
- Maintenance of the capital adequacy ratio in excess of the Regulatory minimum;
- Growth of 3.52% in the housing loan product;
- Reduction in non-performing loan percentage (8.93%) when compared to budget (10.7%);
- Other income (excluding dormant income) reflected a positive variance of R3, 8 million for the year when compared to the budget; and
- In the year ahead, Ithala Limited will combine the implementation of the new core banking system which will facilitate the introduction of new products relevant to its core target market.

KZN GROWTH FUND MANAGERS SOC LIMITED (KGFM)

KGFM, a wholly-owned subsidiary of Ithala, manages a debt fund which is structured as a unique public-private partnership with the Provincial Government, commercial banks and development finance institutions such as the Development Bank of Southern Africa. Established to finance medium- to large-scale infrastructure-related projects throughout the Province, it is an innovative initiative aimed at creating sustainable economic development, job creation and black economic empowerment within the infrastructure sector. The Fund is housed in the KZN Growth Fund Trust.

The objectives of the Fund are to promote, support

Ithala Mega City branch.

and facilitate social and economic development in the Province by:

1. Mobilising financial resources and providing financial and supportive services to domiciled persons, ordinary residents, or people carrying on business within the Province;
2. Planning, executing, financing and monitoring the implementation of development projects and programmes in the Province;
3. Promoting, assisting and encouraging the development of the Province's human resources and its social, economic, financial and physical infrastructure;
4. Promoting, encouraging and facilitating private sector investment in the Province and the participation of the private sector and community organisations in development projects and programmes, and in contributing to economic growth and development in general; and
5. Acting as the Government's agent for performing any development related tasks and responsibilities that the Government considers may be more effectively performed by a corporate entity.

During the financial year, two Final Appraisal Reports (FARs) amounting to R123 million were approved by the Trust. The Trust portfolio now has four approved loans in its portfolio with a combined value of R331,7 million. This represents 30% of the total available funds in the Trust. The projects that were approved in the year will create a total of 594 new permanent jobs. The average BBBEE shareholding in the portfolio is 55.1% and the shareholding proportion held by women is 3.4%. The disbursed projects portfolio of the Trust was closely monitored and managed during the year. None of the projects in the Trust portfolio were in default as at 31 March 2013. Ten investment leads are currently being appraised; these leads have a value of R697 million.

During the year under review, a decision was made to restructure the Trust's operating model. The restructure process was approved by all stakeholders in March 2013 and is currently being implemented. The effective date sought pending finalisation of legal agreements is 1 April 2013. At the effective date, KGFM's assets and liabilities are to be sold to the Trust at their market values. The sale of the business includes transfer of all KGFM staff members as well as all operating contracts, commitments and contingencies.

UBUCIKO TWINES AND FABRICS (PTY) LTD

Sales for the 2012/2013 financial year amounted to R13,6 million – R6,4 million below the period's target, the regrettable combined result of certain production orders having been cancelled and a sharp decline in sales towards the end of the period. Going forward, the company will focus on manufactured bag sales – the basis of the original founding plan – and work to secure additional clients, while identifying interventions which will allow the operation to keep abreast of industry innovations.

HUMAN RESOURCES

The Group HR division provides human resources support through the organisation, including the subsidiaries and associates as well as selected support to their public entities such as Dube Trade Port and Richards Bay IDC.

HR plays a critical role in the organisation to "sustain our organisation into the future through our employees", so that the organisational performance is enhanced. This is achieved through the attraction of talent, enhancement of organisational performance, providing a healthy and conducive working environment, and contributing to corporate shareholder value.

HR Strategic Focus Areas for the 2012/2013 financial year were:

- Implementation of the Talent Management Strategy;
- Ensuring the proper implementation of a new Performance Management System;
- Facilitating organisational change, culture and effectiveness;
- Implementation of strategic interventions to ensure compliance with FAIS and FICA Regulations; and
- Automation of HR Processes through information systems and technology.

IMPLEMENTATION OF THE TALENT MANAGEMENT STRATEGY

The Ithala Talent Management Strategy is used as a tool to inculcate a culture of performance throughout the organisation. Information gathered from the performance reviews is critical in identifying key talent or high performing employees.

To ensure the proper implementation of this strategy, HR embarked on capacity building workshops/training for all employees to ensure the buy-in and alignment of all HR processes.

Critical and scarce skills positions have been identified and reviewed in line with the strategic direction of the organisation to ensure key talent and individuals are groomed to be possible successors.

Formulation of the Group Talent Forum Committee has been finalised and is operative.

PERFORMANCE MANAGEMENT SYSTEM

The Performance Management System is in place. Ninety two per cent (92%) of the total workforce have signed their performance agreement.

ORGANISATIONAL CULTURE AND CHANGE MANAGEMENT

In executing the Culture Change Document, HR chose to focus firstly on one pillar: effective communication. The Marketing and Communications division launched a communication publication called *Ziyenzeka* which is being used as a platform to update staff on all strategic interventions taking place within the organisation. HR has used this platform to communicate interventions that are currently being rolled out, as well as a platform for emphasising the importance of the Performance Management System in meeting the organisational goals and objectives. The next focus is on change management and the business has drawn up a business framework and plan which is to be rolled out in the coming financial year.

CORPORATE GOVERNANCE

FAIS Support and Implementation: Financial Advisory and Intermediary Services (FAIS) Accreditation. In terms of FAIS, key individuals and representatives need to meet certain fit and proper criteria, i.e. honesty and integrity; experience and qualifications.

With regard to Board Notice 104, the supervision of employees not fulfilling the requirements of being fit and proper, a supervision plan has been rolled out and is closely monitored by compliance and HR. The regulatory exams for representatives and key individuals have been conducted for the Corporation. Intensive workshops and e-learning interventions have been secured to assist our employees to become competent for this requirement.

AUTOMATION OF HR PROCESSES

HR is automating most of the HR manual functions. The following modules have been prioritised: Self-service module, which comprises of the electronic viewing of payslips and the Leave module. A project team has been established which comprises HR, IT and a technical specialist. For 2013, the focus will be on the Performance Management, Training, Organisational Design and Talent Management modules. The estimated time frame for this project is approximately three years taking into account other systems' functionality priorities. The Leave module is 100% complete.

A project team is currently looking at the Time and Attendance System is required modification and implementation. The business case is complete and we are awaiting quotes from suppliers.

EMPLOYEE WELLNESS

During the period 1 April 2012 to 31 March 2013, the focus of interventions was towards the promotion of healthy living and employees' holistic wellbeing, including aspects such as financial well-being. It is in this spirit that Ithala's Employee Wellness Programme encourages employees to live healthy lifestyles, hence our engagement with local NGOs, Health Clinics, Health Professional Bodies and financial and debt counselling institutions to assist us in driving the programmes, especially in rural areas where it is difficult to provide support.

The following Wellness Programmes/Activities were conducted throughout the organisation:

- Annual wellness days which focused on the promotion of healthy living and prevention of diseases;
- Financial wellness;
- Medical screening which included, eye screening, HIV and TB screening;
- SANBS Donor Clinic;
- Management of chronic diseases and other ailments; and
- Disability management and health/lifestyle education

TRAINING AND DEVELOPMENT

The drive to cut costs is still a major concern for the entire organisation and this has had an impact on the type of training delivered. As a result, the focus was on the critical on-the-job training courses as well as compliance and technical training. The Organisation also took a decision to assist in funding employees who were enrolled for their first formal qualifications. Human Resources Development Section was able to get additional funding of R700 000 from BANKSETA to assist in funding critical interventions. A total of 121 training interventions took place during the period 1 April 2012 to 31 March 2013 for Ithala (82), Ithala SOC Limited (32) and KZN Growth Fund SOC (Pty) Ltd (7). The total cost of this training was R2,1 million which is lower than the previous financial year's expenditure of R2.5 million.

APPRENTICESHIP PROGRAMME

Together with the Properties unit, the Human Resources Development section, in ensuring compliance and closing the skills gap of electricians within our industrial estates, enrolled two employees on an Electrical Apprenticeship Programme aimed at improving their skills and employability through accreditation with local Further Education Institutions. Furthermore, developments partnering with the Office of the Premier in the new financial year are in place to increase the exposure for external apprentices.

Flamingo Industrial Estate.

BURSARY SCHEME

Ithala has been funding students from very poor backgrounds who excel in their matric examinations, to study at various tertiary institutions. One of our students has graduated from UCT with a B Comm Accounting Degree and is currently doing her articles with Deloitte whilst another student is in his last year of study for a Diploma in Accounting at the Durban University of Technology. For 2013, Ithala has taken on two more students who have performed exceptionally well in their 2012 matric examinations. Both students have registered for a B Comm Accounting Degree at UKZN.

LEARNERSHIPS

Internal Audit Technician Learnership

Our Internal Audit Division conducted an internal Learnership from 2010 to the end of June 2012 with six employees being found competent. In August 2012 Group Audit embarked on a GIA Programme for five of the employees who were part of the Internal Audit Technician Learnership.

Letsema Learnership

BANKSETA has continued to place learners from previously disadvantaged communities and post matrics in our capable hands as a host employer. Ithala received a total number of eight learners who have played an integral part in ensuring that our branches are afloat in terms of staffing during this pressing time of ensuring fit and proper deadlines are met. This programme has yielded great returns for Ithala, especially for Ithala SOC Limited in terms of preparing possible employees for our organisation. With growing demands of compliance and technical ability required by the financial sector, it has proven to be beneficial in placing the right calibre person at the right time upon completion of the programme.

Experiential Learners

A total of 11 students have been placed at Ithala SOC Limited, Group Marketing and Communications, Properties, Information Technology and Human Resources in the current financial year. The reception of this initiative has been positive and has been confirmed by the numerous requests that have been received from the regions and business sector. Students are being afforded the opportunity to partake in an initiative to build their skills capacity whilst gaining the experience component required by future employers and tertiary institutions before graduation.

Internships and In-Service Training

In the new financial year, partnerships were formed with local Further Education and Training (FET) institutions, Universities of Technology and a Black IT Forum to place students in their final year within our premises to offer them a 6 - 12-month period to gain experience. Since April 2012, we have managed to place 11 students within our IT, Group Marketing & Communications, Properties and HR Departments, and the numbers are growing as the demand grows from the business sector to utilise these resources.

LEADERSHIP AND MANAGEMENT DEVELOPMENT

In developing potential managers and shaping their career prospects, the Human Resources Development section has been working closely with business units and BANKSETA through their initiatives. Horizons are not only broadened for the participants they contribute to the transformation of the banking sector. In the process, the initiatives create new networks and alliances for our participating employees.

Certificate in Management Development Programme

This programme has assisted both with finances and with building competency skills in leadership that are required by junior and middle management in the 21st Century. Ithala was given the opportunity to allow six employees to attend an intensive and challenging programme through Milpark Business School. This programme has further assisted in alleviating training costs for these employees as they formed part of our critical and scarce skills required by their respective business units.

International Executive Development Programme

One employee successfully completed this programme, an investment programme giving the employee an opportunity to share knowledge and gain experience on how other organisations in the global space operate.

Implementation of CSI Programmes through Career Exhibitions and Student Mentorship Programmes

The Human Resources Development section, in building further partnerships with external stakeholders, has been involved in various events and initiatives since the beginning of 2012, and has participated in career exhibitions and student development programmes with the National Department of Labour, Ministry of Higher Education, Mangosusthu University of Technology, Durban University of Technology and the Office of the Premier.

Reviewing our involvement in such initiatives has created a greater appeal to the younger generation to associate themselves with Ithala as a brand and an employer of choice. This is clearly indicative through the number of internships and in-service training requests we have received and are currently implementing internally.

EMPLOYEE PROFILE

Occupational Levels	Male				Female				Total	Previously Disadvantaged		
	African	Coloured	Indian	White	African	Coloured	Indian	White		2012/2013 %	2011/2012 %	2010/2011 %
Executive management	6	0	1	1	1	0	0	0	**9**	89	89	100
Senior management	7	1	3	0	7	0	3	3	**24**	100	100	100
Professionally qualified and experienced specialists and middle-management professionals	73	2	15	11	23	0	5	6	**135**	92	91	88
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	132	1	5	7	169	5	13	13	**345**	98	98	98
Semi-skilled and discretionary decision-making	132	0	1	0	154	0	1	1	**289**	100	100	100
Unskilled and defined decision-making	51	0	0	0	32	0	0	0	**83**	100	100	100
Total	**401**	**4**	**25**	**19**	**386**	**5**	**22**	**23**	**885**	**579**	**578**	**586**
%	**45.3**	**0.5**	**2.8**	**2.2**	**43.6**	**0.6**	**2.5**	**2.6**	**100**	**96.5**	**96.3**	**97.7**

CORPORATE GOVERNANCE

INTRODUCTION

Ithala Limited is committed to the highest level of corporate governance, integrity and ethics. The Board of Directors (the Board) is ultimately responsible for ensuring that governance standards are met and it is assisted by senior management who aim to instill a culture of compliance and good governance throughout the Ithala Group. This is underscored by sound and visible leadership characterised by the ethical values of responsibility, accountability, fairness and transparency. Sound corporate governance structures and processes are being applied and are considered by the Board to be pivotal to delivering sustainable growth in the interest of all stakeholders.

The Board advocates adherence to sound governance principles by all entities Ithala is invested in, by using its influence to ensure that all Ithala's subsidiaries and associated companies endorse the principles contained in the King Report on Governance for South Africa 2009 and PFMA (King III). Effective corporate governance forms part of Ithala's strategic objective and investment assessment criteria, which is further monitored on a continuous basis by non-executive directors appointed on the investee company's boards.

The Board seeks to comply in all material aspects that are relevant to its business. Ithala complied with the recommendations contained in the King III Report and PFMA during the year under review.

THE BOARD

The Board is ultimately accountable and responsible to the shareholder, the Provincial Government of KwaZulu-Natal, for the performance and affairs of Ithala. To this end, the Board signs a shareholders compact annually which covers a three-year period at a time, which, when read in conjunction with the corporate plan, forms a performance agreement with the Department of Economic Development and Tourism.

The non-executive directors are appointed through a formal process by the Executive Authority in accordance with the provisions of the KwaZulu-Natal Ithala Development Finance Act (Ithala Act No. 2 of 1999). Non-executive directors can serve on the Board of Directors up to three terms of no more than three years each.

Upon appointment, the directors are provided with an induction pack which comprises, among others the corporate governance manual, copies of the Ithala Act and other related legislation, the annual Board plan and calendar, as well as the corporate plan and key policies. The Group Company Secretary facilitates a formal induction seminar within three months of the appointment of the new director/s or at their earliest convenience, but no later than six months after appointment.

Composition of the Board

During the year under review, the Board comprised 11 members, 10 of which are independent non-executive directors who have a wide range of skills and competences. This enables them to bring independent judgment to the Board deliberations and decisions. No individual or group has unfettered decision-making powers.

Detailed below are the qualifications and skills of each non-executive director.

Name of Board Member	Educational Qualifications	Area of Expertise
Dr MSV Gantsho (Chairman)	• PhD • M Phil • M Sc • CA (SA) • B Com Honours	• Corporate Strategy Formulation and Execution • Infrastructure Development Finance • Financial Management and Reporting • Investment and Corporate Banking
Mr MF Kekana	• B Com Honours (Finance) • Executive Development Programme • Executive Management Programme • Executive Leadership Programme	• SMME Financing and Business Support • Public Sector Finance • Corporate Finance • Private Equity Finance
Ms NN Afolayan	• Masters in Business Administration: Finance • Executive Leadership Programme • Advanced Business Management • Post grad Diploma: Accounting Sciences	• Enterprise Risk Management • Strategy Development and Projects • Organisational and Change Management • Qualified Cost Accountant
Ms BC Bam	• BA Personnel Management • BA Honours (Sociology) • Project Management Diploma • Management Advancement Programme	• Strategic Management • Organisational Development • Change Management • Training and Development • Policy Development, Implementation, Monitoring and Evaluation
Mr WJ Jacobs	• Bachelors of Pharmacia • Certificate in Polyurethane Technology • Certificate in Theory of Constraints	• Management Structures and Systems • Business Plans • Business Risk • Business Turnaround Strategies
Mr N Khambule	• National Diploma (Agriculture) • B Tech in Business Management • Post grad in Business Management	• Strategy • Performance Audits • Human Resources • Economic Modelling • Corporate Finance • Property Development
Rev NNA Matyumza	• LLB • B Com • B Compt (Honours) • CA (SA)	• Financial Management and Reporting • Audit • Law • Strategy
Mr DM McLean	• B Acc • CA (SA) • Tax Law Programme	• Financial Management and Reporting • Banking and Financing (Corporate, Private Equity, Treasury and Trading, Capital and Debt Markets) • Taxation
Mr GNJ White	• BA (Economics) • B Admin (Honours): Development Studies • Executive Leadership Programme (USA)	• Infrastructure Finance • Business Strategy Formulation and Management
Ms AN Zondi	• B Proc	• Legal • Mediation and Dispute Resolution

The Board has adopted a formal charter which defines and records the responsibilities, functions and composition of the Board. The Board Charter serves as a reference for new directors. During the period under review the Board Charter was updated to include the principles and recommendations of King III and aligned with the Companies Act No. 71 of 2008 (new Companies Act). All directors have endorsed the charter and a copy of the charter is available for inspection.

The Board retains full responsibility for the effective control and strategic direction of Ithala. To this end, the Board reserves time in the annual calendar to specifically deal with the strategy of the organisation outside the normal Board meetings. The Board monitors levels of materiality and has formally documented matters which it has delegated to Board Committees and Management. During the year under review, the Board approved the materiality framework. Whilst the Board has delegated some of the powers of authority to different Board Committees and management, there is a record of matters that are reserved for the Board's decisions. The Delegated Powers of Authority Framework is reviewed annually as and when Ithala's risk universe and business processes change. All issues of a material or strategic nature, or which can impact on the reputation of the Group, are referred to the Board. Other issues are dealt with by management and/or the Board Committees, or by senior management as permitted in terms of a formal delegation of authority.

The Board meets at least four times a year and follows an annual work plan to ensure that all relevant matters are dealt with. Members of the Board and sub-committees receive an agenda, together with supporting documentation, at least one week prior to each meeting in order to enable them to be fully prepared and to discharge their fiduciary duties. All directors have unlimited access to the services of the Group Company Secretary and senior management, as well as to all company records.

ROLE OF THE CHAIRMAN AND GROUP CHIEF EXECUTIVE

The roles of the Chairman of the Board and the Group Chief Executive are separated. The Chairman is an independent non-executive director. The role of the Chairman includes, among others, the overall leadership of the Board and acting as the main link between the Board and the shareholder.

The Group Chief Executive is responsible for the running of Ithala's day-to-day business, including implementation of strategy, operations, policy and Board directives. At every scheduled Board meeting, the Group Chief Executive provides the directors with information on business performance against approved strategic objectives. This is detailed by a Performance Reporting Framework which is approved by the Board at the beginning of each financial year.

CODE OF CONDUCT

Ithala is committed to an open governance process through which its stakeholders can derive assurance that the organisation is being managed ethically, honestly and in a transparent manner. Ithala subscribes to the highest ethical standards and good corporate governance practises.

The Board has adopted a Code of Conduct which is underpinned by Ithala's approved values of respect, innovation, integrity, customer satisfaction, empowerment (internal and external), and equitable employment practices. The essence of the Code of Conduct is to ensure that Ithala's dealings with all stakeholders are done with integrity and within the ambit of the law and generally acceptable business practices. The objective of the Code of Conduct is to:

- Demonstrate organisational commitment to and compliance with the broad principles of the King III Report on Corporate Governance, and other applicable policies and legislation;
- Set acceptable ethical standards for the conduct of Board members;
- Create a context for the ethical use of authority by Board members, thereby committing Ithala Board of Directors to the highest standards of ethical behaviour;
- Create guiding principles in support of Ithala values; and
- Promote fairness, equity, consistency and certainty.

CONFLICTS OF INTERESTS

The Board has adopted a declaration of interest framework which is in line with the provisions of the new Companies Act. Mechanisms are in place to recognise, respond to and manage any actual, potential or perceived conflicts of interest. Directors are required to disclose their personal financial interests, and those of persons related to them, in contracts or other matters in which Ithala has a material interest or which are to be considered at a Board meeting. Where a potential conflict of interest exists, directors are expected to recuse themselves from relevant discussions and decisions.

In terms of the approved Code of Conduct for Board members, information acquired by directors in the performance of their duties, which is not disclosed publicly, is treated as confidential. Directors may not use, or appear to use, such information for their personal advantage or for the advantage of third parties.

BOARD PERFORMANCE EVALUATION

The Board has adopted a performance evaluation framework which includes the evaluation of the Board as a collective against the approved Board plan, the Board member's self-evaluation as well as peer evaluation. The results of the evaluation are presented to the Board and the Chairman discusses the results of the performance evaluation on a one to one basis with members. The Board has an approved training plan, the basis of which is performance evaluation. Board-approved training needs are established. The Board has defined a process through which training that is outside the approved training plan can be undertaken.

REMUNERATION OF NON-EXECUTIVE DIRECTORS

The remuneration of non-executive directors is approved by the shareholder at an Annual General Meeting before it is implemented for the following year. The remuneration of Board members is based on the Guidelines for Remuneration of Non-Executive Directors for State-Owned Enterprises published by the Department of Public Enterprises. The approved non-executive directors' remuneration policy is in line with the King III Report on Corporate Governance, which recommends that a portion of the directors' fees be paid as a retainer and the other portion be paid for meeting attendance. During the year under review, the directors did not take fee increases.

GOVERNANCE STRUCTURES

Board Committees have been established to assist the Board to discharge its responsibility of reviewing operational performance and monitoring risk management. Allocation of members to the committees is based on skills and every effort is made to distribute committee membership evenly among all non-executive directors.

Each Board Committee has a work plan which serves as a mechanism to ensure that meetings are structured in such a manner that the King III recommendations, Public Finance Management Act (PFMA) and Companies Act requirements are addressed. The Board Committee chairpersons make reports on the activities of their respective Committees to the Board at every meeting, highlighting emergent risks and recommending strategies as they deem appropriate, to enable the Board to monitor, among others, key risk areas that are relevant to the organisation. The Board Committees have the right to obtain independent, outside professional advice to assist with the execution of their duties, at company's cost, subject to following a Board-approved process. During the year under review, no independent outside professional advice was sought by either the Board or any of its Committees.

AUDIT COMMITTEE

The Audit Committee comprises at least three members, all of whom are independent non-executive directors who are appointed by the shareholder at the Annual General Meeting, at the recommendation of the Nominations and Governance Committee. The Board elects the Chairman of the Committee. The Committee is chaired by a non-executive director who is a chartered accountant. The Group Chief Executive, Group Chief Financial Officer, Head of Internal Audit and Divisional Manager: Group Risk and Compliance as well the KwaZulu-Natal Auditor-General, are attendees of the Committee. The Committee meets at least four times per annum. The members of the Committee collectively have sufficient qualifications and experience to fulfill their duties, including: an understanding of financial and sustainability reporting, internal financial controls, external audit process, internal audit process, corporate law, risk management, sustainability issues, information technology governance, and other governance processes.

The Audit Committee is responsible for among others:

Integrated Reporting

The committee oversees integrated reporting, particularly:

- All factors and risks that may impact on the integrity of the integrated report, including factors that may impact on fair presentation of the significant judgments and reporting decisions made in enforcing actions required by a regulatory body, any evidence that brings into question previously published information, forward-looking statements or information;
- Reviewing the annual financial statements and any other interim or preliminary results of the Company or any other financial information to be made public, prior to submission and approval by the Board;
- Commenting on the financial information in the Annual Financial Statements, the accounting practices and the effectiveness of the internal financial controls;
- Reviewing the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;
- Recommending to the Board whether or not to engage an external assurance provider on material sustainability issues; and
- Recommending the integrated report for approval by the Board.

Combined Assurance

Ensuring that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities, and in particular:

- Ensuring that the combined assurance received is appropriate to address all the significant risks facing Ithala; and
- Monitoring the relationship between the external assurance providers of the company.

Financial Function

The Committee reviews the expertise, resources and experience of Ithala's finance function, and disclose the results of such a review in the annual report.

Internal Audit

The Committee is responsible for overseeing the internal audit, and particularly for:

- The appointment, performance assessment and/or dismissal of the Head of Audit, approving the internal audit plan;
- Overseeing the staffing and objectives of the function;
- Ensuring that the internal audit function is subject to an independent quality review, as and when the Committee determines it appropriate;
- Reviewing and approving the internal audit charter;
- Considering and reviewing the internal auditor's significant findings during the year and management's responses thereto in relation to reliable reporting, corporate governance and adequate and effective internal control;
- Ensuring the internal audit function has the necessary resources and access to information to enable it to fulfill its programmes and to perform its duties in accordance with the appropriate professional standards for internal auditors;
- Ensuring the internal audit objectives and goals, staffing, budgets and plans provide adequate support for the goals and objectives of the Audit Committee, as well as for the fulfillment of the internal audit charter;

- Reviewing the co-operation and co-ordination between the internal and external audit functions and co-ordination of the internal audit work plan with external auditors to avoid unnecessary duplication of work;
- Reviewing significant differences of opinion between management and the internal audit function;
- Monitoring and evaluating the performance of the internal audit function in terms of agreed goals and objectives;
- Considering and reviewing any difficulties encountered in the course of the audits, including any restrictions on the scope of internal audit's work or access to required information;
- Considering any changes required in the planned scope of the internal audit coverage;
- Meeting the Head of Internal Audit at least once a year, without the presence of management, to discuss their role and any issues arising from the internal audits carried out; and
- Ensuring that the Head of Internal Audit has unrestricted access to the Chairman of the Audit Committee and the Chairman of the Board.

Risk Oversight

The Committee is an integral component of the governance of risk and specifically oversees the management processes to monitor and engage on:

- Financial reporting risks;
- Operational risks as they relate to the general control environment;
- Internal financial controls;
- Fraud risks as they relate to financial reporting; and
- IT risks as they relate to financial reporting.

External Auditors

The Audit Committee:

- Approves the terms of engagement and remuneration for the external auditors;
- Determines the nature and extent of any non-audit services which the auditor may provide to the Company, or the external auditor must not provide to the Company;
- Meets with the auditor at the commencement of the audit to review and approve the annual audit plan to ensure it is consistent with the scope of the audit engagement;
- Satisfies itself that the audit plan makes provision for effectively addressing the critical risk areas in the business;
- Meets with the auditor not more than a month before the Board meets to approve the financial statements in order to consider matters which appear to the auditor or the Audit Committee to be of importance and relevant to the proposed financial statements and to the affairs of the Company in general;
- Reviews the findings of the audit with the auditor. This includes but is not limited to, the following:
  - A discussion of any major issues which arose during the audit;
  - Any accounting and Audit judgements; and
  - The level of errors identified during the audit.
- Provides an open avenue of communication between the external auditor, internal audit and the Board;
- Reviews any representation letters requested by the auditor before they are signed by management;
- Reviews the management letter and management's response to the auditor's findings and recommendations;
- Reviews the overall audit role, seeks to minimise duplication, discusses implications of new auditing standards and ensures that the external audit fee will sustain a proper audit and provide value for money;
- Ensures that there is a process for the Committee to be informed of any reportable irregularities (as required by the Auditing Professions Act, 2005) identified and reported by the external auditor;
- Reviews the quality and effectiveness of the external audit process; and

- Meets separately with the external auditors, at least annually, to discuss any matters that the Committee or auditors believe must be discussed privately and to ensure that there are no unresolved issues of concern.

The Committee also deals with:

- The impact of significant or new financial systems;
- Tax and litigation matters;
- The appropriateness of accounting policies adopted and any changes in accounting policies and practices;
- Significant financial estimates based on judgment which are included in the financial statements;
- The impact and disclosure of significant, complex and/or unusual transactions, especially where the accounting treatment is open to different interpretations;
- The appropriateness of major adjustments processed at year-end;
- The basis on which the company had been determined as a going concern;
- Capital adequacy of subsidiaries, and the implication thereof to the Ithala Group;
- Compliance with applicable accounting standards and legal requirements;
- Whether the annual financial statements present a balanced and understandable assessment of the Company's position, performance and prospects;
- The clarity of disclosure in the company's financial reports and the context in which statements are made;
- Reviewing the directors' statement to be included in the annual financial statements, including the statement on effectiveness of the systems of internal control;
- Preparation of the Committee's report, to be included in the Annual Financial Statements for that financial year:
  - Describing how the Audit Committee carried out its functions;
  - Stating whether the Audit Committee is satisfied that the auditor was independent of the company; and
  - Commenting in any way the Committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company;
- Receiving and dealing appropriately with any concerns or complaints, whether from within or outside the company, or on its own initiative, relating to:
  - The accounting practices and internal audit of the Company;
  - The content or auditing of the Company's financial statements;
  - The internal financial controls of the Company; and
  - Any related matter;
- Making submissions to the board on any matter concerning the company's accounting policies, financial control, records and reporting; and
- Performing any other functions determined by the Board, including reviewing policies and procedures designed to improve the effectiveness of risk management, control, and governance processes within the company.

Compliance with Laws and Regulations

The Committee considers the legal and regulatory requirements to the extent it may have an impact on the financial statements by:

- Reviewing the effectiveness of the implemented compliance framework with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) or any instances of non-compliance;
- Reviewing the findings of any examinations by regulatory agencies, and any auditor observations;
- Obtaining regular updates from the Divisional Manager: Group Risk and Compliance regarding compliance matters;
- Obtaining reports from management, the internal auditor and the external auditor regarding compliance with all applicable legal and regulatory

requirements; and

- Approving the submissions/reports to regulators as required from time to time.

Both internal and external auditors have unrestricted access to the Chairman of the Audit Committee and to the Group Chief Executive. They are also responsible for bringing any and all matters of significance, which may arise from their activities, to the attention of the Audit Committee. The Chairman of the Audit Committee communicates relevant matters to the Chairman of the Board.

CREDIT AND INVESTMENT COMMITTEE

The Credit and Investment Committee, which meets at least quarterly, is chaired by a non-executive director and comprises five members, four of which are non-executive Directors. The Group Chief Executive is the ex-officio member of the Committee.

The role of the Committee is to ensure that Ithala follows an investment process as prescribed by Ithala Investment Policy, which includes production of an initial screening report (ISR) in the format agreed by the Committee from time to time. Management is responsible for verifying the information contained in the ISR and the Committee members are not obliged to independently verify the information so presented. The Committee uses the ISR and any other information that it deems appropriate to make the initial decision to proceed into the detailed appraisal stage. Any decision by the Committee to proceed to detailed appraisal stage does not constitute an investment approval, but concurrence that the proposed investment complies with the objectives and requirements of the Investment Policy. After the initial approval to proceed into a detailed appraisal stage and once management has completed its full appraisal, the Final Investment Appraisal (FIA) report (in the format agreed by the Committee from time to time) is submitted to the Committee for consideration for approval.

The role of the Committee is also to ensure that Ithala follows a credit process as prescribed by the Credit Extension Policy and supporting policies, in the format agreed by the Committee from time to time. Management is responsible for verifying the information contained in the loan approval application and the Committee members are not obliged to independently verify the information so presented. The Committee uses the loan application submission at its disposal and any other information that it may deem appropriate to make the decision to approve or disapprove the loan.

The Committee is responsible for, among others:

- Recommending Ithala's credit risk philosophy;
- Recommending policies, standards and procedures applicable to the granting of credit;
- Reviewing exposures that are not within prescribed

Ithala Maweleni Centre.

parameters regarding affordability and security offered;

- Monitoring adherence to Ithala's credit risk philosophy and compliance with the approved policies, standards and procedures applicable to the granting of credit;
- Overseeing and managing levels of credit activities and reviewing reports on credit granted;
- Evaluating the quality and recoverability of credit granted and the levels of risk inherent to the portfolio, including risks to geographic and industry concentrations, exposures to specific clients or client groups and security diversification;
- Determining the extent and adequacy of provisions against potential losses;
- Overseeing management of accounts in arrears and properties in possession;
- Facilitating and promoting communication in respect of credit risk related matters between the Board, management of Ithala and its external or internal auditors;
- Authorising the granting of loans equal to or greater than R10 million but no greater than R30 million
- Determining the policy regarding withdrawal of approved loans;
- Recommending Ithala's credit extension and other related policies; and
- Approving or disapproving applications to write off bad debts within the Committee's delegation as prescribed by the Delegated Powers of Authority Framework;

Investments

- Recommending Ithala's Investment Policy;
- Monitoring adherence to the Investment Policy and procedures applicable to making investments;
- Making investments in and disinvesting from companies;
- Managing and overseeing the performance of Ithala investments, including subsidiary and associated companies;
- Determining the value of shares held by Ithala in multi-partner companies and subsidiaries for disclosure in Ithala's Annual Financial Statements;
- Recommending the appointment of Ithala representatives to the Boards of companies in which Ithala has made an investment excluding Ithala SOC Limited and KZN Growth Fund Managers SOC (Pty) Ltd;
- Approving/disapproving investments in major property development projects in terms of the Committee delegations as prescribed in the Delegated Authority Framework; and
- Recommending investment exit strategies.

ENTERPRISE RISK COMMITTEE (ERC)

The ERC meets quarterly, is chaired by a non-executive director and comprises six members, four of which are non-executive directors, one co-opted member and an executive director. The Chairman of the Audit Committee and the Group Chief Executive are the ex-officio members of the Committee.

The role of the ERC is to assist the Board in ensuring that Ithala has implemented an effective policy and plan for risk management that will enhance the organisation's ability to achieve its strategic objectives and ensure disclosure regarding risk is comprehensive, timely and relevant.

The Committee is responsible for, among others:

- Overseeing the development and annual review of the policy and plan for risk management to recommend for approval to the Board;
- Monitoring implementation of the policy and plan for risk management taking place by means of risk management systems and processes;
- Making recommendations to the Board concerning the levels of risk tolerance and appetite and monitoring that risks are maintained within the levels of tolerance and appetite as approved by the Board;
- Ensuring the risk management plan is widely disseminated throughout Ithala and integrated in the day-to-day activities of the organisation;
- Ensuring risk assessments are performed on regular and continuous basis;
- Ensuring frameworks and methodologies are implemented to increase the possibility of

anticipating unpredictable risks;

- Ensuring management considers and implements appropriate risk responses;
- Ensuring continuous risk monitoring by management takes place;
- Liaising closely with the Audit Committee to exchange information relating to risk; and
- Expressing the Committee's formal opinion to the Board on the effectiveness of the system and process of risk management.

The Committee is also responsible for recommending Ithala's liquidity and interest rate risk philosophies, and monitoring the effectiveness of policies, standards and procedures used to manage Ithala's assets and liabilities regarding mix, maturity and interest rate profile.

During the year under review, the terms of reference of the Committee were extended to include Occupational Health and Safety risk oversight, as well as Information Technology and Communication governance. To this end, the Board co-opted an ITC specialist as a member of the Committee.

HUMAN RESOURCES AND REMUNERATION (HRR) COMMITTEE

The Human Resources and Remuneration Committee, is chaired by a non-executive director and comprises four members, three of which are non-executive directors. The Group Chief Executive is the ex-officio member of the Committee. The Committee meets at least quarterly. The members of the HRR Committee must collectively have sufficient qualifications and experience to fulfill their duties.

The role of the HRR Committee is to:

- Assist the Board with its oversight role of the human resource risk
- Ensure the creation of an environment that instills a human resources and remuneration philosophy seeking to attract, retain, and develop the best possible talent to successfully implement Ithala's strategy and achieve the Group's strategic objectives;
- Ensure that Ithala remunerates directors and executives fairly and responsibly; and
- Ensure that the disclosure of directors' and prescribed officers' remuneration in the Annual Financial Report is accurate and transparent.

The Committee is also responsible for creating an organisational culture, structures and processes which seek to support the development of all staff and the optimisation of their potential, in particular, those previously disadvantaged so as to address any existing inequalities in staff profiles and organisational practices.

The Committee's responsibilities include among others:

- Ensuring that the Board and Ithala's executives and top management are adequately advised of best HR practices;
- Ensuring Ithala's HR department is adequately and appropriately led, resourced and staffed;
- Overseeing the establishment and implementation of terms and conditions of service/employment of all Ithala staff to ensure they are fair and competitive;
- Reviewing the succession planning process followed by Ithala, and succession plans developed at executive and senior management levels of the organisation;
- Reviewing the annual promotions at executive and senior management levels;
- Reviewing the criteria and process used by Ithala to measure the performance of all staff;
- Setting an appropriate and competitive remuneration strategy for Ithala;
- Recommending remuneration policies in relation to non-executive directors;
- Setting parameters for annual and other salary increases for all staff levels, giving due regard to all stakeholders and to financial and commercial sustainability of Ithala;
- Determining how employees with scarce skills will be remunerated to ensure commitment and retention;
- Making recommendations on all aspects of the rules, composition and distribution of Ithala's incentive scheme bonus;

- Reviewing the outcomes of the implementation of the HR policies and evaluate whether they promote the achievement of Ithala's strategic objectives and encourage individual performance;
- Reviewing the bi-annual performance appraisal and rating of executives (except the Group Chief Executive) and senior management;
- Reviewing the remuneration disclosure in the Annual Report to ensure it is accurate, transparent and provides sufficient forward looking information for shareholders to assess the remuneration policy and for passing a special resolution in terms of section 66 (g) of the Companies Act; and
- Assisting the Group Chief Executive with the recruitment, selection and appointment of Executives.

The Chairman of the HRR Committee attends the AGM to support the Chairman of the Board to respond to the shareholders' questions in respect of matters within the mandate of the HRR Committee. Any questions on remuneration as with all other questions, are in the first instance directed to the Chairman of the Board.

NOMINATIONS, GOVERNANCE, SOCIAL RESPONSIBILITY AND ETHICS COMMITTEE

The name of the Committee has been changed from the Nominations and Governance Committee to the Nominations, Governance, Social Responsibility and Ethics Committee during the year.

The Committee meets four times a year and comprises four members, all of which are non-executive directors. The Chairman and Deputy Chairman of the Board are members of the Committee. The Committee is chaired by the Chairman of the Board.

The role of the Committee is to assist the Board to ensure that:

- The Board has the appropriate composition to execute its duties effectively;
- Directors are appointed through a formal process;
- Induction and ongoing training and development of directors takes place;
- Formal succession plans for the Board, Group Chief Executive and executive management appointments are in place;
- Ithala's governance processes are effective; and
- Ithala's ethical, social and environmental responsibilities are embedded in its business processes.

The Committee is responsible for, among others:

Nominations

- Ensuring the establishment of a formal process for the appointment of directors;
- Ensuring that inexperienced directors are developed through a mentorship programme;
- Overseeing the development and implementation of continuing development programmes for directors;
- Considering the performance of directors and to take steps to remove directors who do not make the appropriate contribution;
- Recruiting and recommending to the Board a replacement for the Group Chief Executive when that becomes necessary;
- Assisting the Chairman of the Board in evaluating the performance of the Group Chief Executive;
- Ensuring that formal succession plans for the Board and Group Chief Executive are developed and implemented;
- Nominating non-executive directors for appointment as shareholder representatives in Boards of subsidiaries; and
- Appointing of executives at the recommendation of the Group Chief Executive.

Governance

- Ensuring effective leadership, which is categorised by ethical values of responsibility, accountability, fairness and transparency, and based on moral duties that find expression in the concept of Ubuntu;
- Developing and recommending a governance framework between the Group and its subsidiaries' Boards;
- Ensuring the Company's governance structures are

designed to facilitate and assist the Board in creating and delivering sustainable shareholder value; and

- Ensuring directors receive regular briefings of changes to risks, laws and the environment in which Ithala operates.

Social Responsibility and Ethics

- Monitoring Ithala's activities, having regard for any relevant legislation, other legal requirements or prevailing codes of best practise in matters relating to:
  - Broad-Based Black Economic Empowerment including social and economic development;
  - Section 72(4) and Regulation 43(2) of the Companies Act 71 of 2008;
- Good Corporate Citizenship; including:
  - Promotion of equality, prevention of unfair discrimination and reduction of corruption; and
  - Contribution to development of the communities in which Ithala conducts its business;
- Recording of sponsorships, donations, and charitable giving; and
- Consumer relations, including Ithala's advertising, public relations and compliance with consumer protection laws.

The Committee also assesses the conduct and performance of non-executive directors on an individual basis, as well as the overall effectiveness of the Board and its Committees. It also deals with all emergency matters that require the Board's attention, comment or consideration.

BANKING LICENCE COMMITTEE

Ithala's Banking Licence Committee, which meets as and when necessary, comprises six members, the Group Board Chairman and Deputy Chairman, the Chairman of Ithala SOC Limited Board, a non-executive director (who is the representative of the Corporation in Ithala SOC Limited Board), the Group Chief Executive Officer and the Chief Executive Officer of Ithala SOC Limited. The Committee is chaired by the Deputy Chairman of the Group Board, who is non-executive director.

This committee is responsible for the formulation of a proposal to permanently regularise Ithala's deposit-taking activities and the submission of the proposal to the Board on the most appropriate strategies to adopt such that the Corporation complies with the conditions of the exemption notice as contained the Government Gazette No. 31716 of 19 December 2008.

Canvas and Tent.

INTEGRATED SUSTAINABILITY REPORTING

The Company has performed a gap analysis of the requirements of integrated reporting as per King III against the Annual Report and has established that there is partial compliance.

A similar gap analysis was performed of the requirements of sustainability reporting as per the GRI sustainability reporting guidelines G3.1 reference

ROLE OF THE GROUP AND COMPANY SECRETARY

All directors have unlimited access to the services of the Group Company Secretary, who is responsible to the Board for ensuring that proper corporate governance principles are adhered to and that Board orientation or training is given when appropriate.

The Group and Company Secretary is furthermore responsible for ensuring the proper administration of the proceedings and matters relating to the Board, the Company and the shareholder in accordance with applicable legislation and procedures.

The Group and Company Secretary is not a director of Ithala and has an arm's length relationship with the Board and the directors.

Ubuciko Twines and Fabrics.

BOARD AND COMMITTEE MEETING ATTENDANCE – 2012/2013

	Date of first appointment	Board	Audit Committee	Enterprise Risk Committee	Human Resources & Remuneration Committee	Credit and Investment Committee	Nominations and Governance	Banking Licence Committee
Total Meetings Held		5	6	4	6	6	3	3
Dr MSV Gantsho	**01/06/2011**	5	-	-	-	-	3	3
Mr MF Kekana Re-appointed on 15/09/2012	**14/09/2009**	4	-	-	-	5	2	3
Ms NN Afolayan Re-appointed on 13/06/2011	**21/04/2008**	4	5	-	5	-	-	-
Ms BC Bam Re-appointed on 15/09/2012	**15/09/2009**	5	-	-	6	3*	3	-
Mr WJ Jacobs Re-appointed on 15/09/2012	**15/09/2009**	5	-	2	-	5	-	-
Mr N Khambule Re-appointed on 13/06/2011	**21/04/2008**	4	3▲	-	-	5	-	-
Rev NNA Matyumza	**01/06/2011**	4	6	4	-	-	-	-
Mr DM McLean Re-appointed on 15/09/2012	**15/09/2009**	5	6	4	-	-	-	-
Ms M Mosidi (co-opted to ERC wef 01/01/2013)	-		-	1	-	-	-	-
Mr GNJ White	**01/06/2011**	4	-	-	6	-	3	2♦
Ms AN Zondi Re-appointed on 13/06/2011	**21/04/2008**	3	-	3	-	-	-	-
Ms YEN Zwane (5-year contract)	**01/12/2011**	5	1	4	6	3	3	3

- N/A

* appointed wef 01/07/2012

▲ resigned wef 01/01/2013

♦ appointed wef 17/09/2012

INTERNAL AUDIT AND RISK ASSURANCE

Ithala Group Internal Audit and Risk Assurance Services' (IGARAS) is responsible for providing independent, objective assurance on the adequacy and effectiveness of Ithala's system of governance, risk management and internal control to the Board and executive management and, in doing so, helps enhance the controls culture within the Group.

Furthermore, consultative and forensic investigation services are provided by IGARAS. Ithala's Board is ultimately responsible enterprise-wide for governance, risk management and internal control. Management is accountable to the Board for designing, implementing and monitoring the effectiveness of internal financial controls, general control environment and compliance.

The independence and objectivity of IGARAS is underpinned by the functional reporting of the Internal Audit unit to the Audit Committee, and administratively to the Group Chief Executive Officer. IGARAS's mandate is contained in the Internal Audit Charter approved by the Audit Committee annually, in line with the requirements of the International Standards for the Professional Practice of Internal Auditing as well as Treasury Regulations.

The end of the 2013 financial year denotes the end of second year of the three-year rolling audit coverage plan, which was presented and approved by the Audit Committee in February 2011.

A comprehensive risk-based 2013 annual audit plan was derived from the three-year rolling plan after intensively conducting a formal risk assessment of the entire business. The Audit Universe included all subsidiaries of Ithala, its strategic business units, and support functions such as the IT Department, Group Finance, Credit Risk and others.

To ensure that IGARAS continues to provide a service which complies with the approved charter and the International Standards for the Professional Practices of Internal Auditing as well as the Code of Ethics, the quality assurance and improvement programme applied on the function covers all aspects of the internal audit activity.

The programme includes internal and external evaluations which assess the effectiveness and efficiency of the internal audit activity. The most recent external assessment was carried out by The Institute of Internal Audit (SA) in the last quarter of the financial year, and concluded that IGARAS conformed to the International Standards for the Professional Practice of Internal Auditing.

ANTI-FRAUD AND CORRUPTION

Ithala is committed to eradicating all forms of fraud and corruption, and hence applies a 'zero tolerance' approach. All internal and external known incidents of fraud and corruption are fully investigated.

The Anti-Fraud and Ethics Framework (AFEC) provides detailed guidance on how Ithala fights fraud and corruption and encourages ethical individuals within the Company to raise their concerns in a responsible manner.

To this end, the GCEO, together with Ithala management and employees, signed an Anti-Fraud Declaration as a pledge of zero tolerance against fraud and corruption.

The Anti-Fraud and Ethics Committee, an Executive oversight structure chaired by the Group Chief Financial Officer, safeguards employees from occupational detriment should they 'blow the whistle' on fraud and corruption, as well as assisting management to identify and manage fraud risk in order to protect the reputation of Ithala.

Generally, one of the obstacles faced in the fight against fraud and corruption is the fact that individuals are often too intimidated to speak out on corrupt and unlawful activities which they observe in the workplace. It is for this reason that Ithala promotes an ethical organisational culture premised on openness, transparency and accountability.

Essentially, the framework harnesses a common interest between the employees who raise concerns they may have in the workplace, with accountable managers who are prepared to respond to the *bona fide* concerns of their employees.

This is ensured through the four-pronged approach to anti-fraud and corruption, namely fraud prevention, detection, deterrence and investigation.

To assist in addressing any fraudulent and corrupt activities, the Forensic Investigation unit works in collaboration with various law enforcement agencies as well as service providers such as Tip-Offs Anonymous.

Defalcation Report

During the period 01 April 2012 to 31 March 2013, based on information supplied by management and investigations conducted by IGARAS, various defalcations occurred, which can be summarised as follows:

DEFALCATION CATEGORY	NUMBER	GROSS LOSS VALUE (R)
Fraud/Theft and Corruption by Non-Staff	0	R0
Fraud/Theft and Corruption by Staff	10	R5 875 851
TOTAL		R5 875 851

ENTERPRISE RISK MANAGEMENT

As a development finance institution, Ithala is required to manage risks as it pursues its vision of driving development impact in the region of KwaZulu-Natal, through expanding access to development finance and effectively integrating and implementing sustainable development solutions primarily to the previously disadvantaged people in the region.

Risk management plays a crucial role in ensuring that Ithala delivers on its mandate while remaining financially sustainable in its interventions. The Board is ultimately accountable for the effective management of risks. It has mandated an Enterprise Risk Committee (ERC) to assist it in executing its responsibilities with respect to risk management.

As set out in its terms of reference, the ERC meets at least four times and its primarily objective is:

- To recommend the Enterprise Risk Management Strategy/Framework to the Board and monitor management in the implementation thereof;
- To evaluate the effectiveness of risk management systems, processes and controls;
- Annually review and recommend all the Risk Management Policies and frameworks to the Board for approval;
- To approve the annual Risk Coverage Plan as recommended by Group Risk and Compliance division; and
- To review and report on the Group Strategic Risk register to the Board.

An Enterprise Risk Management (ERM) approach to managing risk exposures has been developed. This involves the embedding of frameworks, policies, methodologies, processes and systems for managing all risk exposures inherent in Ithala's strategies, operations and business processes. The key components of Ithala's ERM framework are risk governance, risk assurance, risk control and risk oversight.

Risk is managed on two levels: strategic and operational. The former includes the management of strategic risks, processes and systems, regulatory compliance, legal risk and business continuity, while the latter includes impact of operational risk issues on Ithala's day-to-day operations.

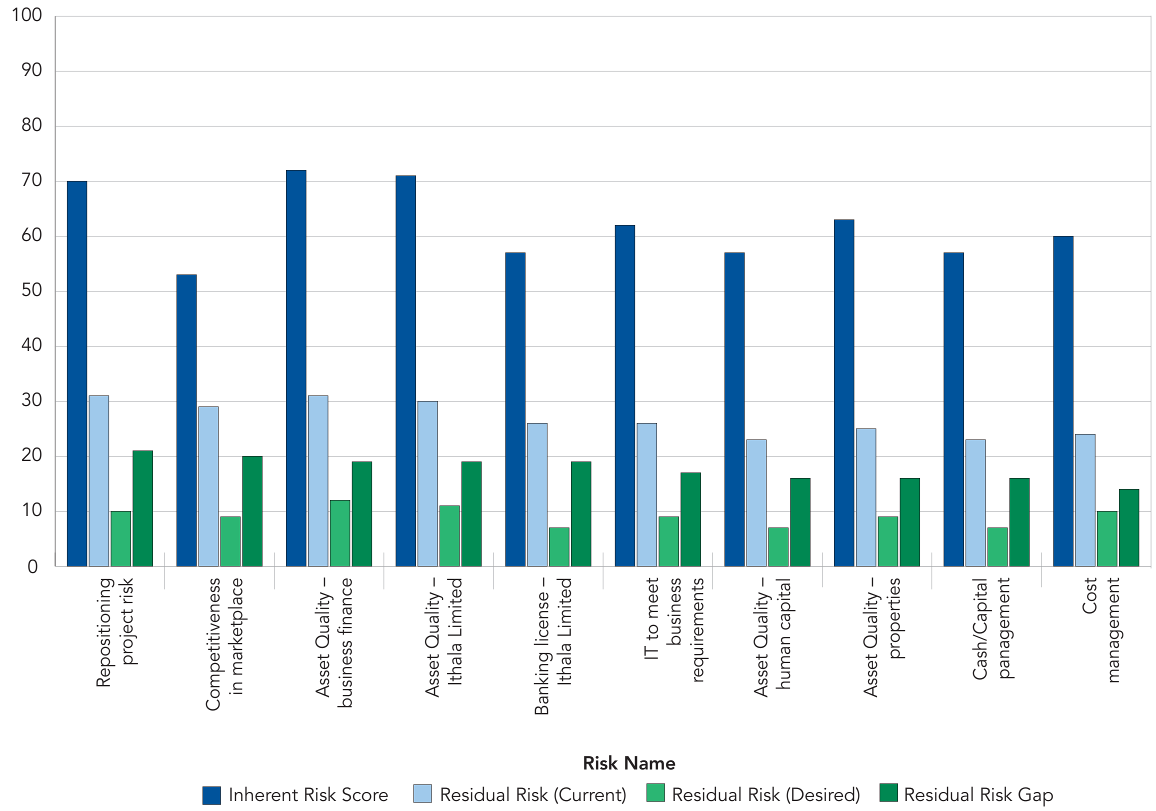
A risk management culture is being further embedded within the business; regulatory acts have been identified and compliance to them has been given focus, and risk and compliance training initiatives have also been undertaken in instances where required to enhance adherence.

Management is committed to ensuring the current robust risk management process is continued to ensure Ithala's assets are protected and where necessary the risk is mitigated through adequate insurance.

An Ithala risk workshop was held in January 2013 whereby the old risk register was revisited, revised and mapped to Ithala's strategy. In total 21 strategic risks facing Ithala were identified, based on their residual risks after assessing the current implemented controls in place.

The 10 strategic risks are listed as follows:

ITHALA GROUP – TOP 10 RESIDUAL RISKS



Notes: Risk Rating

Residual Risk:

Rating	Description
1-2.5	Reduce control
2.5-5	Acceptable
5-10	Monitor
10-20	Action required
20+	Immediate action required

Strategic Risk Profile (current residual risk vs. desired residual risk)

The following are the identified Ithala Development Finance Corporation Limited top strategic risks compiled at the risk workshop.

Strategic Risk Universe

The risk name for each of the identified risks has been reflected in the table:

Risk no.	Risk name
1	Repositioning Project Risk
2	Asset Quality – Business Finance
3	Asset Quality – Ithala SOC Limited
4	Competitiveness in Marketplace
5	IT to meet Business Requirements
6	Banking Licence – Ithala SOC Limited
7	Cost Management
8	Asset Quality – Human Capital
9	Asset Quality – Properties
10	Cash/Capital Management
11	Project Management
12	Strategy Execution
13	Stakeholder Support
14	Business Process Management
15	Portfolio Mix
16	Economic Environment
17	Reputation of Ithala
18	Fraud and Corruption
19	Governance and compliance
20	Integrated Sustainability
21	Catastrophic Event (Business Continuity)

Existing controls are in place for the identified risks and, where additional controls are required, management have developed detailed risk mitigation plans to address the residual risk exposure. All risks are reviewed on a monthly basis, whereby the status of the mitigation plans are considered, as well as the outcomes of the scheduled reviews conducted by Group Risk and Compliance, and then reported to the Executive Committee (EXCO). Quarterly update reports are submitted to the Enterprise Risk Committee (ERC), ensuring that management can execute its risk management responsibility in terms of the PFMA and King III.

COMPLIANCE OVERVIEW

Ithala operates in a highly regulated business environment, where it has to comply with multiple regulatory mandates, including privacy, industry and process regulations. Therefore, Ithala has adopted a Compliance Risk Management Framework that is aligned with the Generally Accepted Compliance Practice Framework of the Compliance Institute of South Africa. This framework supports the active management of compliance risk. It uses a four-phase approach to identify, assess, manage and monitor compliance risk.

Ithala is a public entity in terms of the Public Finance Consistency Management Act No. 1 of 1999, and is listed under Schedule 3 Part 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.

Ithala is a registered credit provider and an authorised financial services provider in terms of the National Credit Act No. 34 of 2005 and Financial Advisory and Intermediary Services Act No. 37 of 2005 respectively. Ithala is the holding group company for a subsidiary that operates under an exemption notice as a deposit taking institution. This means that the subsidiary is regulated by the provisions of the Banks Act.

Ithala's Group compliance philosophy recognises the importance of ensuring continual adherence to legislative, regulatory and supervisory requirements as a critical part of effective compliance management, sound enterprise and ultimately, the holistic and integrated sustainability of the organisation.

ACHIEVEMENTS

Ithala has rolled out its Enterprise Risk Management Framework to major business units and to major subsidiaries. Risk registers and compliance logs are maintained for various lines of business to ensure that operational risks are identified with proper mitigation strategies.

An independent enterprise risk management maturity assessment confirmed that significant improvements have been made to integrating risk management framework into the business with an opportunity to further improve to the desired maturity level in two to three years' time.

THE YEAR AHEAD

In 2013/2014, Ithala will pursue the following risk management objectives:

- Increased integration of risk management through further embedding the risk culture into the organisation's day-to-day activities; and
- Improvement in implementing the combined assurance model to ensure efficient, continuous monitoring and reporting by direct and independent assurance functions.

Canvas and Tent at Ezakheni Industrial Estate.

CORPORATE SOCIAL INVESTMENT (CSI)

Ithala's vision is to drive economic growth in the Province through the delivery of sustainable development in order to improve the lives of local citizens, especially the historically disadvantaged.

The Corporation's CSI programme invests in projects that support Ithala's development mandate. Developing a culture of entrepreneurship, financial literacy and community support are the key areas of focus.

In order to broaden the reach of CSI projects and to ensure sustainability, collaborations have been formed with public and private organisations such as Cell C, Tracker, KZN Financial Literacy and the Banking Association of South Africa.

BURSARY PROGRAMME

As part of Ithala's development mandate, the organisation awards bursary funding to financially deserving tertiary students through its CSI programme. The beneficiaries come from underprivileged backgrounds and have achieved excellent matric results.

In 2009, Ithala embarked on a bursary programme for Ms Mandisa Nene who had performed well in her matriculation examinations obtaining eight distinctions. Mandisa is from an underprivileged background. For the past three years, Ithala has granted financial assistance through the CSI programme, covering her tuition fees, the costs of prescribed textbooks and accommodation for her studies at the University of Cape Town. She completed a Bachelor of Commerce in Accounting degree and is busy with her articles. She will return to Ithala after qualifying as a Chartered Accountant.

Ithala is also funding another student, Mr Thembinkosi Mngomezulu, who is in his final year of study towards a Diploma in Accounting at Durban University of Technology.

For the 2013 financial year, Ithala has taken on two more students who performed exceptionally well in their 2012 matriculation examinations. Both students are from Menzi High School in Umlazi. They are Londiwe Shandu and Bongeka Ndlovu and have both registered for a Bachelor of Commerce in Accounting Degree at the University of KwaZulu-Natal. Londiwe is at the Pietermaritzburg campus and Bongeka is at Durban-Westville campus. The funding is for the next three years.

Student	Investment to date	Status	Qualification
Mandisa Nene	R143 955	Completed	B Com Accounting
Thembinkosi Mngomezulu	R49 120	Final Year	N Dip Accounting
Londiwe Shandu	R64 329	First year	B Com Accounting
Bongeka Ndlovu	R67 869	First year	B Com Accounting

Mayibuye Youth in Business, handing out prizes to Silokoza High School.

JSE AND KZNFLA NATIONAL YOUTH FINANCIAL LITERACY DAY

Ithala, in partnership with the KwaZulu-Natal Financial Literacy, The Banking Association of South Africa and the Johannesburg Stock Exchange, hosted the National Youth Financial Literacy Day Summit in October 2012. The Summit was targeted at high school pupils, university students and young entrepreneurs. A total of 350 young people attended the summit.

The day was aimed at empowering young South Africans so that they can actively and effectively participate in the country's economy. The speakers equipped the youth with necessary knowledge to make informed decisions. The summit also sought to increase the youth's level of financial literacy, since financial skills are critical to succeed in business. A prosperous nation is one that saves some money for the future. In the spirit of creating a culture of saving, youth were encouraged to start saving at an early stage.

The summit was addressed by MEC for Finance in KwaZulu-Natal, Ms Ina Cronjé. Other speakers included Ithala, the National Credit Regulator, the Financial Planning Institute and The Banking Association of South Africa.

MAYIBUYE YOUTH IN BUSINESS LEGACY PROJECT

Ithala delivered sewing machines and fabric vouchers to Silokoza High School in Ladysmith, who were first prize winners in the competition for a sewing project. A handover ceremony of sewing machines was held at the school in the Mhlumayo area in Ladysmith. The handover ceremony was part of a legacy project of Mayibuye Youth in Business, an entrepreneurship schools competition for all high schools in KwaZulu-Natal mainly targeted at matric students.

Ithala's role in the project is to provide the means for learners to start a business in line with their winning concept. The competition was held in 2009, however, there was a delay in handing over equipment for the winning concept due to lack of electricity at the school. The school has since had electricity installed and learners who were part of the winning team indicated their desire to kick-start the project. The handover ceremony was attended by the School Principal, School Governing Body representatives, teachers, participating learners and parents.

TAKE A GIRL CHILD TO WORK DAY

In May 2012, Ithala hosted 60 Grade 11 and 12 learners from Ogwini Comprehensive, Qhilika, Masakhaneni, Umqhele, Chesterville Extension and JG Zuma High Schools at the Umlazi Corporate Services Centre and Durban Services Centre. The learners spent the day learning about various operations including banking, property management, funding, accounting, risk management, auditing and law.

Take a Girl Child to Work Day.

The primary goal of the project was to inspire girl children to set goals and work towards achieving them. Presenters from Ithala motivated learners to pursue success that they may have never thought possible. For many girls, the day spent in a work environment opened up a bouquet of career opportunities. The presenters were available to guide learners through career-guidance questions.

The overall theme for the 2012 campaign was to challenge young girl learners to believe in themselves and look out for opportunities to develop themselves and their communities.

67 MINUTES FOR MADIBA

On 18 July 2012, South Africans celebrated Madiba's 94th birthday. As part of Ithala's CSI programme, employees were invited to visit Mason Lincoln Special School in Umlazi V Section, and to use their 67 minutes to make a difference in revamping the girls' and boys' dormitories with bright new linen.

Mason Lincoln Special School caters for more than 200 physically challenged learners from Grade 1 to Grade 12.

A need for eating utensils was also identified which Ithala has offered to purchase.

OPERATION SUKUMA SAKHE

Operation Sukuma Sakhe is an initiative of the KZN Premier's Office. The project entails the adoption of orphans and vulnerable children by the Provincial Government and its entities. The beneficiaries are provided with any form support that they require, and most often it is basic needs such as shelter, clothing, food, school uniforms, books, etc. When the programme was launched, Ithala pledged R10 000 towards the launch.

The Office of the Premier, in partnership with eThekwini Municipality, identified Ingwemabala Crèche at Ohlange in Inanda to receive Ithala's pledge. The pledge was used to purchase beds for the facility, which were handed over by the Mayor of eThekwini Municipality, Councillor James Nxumalo, on 18 July 2012.

KZN FINANCIAL LITERACY ASSOCIATION AGM SPONSORSHIP

In February 2013, the KZN Financial Literacy Association hosted its Annual General Meeting at Sinodale Centre in Pietermaritzburg. The meeting was attended by 100 representatives from the financial services sector. Ithala sponsored welcome packs in the form of branded folders and pens.

Mandisa Nene completed her Bachelor of Commerce in Accounting Degree.

67 Minutes for Madiba at Mason Lincoln Special School (eMalandeni, Umlazi).

FINANCIAL REPORT

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

The Annual Financial Statement preparation has been supervised by Mr FA Ferguson CA (SA) MBA, the Acting Group Chief Financial Officer of Ithala Development Finance Corporation Limited.

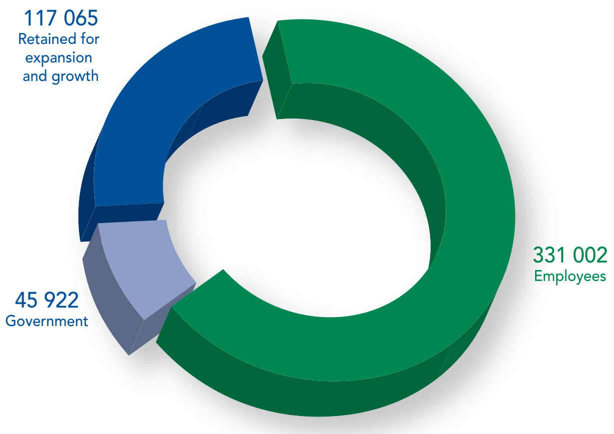
VALUE ADDED STATEMENT

For the year ended 31 March 2013

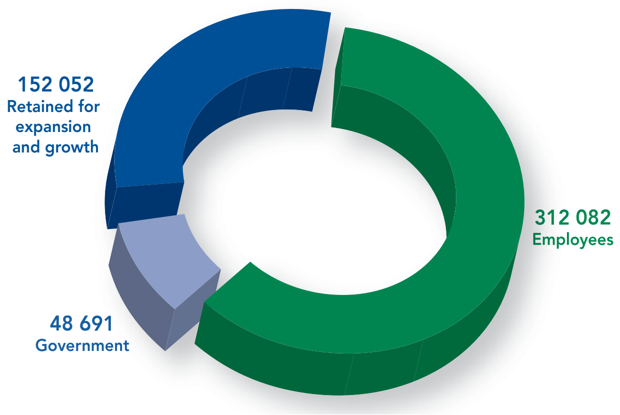
	2013		2012 Restated	
	R'000	%	R'000	%
VALUE ADDED				
Net Interest Income	**189 836**	**17**	209 342	20
Non-interest income	**900 088**	**83**	860 006	80
Expenditure	**(595 935)**	**(54)**	(556 524)	(52)
	493 989	**45**	512 824	48
VALUE ALLOCATED				
To employees:				
Staff costs	**331 002**	**67**	312 082	61
To government:	**45 922**	**9**	48 691	9
Skills development levies	**2 245**	**0.43**	2 174	0.42
Value added taxation	**10 195**	**1.95**	16 358	3
Rates and taxes paid to local authorities	**30 030**	**6**	26 575	5
South African normal taxation	**3 452**	**1**	3 584	1
To retention for expansion and growth:	**117 065**	**24**	152 052	30
Depreciation	**43 188**	**9**	50 115	10
Retained income for year	**73 877**	**15**	101 937	20
Total value allocated	**493 989**	**100**	**521 824**	100

VALUE ALLOCATED

2013



2012



REPORT OF THE AUDIT COMMITTEE

REPORT OF THE AUDIT 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]

The Audit Committee is a committee of the Board of Directors and in addition to having specific statutory responsibilities in terms of the Companies Act, it assists the Board through advising and making submissions on financial reporting, oversight of the risk management process and internal financial controls, external and internal audit functions and statutory and regulatory compliance of the Corporation and Group.

Terms of Reference

The Audit 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 Committee consists of three independent non-executive directors.

As at 31 March 2013 the Audit Committee comprised:

Members	Qualifications
Ms NNA Matyumza	CA (SA), LLB
Ms NN Afolayan	Masters in Business Administration: Finance
Mr DM McLean	CA (SA)

The Group Chief Executive, the Group Chief Financial Officer, Senior Executives of the Corporation and representatives from the external and internal auditors, attend the committee meetings by invitation only. The internal and external auditors have unrestricted access to the Audit Committee.

Meetings

The Audit Committee held six meetings during the period. Attendance at these meetings is shown in the table below:

Members	24 May 2012	28 May 2012 (Special)	27 July 2012	25 Oct 2012	12 Feb 2013	28 Mar 2013 (Special)
Ms NNA Matyumza	√	√	√	√	√	√
Ms NN Afolayan	√	√	♦	√	√	√
Mr DM McLean	√	√	√	√	√	√
Mr N Khambule	√	♦	√	√	R	

√ = Present ♦ = Apology R = Resigned

Statutory Duties

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

- Believes that the appointment of the Auditor-General South Africa (AGSA) as a auditor complies with the relevant provisions of the Companies Act and Public Finance Management Act;
- Determined the fees to be paid to the AG (SA) as disclosed in Notes 21.1 of the annual financial statements;
- Determined the terms of engagement of the AG (SA);
- Reviewed the quality of financial information;
- Reviewed the Annual Report and Financial Statements;
- Received no complaints relating to the accounting practices and internal audit of the Corporation and Group, the content or auditing of their financial statements, the internal financial controls of the Corporation and Group, and any other related matters;
- Made submissions to the Board on matters concerning the Corporation and Group's accounting policies, financial controls, records and reporting; and
- Concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

Oversight of Risk Management

The Audit Committee has:

- Received assurance that the process and procedures followed by the Enterprise Risk Committee are adequate to ensure that financial risks are identified and monitored; and
- Satisfied itself that the following areas have been appropriately addressed:
  - Financial reporting risks;
  - Internal financial controls;
  - Fraud risks as it relates to financial reporting; and
  - IT risks as it relates to financial reporting.

Internal Financial Controls

The Audit Committee has:

- Reviewed the effectiveness of the Corporation and Group's system of internal financial 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 the Corporation and Group.

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

Regulatory Compliance

The Audit Committee has:

- Reviewed the effectiveness of the system for monitoring compliance with laws and regulations.

External Audit

The Audit 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.

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 Committee has:

- Reviewed and recommended the internal audit charter for approval;
- 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 Group to enable it to discharge its functions;
- Approved the internal audit plan; and
- Encouraged co-operation between external and internal audit.

Finance Function

We believe that the Acting Group Chief Financial Officer, Mr FA Ferguson, possesses the appropriate expertise and experience to meet his responsibilities in that position.

We are satisfied with the expertise and adequacy of resources within the finance function.

We are 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 shareholders, and the Department of Economic Development and Tourism.

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

Annual Report

Based on processes and assurance obtained, we recommended the Annual Report to the Board for approval.

Integrated Sustainability Reporting

In terms of King III disclosure requirements, the Audit Committee is required to recommend the integrated report to the Board for approval.

The Company has performed a gap analysis of the requirements of integrated reporting as per King III against the Annual Report and has established that there is partial compliance, whilst on a subsidiary basis, Ithala SOC Limited is considered to be compliant.

The Audit Committee has set the objective of achieving the requirements of King III integrated reporting for the 2013/2014 Annual Report, with full compliance, with integrated sustainability reporting to be achieved by 2015/2016 year end.

On behalf of the Audit Committee:

NNA MATYUMZA
CHAIRPERSON

Northmead Industrial.

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The directors acknowledge they are required by the KwaZulu-Natal Ithala Development Finance Corporation Act No. 2 of 1999 and the Public Finance Management Act No. 1 of 1999 to prepare financial statements each year which fairly present the state of affairs, results and cash flow for the year, and that the independent auditors' responsibility is limited to reporting on the financial statements. The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP).

It is the responsibility of the directors to ensure that the Corporation and the Group maintain a system of internal control designed to provide reasonable but not absolute assurance that the assets are safeguarded against material loss or unauthorised use and that transactions are properly authorised and recorded. The control system includes written accounting and control policies and procedures, and clearly drawn lines of accountability and delegation of authority.

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 concept of reasonable assurance recognises that the cost of control procedures should not exceed the expected benefits. The Corporation and the Group maintain their internal control system through management reviews and a programme of internal audits. Nothing has come to the attention of the Directors to indicate any breakdown in the functions of these controls during the year, which resulted in any material loss to the Corporation and the Group. 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, including budgets and cash flow projections for the year ahead and key assumptions and accounting policies relating thereto. 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 61 to 62.

The annual financial statements which appear on pages 66 to 126, were approved by the Board of Directors on 28 August 2013, and are signed on its behalf by:

DR MSV GANTSHO
CHAIRPERSON

MS YEN ZWANE
GROUP CHIEF EXECUTIVE

GROUP COMPANY SECRETARY'S CERTIFICATION

The Group Company Secretary certifies that the 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. 2 of 1999. All such returns are correct and up-to-date.

LS MAHAMBA
GROUP COMPANY SECRETARY

REPORT OF THE AUDITOR GENERAL

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE ON THE ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the Ithala Development Finance Corporation Limited (IDFC) set out on pages 66 to 126, which comprise the statement of financial position as at 31 March 2013, the consolidated and separate statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's Responsibility for the Consolidated Financial Statements

2. The accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements 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) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act), and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's Responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the IDFC and its subsidiaries as at 31 March 2013, and its financial performance and cash flows for the year then ended in accordance with SA Statements of GAAP and the requirements of the PFMA and the Companies Act.

Emphasis of Matters

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

Financial Sustainability of Ithala Limited

8. Ithala Limited, a wholly owned subsidiary of the IDFC, incurred a net loss of R24,4 million (2012: R6,1 million) for the year ended 31 March 2013. The IDFC, the sole shareholder, resolved to provide additional share capital amounting to R105 million during the 2013-2014 financial year to recapitalise the company and to ensure that it meets its regulatory minimum capital adequacy ratio and its financial obligations in the ordinary course of business.

Banking Licence Exemption

9. Ithala Limited's banking licence exemption expires in December 2013. The Minister of Finance has provided the South African Reserve Bank with certain requirements that the company should meet in order to ensure further renewal of the banking licence exemption. The Board of Directors have implemented a process to ensure that the minister's requirements are met.

Significant Uncertainties

10. As disclosed in Note 25.2 to the consolidated financial statements, the group was the defendant in various claims as at 31 March 2013. The ultimate outcome of these matters cannot currently be determined and therefore no provision for any liability has been made in the financial statements.

Material Losses

11. As disclosed in Note 1.3 to the consolidated financial statements, material losses amounting to R75,9 million (2012: R270,3 million) were reported by the Group as a result of a write-off of previously impaired loans and advances. This included a R53 million (2012: R103,9 million) write-off of capital and a further R22,9 million (2012: R166,4 million) relating to non-realisable revenue.

ADDITIONAL MATTER PARAGRAPH

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Other Reports Required by the Companies Act

13. As part of our audit of the consolidated financial statements for the year ended 31 March 2013, I have read the directors' report, the Audit Committee's report and the Company Secretary's certificate for the purpose of determining whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. Based on my review

REPORT OF THE AUDITOR GENERAL (continued)

of these reports, I have not identified material inconsistencies between the reports and the audited consolidated financial statements. I have not audited the reports and accordingly do not express an opinion on them.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined Objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 127 to 148 of the annual report.

16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information.*

    The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional Matter

18. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of Planned Targets

19. Of the total number of 83 targets planned for the year, 25 of the targets were not achieved during the year under review. This represents 30% of total planned targets that were not achieved during the year under review. This was due to the indicators and targets not being suitably developed during the strategic planning process.

Compliance with laws and regulations

20. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the general notice issued in terms of the PAA, are as follows:

Procurement and contract management

21. The appointment of certain contractors on behalf of a department were not procured through a procurement process which is fair, equitable, transparent and competitive as required by section 51 (1)(a)(iii) of the PFMA.

22. Construction contracts were awarded to certain contractors for projects on behalf of a department that did not qualify for the contract in accordance with section 18(1) of the Construction Industry Development Board Act, 2000 (CIDB) and CIDB regulations 17 and 25(7A).

Internal Control

23. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

24. The executive has not exercised adequate oversight responsibility in ensuring that certain contractors are appointed as required by the PFMA.

OTHER REPORTS

Investigations

25. Investigations were conducted by Ithala Group Audit and Risk Assurance Services into various matters and the progress made with these investigations was tabled at the Group's audit committee meetings.

Agreed-upon procedures engagement

26. An agreed-upon procedures report relating to the form 40 annual financial return was issued to the National Credit Regulator.

Auditor-General

Pietermaritzburg

31 July 2013

AUDITOR-GENERAL SOUTH AFRICA
Auditing to build public confidence

DIRECTORS' REPORT

Year ended 31 March 2013

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 (together referred to as The Group) for the financial year ended 31 March 2013.

A. Legal Form and Domicile

The Corporation is a provincial development finance institution, wholly-owned by the KwaZulu-Natal Government Department of Economic Development and Tourism (DEDT). It was established in terms of the Ithala Development Finance Corporation Act No.2 of 1999, which became operative with effect from 2 March 1999.

Certain sections of the Ithala Act are in the process of being revised to bring it in line with the provisions of the New Companies Act 2008 and to allow the Minister of Finance the ability to wind up Ithala Limited, if ever required, which currently can only be achieved by an Act of Parliament.

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

The Corporation is domiciled in South Africa. The address of its registered office and principal place of business is Unit 17, Isilo Drive, V-Section, Umlazi Township, Durban.

B. Nature of Operations

A general overview of The Corporation's business operations is given in the Group Chief Executive's Review on page 20.

The Corporation makes equity investments in various subsidiaries and associated companies located in the KwaZulu-Natal province in keeping with its legislated development mandate. These are outlined in Notes 6, 7 and 27 and Annexures 2 and 3 of the AFS.

C. Financial Results

The results of the Corporation and the Group for the year ended 31 March 2013 are disclosed in the annual financial statements set out on pages 66 to 126.

- For more details on the financial results of the subsidiaries, refer to the separate annual financial statements of these companies and see Note 6, Note 27 and Annexure 2 of the Group financial statements for summary financial information between the Corporation and these companies.
- For more details on the financial results of the associated companies refer to the separate annual financial statements of these companies and see Note 7, and Annexure 3 of the Group financial statements for summary financial information between the Corporation and these companies.

D. Financial Performance Overview

Over the past financial year, global economic growth has accelerated in emerging and developing economies, thereby offsetting the contraction felt in advanced economies. Instabilities in the global market, especially the Eurozone, coupled with rising fuel and electricity costs, have dampened economic growth in the South African Economy. Consequently, the South African Economy has shown limited signs of recovery, with debt-laden consumers attempting to reduce debt amidst subdued economic growth.

This slow-paced economic recovery is evidenced in both the financial performance and financial position of the Group for the financial year ending 31 March 2013.

The Group's total assets in the statement of financial position reflect a year-on-year increase of 3% (R126,97 million). The salient points relating to this increase are:

- Statutory liquid assets increased by 87.5% (R101,8 million).
- Investment properties increased by 1.2% (R9,3 million) as a net result of R40,3 million additions and R10,8 million reversal of impairment charges, offset by R22,5 million disposals and R19,2 million depreciation charges.
- Property, plant and equipment increased by 5.6% (R9,5 million) as a net result of additions of R29,0 million, disposals of R2,1 million and R17,4 million depreciation charges.
- Net loans and advances declined by 4.2% (R59,1 million) due to advances made during the year of R476 million being less than repayments received of R545,1 million. In addition, R53 million bad debts written-off further reduced the overall loans and advances book.
- Cash and cash equivalents increased by 0.8% (R12,9 million).
- Trade and other receivables increased by 12.1% (R14,9 million).
- Investments increased by 33.7% (R4,1 million) due to the increase in fair value of shares held in a property owning company.

The Group's statement of comprehensive income reflects a year on year contraction in net income of 27.5% (R28 million), with the contributing factors being:

- Operating income increased by 4.7% (R40,1 million) mainly due to:
  - R14,2 million increase in fee income, commission and services recovered
  - R12,3 million reduction in non-realised revenue (NRR)
  - R22,1 million increase in rental income
  - R13,2 million increase in sale of electricity, water and sewerage services
  - R19,5 million improvement in credit impairment charges.

  However, the following items reduced the growth in operating income:
  - R31,6 million decline in grant income recognised
  - R19,1 million decline in net interest income.

- Operating expenditure increased by 9.4% (R75,3 million), mainly as a result of the following:
  - Increase in purchases of electricity, sewerage and water of R13,3 million
  - Increase in staff costs of R18,9 million
  - Increase in bad debt provisions on rental debtors of R15,3 million
  - Impairment of loan to Ntingwe Tea (Pty) Ltd of R6,2 million
  - Increase in rates and utilities of R11,4 million.

DIRECTOR'S REPORT (continued)

Year ended 31 March 2013

E. Policy Directives

No policy directives were received from the MEC of Economic Development and Tourism during the financial year ended 31 March 2013.

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

Sale of the Business undertaking of KZN Growth Fund Managers SOC Ltd to the KZN Growth Fund Trust.

The Department of Economic Development and Tourism (DEDT), proposed a new unitary operational structure for KZN Growth Fund Trust on 3 December 2012, and thereby proposes the sale of the assets and liabilities of the current KZN Growth Fund Managers SOC Ltd to the Trust.

In order to give effect to this change in structure, a Heads of Agreement was entered into on 25 February 2013 between DEDT, KZN Growth Fund Trust, Ithala Development Finance Corporation Limited, KZN Growth Fund Managers SOC Ltd, the Standard Bank of South Africa Ltd, Infrastructure Finance Corporation Limited (INCA) and the Development Bank of South Africa (DBSA). This document stipulates the changes to be made to the existing agreements that govern the KZN Growth Fund Managers SOC Ltd and the Trust, and requires the sale of the assets and liabilities to the Trust.

This change in structure will have the following impact on Ithala:

- Subsidiary will cease to be the Fund Manager for the KZN Growth Fund Trust;
- Capital Contribution and Operational Fund will be transfered to the Trust;
- Any future operations of the KZN Growth Fund Managers SOC Ltd will be considered; and
- Decide whether to participate as a lender or in another form of support to the Trust's objectives.

The operational effective date of sale is 1 April 2013 subject to the finalisation of legal agreements. There is no accounting implication for the period under review.

Re-capitalisation of Ithala SOC Limited

According to South African Reserve Bank (SARB) requirements and Ithala Limited's internal policies, the entity has to maintain a minimum capital adequacy level. The repositioning of this entity is likely to place strain on these levels and as a result, the Board have agreed to the recapitalisation of up to R105 million in Ithala Limited at the Board meeting of 6 May 2013 for the 2013/2014 financial period. The re-capitalisation has no effect in the current reporting year (as at 31 July 2013, R60 million has been advanced of the total R105 million).

Ubuciko Twines and Fabrics (Pty) Ltd and Ntingwe Tea (Pty) Ltd

At a Board meeting held on 8 March 2013, the Board took a decision to put a process in place in terms of which Ubuciko Twines and Ntingwe Tea will be 'converted' into Co-operatives during the 2013/2014 financial year. The 'conversion' is likely to be achieved through the sale of the assets and liabilities to the co-operatives to be formed and will therefore result in a disposal, at fair value, of Ithala's interest in these entities.

It is envisaged the entities will then be funded through co-operative grant funding provided by the Department of Economic Development and Tourism.

Fair value of investments

The fair value of the listed investment as disclosed in Note 10 is R16,1 million at year-end (2012: R12,1 million) and was quoted at R14,8 million on 25 July 2013.

G. Ordinary Share Capital

The share capital of the Corporation has remained unchanged during the financial year under review. The authorised and issued share capital of the company is R1 Billion (2012: R1 Billion).

H. New Banking System

- At a Group Board meeting held in January 2012, approval was given to continue with the implementation of a core banking system aimed at providing Ithala SOC Limited with a fully integrated real-time banking system with retail, corporate and electronic banking components. This project continues implementation during 2013 financial year.

- The overall IT Strategy for the 2013 financial year is to ensure the implementation milestones of the project are met to allow Ithala SOC Limited to launch a number of key and critical products to the market.

I. Dividends

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

J. 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.

K. Sources of Funding

The Corporation did not raise any new long-term borrowings from lenders during the year under review (2011: RNil) – refer to Annexure 1 of the AFS for more details on existing Borrowings. During the year under review, the Corporation received government grants of R189.5 million for SMME on-lending (2011: R181 million) from DEDT.

Financial assistance (grants) analysis over the past two years:

	R'million	
	FY2013	FY2012
Grants unapplied at the beginning of year	**702**	**554**
Received during the year	**250**	**340**
Interest on Equity Fund and DEDT Fund	**10**	**3**
Grants applied during the year	**(153)**	**(190)**
• SMME	(111)	(180)
• Management fee	(19)	-
• Business support	(12)	(2))
• Co-operatives	(9)	(1)
• BEE Risk Fund	(2)	(7)
Grants transferred during the year	**(49)**	**(5)**
• Co-operatives	(6)	(5)
• KZN Growth Fund	**(43)**	**-**
Grants unapplied at the end of year	**760**	**702**
Held on behalf of KZN Growth Fund Managers	**306**	**359**
Held on behalf of DEDT	**233**	**163**
Corporation Grant funds unapplied at end of year	**264**	**180**

L. 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 2013, 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 lines of credit of R100 million from major financial banking institutions.

  The Group posted a profit of R76,4 million for the year ended 31 March 2013 (2012: R102,0 million). The Group is solvent since its total assets exceeded its total liabilities by R1,85 billion (2012: R1,77 billion). 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 R2,3 billion (2012: R2,1 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 its Annual Financial Statements have been prepared on this basis.

Banking licence exemption of Ithala SOC Limited

The Minister of Finance has extended the Company's exemption for a period of one year. The current exemption expires on 31 December 2013. Subsequent to consultation with the South African Reserve Bank (SARB), the Board, together with the Banking Licence Committee (a Board committee of Ithala Development Finance Corporation), resolved to apply for a further extension of the exemption for a period of three years. The Board have no reason to believe that this further extension will not be granted.

M. Directors and Company Secretariat

Information pertaining to Board members and committees is covered in the Corporate Governance Report, on pages 34 to 47.

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

Corporation

No appointments were made to the Board of Directors during the period under review.

Ithala SOC Limited

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

B Ngonyama – 1 June 2012
L van Lelyveld – 1 October 2012

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).

N. Information Disclosed in Terms of Section 55(2)(b) of the PFMA

- Particulars of irregular, fruitless and wasteful expenditure incurred by the Corporation in the 2013 financial year are disclosed in Note 30 and 32 of the AFS.
- In the ordinary course of business and in accordance with prevailing business rules, the Group wrote off bad loans of R75,8 million (2012: R103,9 million), comprising a capital portion of R53 million and a NRR portion of R22,8 million. Provisions of R71,1 million were reversed against these bad debts.
- 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 R6,1 million (2012: R33 million) was recovered from bad debts previously written off.

STATEMENT OF FINANCIAL POSITION
As at 31 March 2013

	Notes	Group			Corporation		
		2013 R'000	2012 R'000 Restated	2011 R'000 Restated	2013 R'000	2012 R'000 Restated	2011 R'000 Restated
ASSETS							
Non-current assets		**2 379 190**	2 421 536	2 423 482	**1 256 403**	1 358 544	1 431 327
Loans and advances	1.1	**1 345 571**	1 404 656	1 410 197	**137 774**	283 587	372 268
Properties in possession	1.4	**8 266**	8 089	11 914	**1 117**	983	1 508
Investment properties	2	**779 608**	770 267	752 341	**719 787**	708 018	689 974
Property, plant and equipment	3	**179 193**	169 662	180 716	**109 468**	90 697	89 830
Intangible assets	4	**14 978**	15 470	10 599	**11 691**	11 217	7 745
Straight-lining of operating lease income	5	**51 123**	52 889	57 076	**42 761**	45 482	48 953
Subsidiaries	6.2	**-**	-	-	**233 355**	218 057	220 410
Goodwill	6.3	**237**	232	-	**237**	232	-
Associated companies	7	**213**	271	639	**213**	271	639
Current assets		**2 438 456**	2 269 139	2 283 391	**1 565 574**	1 364 440	1 079 148
Current portion of loans and advances	1.1	**358 466**	323 261	219 101	**268 501**	240 266	177 194
Current portion of straight-lining of operating lease expenditure	24.2	**-**	-	-	**27**	-	-
Cash and cash equivalents	8.1	**1 684 126**	1 671 188	1 675 594	**1 148 505**	962 066	691 119
Statutory liquid assets	8.2	**218 037**	116 275	104 473	**-**	-	-
Trade and other receivables	9	**138 181**	123 246	248 787	**110 710**	128 249	175 920
Investments	10	**16 141**	12 069	13 456	**16 141**	12 069	13 456
Inventory and contracts in progress	11	**23 505**	23 099	21 980	**21 690**	21 789	21 459
Total assets		**4 817 646**	4 690 675	4 706 873	**2 821 977**	2 722 984	2 510 475
EQUITY AND LIABILITIES							
Capital and reserves		**1 843 661**	1 769 784	1 667 847	**1 779 731**	1 695 557	1 613 083
Ordinary share capital	12	**1 008 582**	1 008 582	1 008 582	**1 008 582**	1 008 582	1 008 582
Retained income		**835 079**	761 202	659 265	**771 149**	686 975	604 501
Non controlling interest	13	**142**	66	(1 168)	**-**	-	-
Total equity		**1 843 804**	1 769 850	1 666 679	**1 779 731**	1 695 557	1 613 083
Non-current liabilities		**2 811 649**	2 743 307	2 689 201	**923 816**	888 949	736 243
Borrowings	14	**79 221**	85 377	117 527	**77 085**	83 238	115 212
Deposits due to customers	15	**1 803 458**	1 775 383	1 745 778	**-**	-	-
Post-retirement obligation	16.1 & 16.2.2	**73 989**	67 619	64 218	**49 594**	46 245	44 256
Long service obligation	16.3	**21 632**	19 045	16 129	**11 742**	10 043	8 576
Government grants	17	**799 856**	742 369	687 474	**759 856**	702 369	517 387
Straight-lining of operating lease expenditure	24.2	**7 051**	5 901	6 862	**5 539**	5 440	5 386
Deferred tax	26	**678**	1 927	1 163	**-**	-	-
Provision for landfill restoration	35	**20 000**	41 614	45 426	**20 000**	41 614	45 426
Cell captive insurance fund	36	**5 764**	4 072	4 624	**-**	-	-
Current liabilities		**162 193**	177 518	350 993	**118 430**	138 478	161 149
Current portion of straight-lining of operating lease income	5	**3 174**	6 496	10 369	**2 014**	6 481	8 549
Current portion of borrowings	14	**22 134**	44 584	35 504	**22 134**	44 584	35 504
Trade and other payables	18	**136 841**	125 387	304 332	**94 282**	87 377	117 051
Current portion of straight-lining of operating lease expenditure	24.2	**44**	1 051	788	**-**	36	45
Total liabilities		**2 973 842**	2 920 825	3 040 194	**1 042 246**	1 027 427	897 392
Total equity and liabilities		**4 817 646**	4 690 675	4 706 873	**2 821 977**	2 722 984	2 510 475

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2013

	Notes	Group		Corporation	
		2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
Interest income	19.1	**247 286**	278 836	**81 585**	101 198
Interest expenditure	19.2 & 35	**57 450**	69 494	**(1 205)**	13 782
Net interest income before credit impairment charges		**189 836**	209 342	**82 790**	87 416
Credit impairment charges		**139 528**	165 085	**119 712**	142 050
Loans and advances to customers	1.3	**117 824**	148 370	**102 888**	139 162
Properties in possession	1.4	**1 551**	(287)	**1 097**	(1 452)
Straight-lining of operating lease income	5	**190**	(1 475)	**125**	(1 477)
Trade and other receivables	9	**19 953**	18 477	**15 599**	5 817
Net interest income after credit impairment charges		**50 308**	44 257	**(36 922)**	(54 634)
Other operating income	20	**900 088**	860 006	**691 240**	659 634
Operating income before operating expenditure		**950 396**	904 263	**654 318**	605 000
Operating expenditure	21	**874 182**	798 897	**570 086**	522 526
Operating expenses		**885 204**	812 043	**579 175**	530 749
Non-credit related impairments	21.4	**(13 267)**	(15 320)	**(10 479)**	(9 575)
Indirect taxation	22.1	**2 245**	2 174	**1 390**	1 352
Gain on disposal of subsidiary		**-**	1 059	**-**	-
Equity accounting loss		**(58)**	-	**(58)**	-
Operating profit before taxation		**76 156**	106 425	**84 174**	82 474
Taxation expense	22.2	**2 202**	4 425	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**73 954**	102 001	**84 174**	82 474
Attributable to:					
Equity holders of the parent		**73 877**	101 937	**84 174**	82 474
Non-controlling interest		**76**	64	**-**	-
		73 954	102 001	**84 174**	82 474

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 March 2013

	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
2013					
Group					
Restated balance at 31 March 2012	**1 008 582**	**761 202**	**1 769 784**	**66**	**1 769 850**
Income attributable to the shareholder	**-**	**73 877**	**73 877**	**76**	**73 954**
Balance at 31 March 2013	**1 008 582**	**835 079**	**1 843 661**	**142**	**1 843 804**
Corporation					
Restated balance at 31 March 2012	**1 008 582**	**686 975**	**1 695 557**	**-**	**1 695 557**
Income attributable to the shareholder	**-**	**84 174**	**84 174**	**-**	**84 174**
Balance at 31 March 2013	**1 008 582**	**771 149**	**1 779 731**	**-**	**1 779 731**
2012					
Group					
Restated balance at 31 March 2011	1 008 582	659 265	1 667 847	(1 168)	1 666 679
Income attributable to the shareholder	-	101 937	101 937	64	102 001
Disposal of subsidiary	-	-	-	1 170	1 170
Balance at 31 March 2012	1 008 582	761 202	1 769 784	66	1 769 850
Corporation					
Restated balance at 31 March 2011	1 008 582	604 501	1 613 083	-	1 613 083
Income attributable to the shareholder	-	82 474	82 474	-	82 474
Balance at 31 March 2012	1 008 582	686 975	1 695 557	-	1 695 557

Refer to Note 28.2 for a reconciliation between the opening balance of retained income in the prior years and the restated opening balance of retained income.

STATEMENT OF CASH FLOW

For the year ended 31 March 2013

	Notes	Group		Corporation	
		2013 R'000	2012 R'000	2013 R'000	2012 R'000
Cash flow from operating activities					
Cash generated from operating activities	23.1	**230 458**	302 615	**198 504**	251 178
Decrease/(Increase) in working capital	23.2	**(1 747)**	(15 590)	**24 543**	56 110
Taxation paid	23.3	**(5 591)**	(2 690)	**-**	-
Net cash generated from operating activities		**223 119**	284 335	**223 047**	307 289
Cash flow from investing activities					
Investments to promote economic development in KwaZulu-Natal:					
Loans and advances					
- granted		**(476 032)**	(584 194)	**(121 932)**	(212 447)
- repaid		**545 152**	372 473	**141 884**	95 438
- other loan movements		**(163 063)**	(35 222)	**(5 262)**	3 459
Additions to investment properties		**(40 255)**	(22 404)	**(41 134)**	(20 957)
Additions to property, plant and equipment and intangible assets		**(35 138)**	(27 797)	**(28 208)**	(17 752)
Additions to properties in possession		**(7 299)**	(5 756)	**(5 018)**	(3 917)
Proceeds on disposal of investment properties and property, plant and equipment		**20 723**	1 853	**20 652**	1 398
Proceeds on disposal of properties in possession		**5 571**	9 916	**3 787**	5 894
Proceeds on sale of shares		**-**	1 500	**-**	1 500
Increase in goodwill		**(5)**	(232)	**(5)**	(232)
Increase in cell captive insurance fund		**1 692**	(552)	**-**	-
Decrease/(increase) in liquid assets		**(101 762)**	(11 802)	**-**	-
Decrease/(increase) in loans to subsidiaries and associated companies		**58**	1 233	**(15 241)**	(2 903)
Net cash utilised by investing activities		**(250 359)**	(300 983)	**(50 477)**	(150 519)
Cash flow from financing activities					
Borrowings capital repaid		**(28 606)**	(23 070)	**(28 603)**	(22 894)
Increase in fixed, short-term deposits and savings accounts		**28 075**	29 605	**-**	-
Post-retirement medical paid		**(3 112)**	(2 854)	**(2 624)**	(2 371)
Long service obligations paid		**(2 760)**	(1 614)	**(1 484)**	(821)
Landfill restoration paid		**(10 908)**	(7 901)	**(10 908)**	(7 901)
Net government grants received		**57 488**	18 077	**57 488**	148 164
Net cash utilised by financing activities		**40 177**	12 243	**13 869**	114 177
Net increase/(decrease) in cash and cash equivalents		**12 938**	(4 406)	**186 439**	270 948
Cash and cash equivalents at beginning of year		**1 671 188**	1 675 594	**962 066**	691 119
Cash and cash equivalents at end of year		**1 684 126**	1 671 188	**1 148 505**	962 066

SUMMARY OF ACCOUNTING POLICIES

For the year ended 31 March 2013

1. REPORTING ENTITY

Ithala Development Finance Corporation Limited (Ithala) is a company domiciled in the Republic of South Africa. The address of its registered offices and principal place of business is Unit 17, Isilo Drive, V Section, Umlazi Township, Durban. The consolidated financial statements of Ithala as at and for the year ended 31 March 2013 comprise Ithala and its subsidiaries, together referred to as the Group and individually, referred to as the Corporation.

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), which are based on the International Financial Reporting Standards (IFRS), with the exception of four IFRSs (IFRS 10, 11, 12 & 13), 11 amendments to IFRSs, including amendments made under the annual improvements process (namely, amendments to IFRS 1, 7, 9 and 10 and amendments to IAS 1, 16, 19, 27, 28, 32 & 34) and 1 IFRC (IFRIC 20), which have not been included in GAAP due to a joint announcement by the Accounting Practices Board and the Financial Reporting Council to withdraw SA GAAP, which will cease to apply from financial years commencing on or after 1 December 2012.

As a result of these developments, the Accounting Standards Board has issued a directive to stateowned entities to retain the status quo until further research has been undertaken to determine the appropriate reporting framework. Accordingly, Ithala will continue to apply Statements of GAAP until further directive is received.

The financial statements were approved and authorised for issue by the Board of Directors on 28 August 2013.

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.

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 the 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.

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

Investment properties that may be impaired are identified and the recoverable values of such assets are established by applying an appropriately adjusted discount rate to the estimated future cash flows, to be generated from continued use of these assets, over the next three years. The average discount rates (rates of return) obtained from independent property specialists, are adjusted down to an average rate suitable to the Group's development-driven objective. In accepting such a lower rate of return, management takes into account the location of the asset, past performance, competition in the area, and vacancy rates.

The impairment of other assets 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 about 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 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 such as a cell captive facility, whereby cell shareholders are able to underwrite the risks of their customers and provide a more comprehensive product offering without the regulatory and administrative burden of owning its own insurance company. A 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.
- 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

SUMMARY OF ACCOUNTING POLICIES (continued)

For the year ended 31 March 2013

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 the specific 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

Intragroup 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. 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. Associates are accounted for using the equity method.

The Group recognises its interest in a jointly controlled entity using proportionate consolidation 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. 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 licenses 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 licenses

Acquired computer software and licenses 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 for use as follows:

- Computer software – 2 years

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 the project, after which the asset is transferred to computer software and accounted for as per the computer software and licenses policy.

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

(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

- 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; and
- At fair value through profit or loss and within the category as:
  - Held for trading; and
  - 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 are 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 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 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, and 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.

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 events 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 takes 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.

SUMMARY OF ACCOUNTING POLICIES (continued)

For the year ended 31 March 2013

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 modelling 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 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 are 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.

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 measured at cost less accumulated depreciation. Owner occupied properties are held for administrative purposes. This distinguishes owner-occupied properties from investment properties. Investment properties are shown at cost less accumulated depreciation and impairment losses. Property that is being constructed and developed for future use as investment property, is accounted for as investment property.

All property, other than land, is depreciated over its economic useful life of 50 years on a straight-line basis to its estimated residual value. The depreciation rate and the residual values are reviewed on an annual basis and adjusted for if appropriate.

This basis is consistent with the procedure described above under 'Property, plant and equipment' 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 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 the 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 cause 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 the payments from the employees and the Group, taking into account recommendations of independent qualified actuaries.

(a) Defined benefit 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.

SUMMARY OF ACCOUNTING POLICIES (continued)

For the year ended 31 March 2013

(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 arising at 31 March 2002, which will be 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, construction 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 assets.

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 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.

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 Limited 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

(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.

3.6.22. Other operating income

(a) Dividends received

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

(b) Fee income

Project management fee income is recognised on an accrual basis when the service is rendered, based on a 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.

(c) Commission income

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

(d) 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, sewerage and refuse removal services are recognised when consumed by the customer.

3.6.23. 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 2013. These have not been applied in preparing these consolidated financial statements:

Standard	Description	Annual periods beginning on or after
IFRS 1 (AC 138) amendment	*First-time adoption of International Financial Reporting Standards*	
	• Amendments add an exception to the retrospective application of IFRSs to require that first-time adopters apply the requirements in IFRS 9 Financial Instruments and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans existing at the date of transition to IFRSs.	1 January 2013
	• Annual Improvements 2009-2011 cycle amendments clarify the options available to users when repeated application of IFRS 1 is required and to add relevant disclosure requirements.	1 January 2013
	• Annual Improvements 2009-2011 cycle amendments to borrowing costs.	1 January 2013
	• The Group will have to apply IFRS 1 in the 2014 AFS should the APB determine that public entities should comply with IFRS for accounting periods effective on or after 1 December 2012.	
IFRS 7 (AC 144) (amendment not adopted into SA GAAP)	*Financial Instruments: Disclosures*	1 January 2013
	• Amendments require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity's rights and obligations.	
	• Based on the new disclosure requirements, the adoption of the amendment to IFRS 7 requires more extensive disclosures about rights to set-off. The Group will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set off under master netting or similar arrangement.	

Standard	Description	Annual periods beginning on or after
IFRS 9 (AC 146) (amendment not adopted into SA GAAP)	*Financial Instruments: Classification and measurement* • A new standard split into a three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. • The IFRS 9 (2009) requirements represent a significant change from the existing requirements of IAS 39 in respect of financial assets. There are two primary measurement categories in the standard, namely, amortised cost and fair value. A financial asset will be measured at amortised cost if it is held to collect contractual cash flows, and the assets contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. All other financial assets will be measured at fair value. The existing IAS 39 categories of held to maturity, available for sale, and loans and receivables, will be eliminated. • IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to present fair value changes attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Except for this change, IFRS 9 (2010) largely carries forward the guidance on classification and measurement of financial liabilities from IAS 39. • Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's annual financial statements.	1 January 2015
IFRS 10 (not adopted into SA GAAP)	*Consolidated financial statements* • A new standard that replaces the consolidation requirements in SIC-12 Consolidation-Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. The 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, it provides additional guidance to assist in the determination of control where this is difficult to assess. • Amendments to the transition guidance of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, thus limiting the requirements to provide adjusted comparative information. • IFRS 10 exception to the principle that all subsidiaries must be consolidated. Entities meeting the definition of 'Investment Entities' must be accounted for at fair value under IFRS 9, Financial Instruments, or IAS 39, Financial Instruments: Recognition and Measurement. • The Group is currently assessing the impact of the new standard on the Group's consolidation requirements.	1 January 2013 1 January 2013 1 January 2014
IFRS 11 (not adopted into SA GAAP)	*Joint arrangements* • New standard that deals with the accounting for joint arrangements and focuses on the rights and obligations of the arrangement, rather than its legal form. The standard requires a single method for accounting for interests in jointly controlled entities. • Amendments to the transition guidance of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, thus limiting the requirements to provide adjusted comparative information. • The Group is currently assessing the impact of the new standard as there is currently a joint arrangement in the Properties department.	1 January 2013 1 January 2013
IFRS 12 (not adopted into SA GAAP)	*Disclosure of interest in other entities* • A new and 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. • Amendments to the transition guidance of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, thus limiting the requirements to provide adjusted comparative information. • New disclosures required for Investment Entities (as defined in IFRS 10). • The Group is currently assessing the disclosure requirements for interest in subsidiaries, joint arrangements, associates and unconsolidated structures entities in comparison with the existing disclosures.	1 January 2013 1 January 2013 1 January 2013

Standard	Description	Annual periods beginning on or after
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. • 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 January 2013
IAS 1 (AC 101) (amendment not adopted into SA GAAP)	*Presentation of Financial Statements* Annual Improvements 2009-2011 Cycle: Amendments clarifying the requirements for comparative information including minimum and additional comparative information required.	1 January 2013
IAS 16 (AC 123)	*Property, plant and Equipment* Annual Improvements 2009–2011 Cycle: Amendments to the recognition and classification of servicing equipment.	1 January 2013
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. The Group may need to assess the impact of the change in measurement principles of the expected return on plan assets.	1 January 2013
IAS 27 (AC 132) (amendment not adopted into SA GAAP)	*Consolidated and separate financial statements* • Consequential amendments resulting from the issue of IFRS 10, 11 and 12. • A requirement to account for interests in 'Investment Entities' at fair value under IFRS 9, Financial Instruments, or IAS 39, Financial Instruments: Recognition and Measurement, in the separate financial statements of a parent.	1 January 2013 1 January 2014
IAS 28 (AC 110) (amendment not adopted into SA GAAP)	*Investment in associates* Consequential amendments resulting from the issue of IFRS 10, 11 and 12.	1 January 2013
IAS 32 (AC 125) (amendment not adopted into SA GAAP)	*Financial instruments: Presentation* • An amendment that clarifies the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. • Annual Improvements 2009-2011 Cycle: Amendments to clarify the tax effect of distribution to holders of equity instruments. • Based on an initial assessment, the Group is not expecting a significant impact from the adoption of the amendments to IAS 32.	1 January 2013 1 January 2013
IAS 34 (AC 127)	*Interim financial reporting* Annual Improvements 2009-2011 Cycle: Amendments to improve the disclosures for interim financial reporting and segment information for total assets and liabilities. • The amendment is not applicable to the Group as there is no interim financial reporting.	1 January 2013
IFRIC 20 (not adopted into SA GAAP)	*Stripping costs in the production phase of a service mine* • The amendment is not applicable to the Group and will therefore have no impact on future annual financial statements.	1 January 2013

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 Amendment 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
1. LOANS AND ADVANCES				
1.1. Sectoral analysis				
Housing and Commercial Property	**1 345 782**	1 267 017	**-**	-
Micro finance – secured	**23 164**	23 405	**-**	-
Micro finance – unsecured	**29 824**	18 191	**-**	-
Personnel	**4 553**	5 702	**4 553**	5 702
Co-operatives	**9 259**	30 662	**9 259**	30 662
Agri and Agro business *	**329 001**	362 678	**329 001**	362 678
Manufacturing	**143 940**	147 928	**143 940**	147 928
Trade and services	**164 180**	178 288	**164 180**	178 288
Construction and tourism	**180 017**	177 761	**180 017**	177 761
	2 229 720	2 211 632	**830 950**	903 019
Credit impairment for loans and advances	**(525 683)**	(483 715)	**(424 675)**	(379 166)
Net loans and advances including current portion	**1 704 037**	1 727 917	**406 275**	523 853
Less: Current portion included under current assets	**(358 466)**	(323 261)	**(268 501)**	(240 266)
Net loans and advances	**1 345 571**	1 404 656	**137 774**	283 587
	-		**-**	
Non-performing loans	**602 856**	558 419	**478 356**	425 301
Impairment of loans and advances	**(475 238)**	(415 684)	**(406 426)**	(338 774)
Unimpaired portion of non-performing loans	**127 68**	142 735	**71 930**	86 527

* Included in Agri and Agro business loans and advances are amounts totaling R215,4 million (2012: R225,3 million) which have been ceded and assigned to the Land and Agricultural Bank of South Africa.

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
1.2. Maturity analysis				
Maturing:				
Up to 1 month	**106 143**	74 061	**97 597**	66 643
From 1 month to 6 months	**122 033**	121 129	**83 586**	86 311
From 6 months to 1 year	**130 290**	128 071	**87 318**	87 312
From 1 year to 5 years	**668 505**	738 684	**358 597**	428 861
After 5 years	**1 202 749**	1 149 687	**203 852**	233 892
	2 229 720	2 211 632	**830 950**	903 019

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

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
1.3. Credit impairment for loans and advances				
Balance at beginning of the year	**483 715**	605 639	**379 166**	387 961
Amounts written off	**(75 856)**	(270 294)	**(57 379)**	(147 957)
Bad debt write off	**(53 022)**	(103 948)	**(37 469)**	(94 256)
Non Realised Revenue (NRR) write-off	**(22 834)**	(166 346)	**(19 910)**	(53 701)
Charge to income statement	**117 824**	148 370	**102 888**	139 162
Balance at end of the year	**525 683**	483 715	**424 675**	379 166
Comprising:	**-**		**-**	
Impairment for performing loans (IBNR) *	**50 445**	68 031	**18 249**	40 392
Impairment for non-performing loans	**475 238**	415 684	**406 426**	338 774
Impairment for loans and advances	**525 683**	483 715	**424 675**	379 166

*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	
	2013 R'000	**2012 R'000 Restated**	**2013 R'000**	**2012 R'000 Restated**
1.4. Properties in possession				
Balance at beginning of the year	**16 291**	20 403	**5 654**	7 631
Acquisitions	**7 299**	5 756	**5 018**	3 917
Disposals	**(5 571)**	(9 868)	**(3 787)**	(5 894)
Carrying amount before impairment	**18 019**	16 291	**6 885**	5 654
Accumulated impairment loss	**(9 753)**	(8 202)	**(5 768)**	(4 671)
Net carrying amount	**8 266**	8 089	**1 117**	983
	-		**-**	
Accumulated impairment loss				
Balance at beginning of the year	**8 202**	8 489	**4 671**	6 123
Charge/(reversal) of impairment to income statement	**1 551**	(287)	**1 097**	(1 452)
Balance at end of the year	**9 753**	8 202	**5 768**	4 671

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.

2. INVESTMENT PROPERTIES

	Group 2013	Group 2012	Corporation 2013	Corporation 2012
Cost				
Land and buildings	**1 073 260**	1 072 245	**987 721**	986 163
Work-in-progress	**88 266**	80 048	**88 266**	79 154
Accumulated depreciation				
Buildings	**321 360**	310 697	**298 850**	289 179
Accumulated impairment				
Land and buildings	**35 682**	46 453	**32 474**	43 244
Work-in-progress	**24 876**	24 876	**24 876**	24 876
Net book value	**779 608**	770 267	**719 787**	708 018
Fair value of investment property	**1 642 161**	1 557 379	**1 481 361**	1 410 379
2.1. Amounts recognised in profit or loss for:				
- Rental income from investment properties	**263 888**	240 131	**237 737**	214 824
- Direct operating expenses arising from investment property that generated rental income	**91 215**	103 836	**80 478**	93 531
- Direct operating expenses arising from investment property that did not generate rental income	**334**	540	**334**	540

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 2013 (Continued)

	Land & Buildings	Work-in-Progress	Total
	R'000	R'000	R'000
2.3. Movement in investment properties			
2013			
Group			
Net book value at beginning of year	**715 095**	**55 172**	**770 267**
Additions	**10 133**	**30 122**	**40 255**
Depreciation charge	**(19 197)**	**-**	**(19 197)**
Impairment reversal	**10 771**	**-**	**10 771**
Transfers	**21 904**	**(21 904)**	**-**
Disposals	**(22 488)**	**-**	**(22 488)**
Net book value at end of year	**716 218**	**63 390**	**779 608**
Corporation			
Net book value at beginning of year	**653 740**	**54 278**	**708 018**
Additions	**10 118**	**31 016**	**41 134**
Depreciation charge	**(17 648)**	**-**	**(17 648)**
Impairment reversal	**10 771**	**-**	**10 771**
Transfers	**21 904**	**(21 904)**	**-**
Disposals	**(22 488)**	**-**	**(22 488)**
Net book value at end of year	**656 397**	**63 390**	**719 787**
2012			
Group			
Net book value at beginning of year	704 972	47 369	752 341
Additions	5 224	17 180	22 404
Depreciation charge	(19 147)	-	(19 147)
Impairment reversal	15 196	-	15 196
Transfers	9 366	(9 377)	(11)
Disposals	(516)	-	(516)
Net book value at end of year	715 095	55 172	770 267
Corporation			
Net book value at beginning of year	642 605	47 369	689 974
Additions	4 682	16 286	20 968
Depreciation charge	(17 593)	-	(17 593)
Impairment reversal	15 196	-	15 196
Transfers	9 366	(9 377)	(11)
Disposals	(516)	0	(516)
Net book value at end of year	653 740	54 278	708 018

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
3. PROPERTY, PLANT AND EQUIPMENT				
Cost	**379 830**	372 554	**211 474**	201 260
Land, infrastructure and buildings	**134 965**	131 085	**133 783**	131 204
Buildings on leasehold land	**12 665**	73 307	**12 665**	12 665
Leased Assets	**296**	296	**-**	-
Plant, equipment and vehicles	**220 386**	153 808	**53 968**	51 914
Work-In-Progress	**11 519**	14 058	**11 058**	5 476
Accumulated depreciation	**186 319**	188 574	**92 598**	101 155
Infrastructure and buildings	**43 004**	58 579	**42 905**	58 698
Buildings on leasehold land	**12 665**	40 987	**12 665**	3 258
Leased Assets	**113**	54	**-**	-
Plant, equipment and vehicles	**130 537**	88 954	**37 028**	39 199
Accumulated impairment				
Land, infrastructure and buildings	**9 407**	9 407	**9 407**	9 407
Plant, equipment and vehicles	**4 911**	4 911	**-**	-
Net book value	**179 193**	169 662	**109 468**	90 697

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

3.2. Property plant and equipment with nil book values

	Group 2013	Group 2012	Corporation 2013	Corporation 2012
Original cost	**14 451**	43 743	**3 251**	33 843

This represents property, plant and equipment that are still in use and have nil book value. This includes assets with a cost of R2 000 and below including assets acquired with grant funds that have been fully depreciated in terms of the Group's policy.

During the year the useful lives of property, plant and equipment was re-assessed and depreciation adjusted accordingly, as disclosed in Note 29.1

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

	Land, infra-structure & buildings	Plant, equipment and vehicles	Work-In-Progress (WIP)	Total
	R'000	R'000	R'000	R'000
3.3. Movements in property, plant and equipment				
2013				
Group				
Net book value at beginning of year	**72 506**	**83 098**	**14 058**	**169 662**
Additions	**4 117**	**11 556**	**13 366**	**29 039**
Depreciation charge	**(337)**	**(17 063)**	**-**	**(17 400)**
Disposals	**(1 573)**	**(536)**	**-**	**(2 109)**
Transfers	**7 006**	**6 251**	**(13 257)**	**-**
Net book value at end of year	**81 719**	**83 306**	**14 167**	**179 193**
Corporation				
Net book value at beginning of year	**72 506**	**12 715**	**5 476**	**90 697**
Additions	**2 935**	**5 837**	**13 366**	**22 138**
Depreciation charge	**(239)**	**(1 544)**	**-**	**(1 783)**
Disposals	**(1 573)**	**(11)**	**-**	**(1 584)**
Transfers	**6 976**	**-**	**(6 976)**	**-**
Net book value at end of year	**80 605**	**16 997**	**11 866**	**109 468**
2012				
Group				
Net book value at beginning of year	73 753	82 284	24 679	180 716
Additions	1 783	10 058	6 213	18 055
Depreciation charge	(3 030)	(20 994)	-	(24 024)
Disposals	-	(3 011)	-	(3 011)
Transfers	-	14 761	(16 834)	(2 073)
Net book value at end of year	72 506	83 098	14 058	169 662
Corporation				
Net book value at beginning of year	73 574	13 333	2 923	89 830
Additions	1 774	3 937	3 543	9 254
Depreciation charge	(2 842)	(4 087)	-	(6 929)
Disposals	-	(252)	-	(252)
Transfers	-	(216)	(990)	(1 206)
Net book value at end of year	72 506	12 715	5 476	90 697

	Group		Corporation	
	2013 R'000	**2012 R'000 Restated**	**2013 R'000**	**2012 R'000 Restated**
4. INTANGIBLE ASSETS				
Cost	**69 580**	78 004	**27 896**	35 040
Software	**21 523**	29 633	**16 044**	19 453
System development costs (WIP)	**43 857**	39 202	**7 652**	6 415
Other	**982**	599	**982**	599
Licences and warranties	**3 218**	8 570	**3 218**	8 573
Accumulated amortisation	**22 198**	30 131	**16 205**	23 823
Software	**19 510**	23 807	**13 516**	17 499
Other	**113**	28	**113**	28
Licences and warranties	**2 575**	6 296	**2 576**	6 296
Accumulated impairments				
System development costs	**32 403**	32 403	**-**	-
Net book value	**14 978**	15 470	**11 691**	11 217

	Software	System Development Costs (WIP)	Licences & other	Total
4.1. Movement in intangible assets				
2013				
Group				
Net book value at beginning of year	**5 826**	**6 799**	**2 845**	**15 470**
Additions	**1 008**	**4 545**	**793**	**6 346**
Amortisation	**(4 465)**	**-**	**(2 126)**	**(6 591)**
Transfers	**2 417**	**(2 664)**	**-**	**(247)**
Net book value at end of year	**4 786**	**8 680**	**1 512**	**14 978**
Corporation				
Net book value at beginning of year	**1 957**	**6 415**	**2 845**	**11 217**
Additions	**1 747**	**3 777**	**793**	**6 317**
Amortisation	**(3 470)**	**-**	**(2 126)**	**(5 596)**
Transfers	**2 417**	**(2 664)**	**-**	**(247)**
Net book value at end of year	**2 651**	**7 528**	**1 512**	**11 691**
2012				
Group				
Net book value at beginning of year	9 860	-	739	10 599
Additions	17	6 799	2 928	9 744
Amortisation	(5 971)	-	(973)	(6 944)
Transfers	1 920	-	151	2 071
Net book value at end of year	5 826	6 799	2 845	15 470
Corporation				
Net book value at beginning of year	7 329	-	416	7 745
Additions	7	5 425	3 083	8 515
Amortisation	(5 441)	-	(791)	(6 232)
Transfers	62	990	137	1 189
Net book value at end of year	1 957	6 415	2 845	11 217

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
5. STRAIGHT-LINING OF OPERATING LEASE INCOME				
Opening balance	**46 393**	46 707	**39 001**	40 404
Straight line accrual/(deferral) during the year	**1 746**	(1 790)	**1 871**	(2 880)
Decrease/(Increase) in provision for bad debts	**(190)**	1 475	**(125)**	1 477
	47 949	46 393	**40 747**	39 001
Current portion of long-term debtor	**3 174**	6 496	**2 014**	6 481
Closing balance	**51 123**	52 889	**42 761**	45 482
Minimum future rental receivable under non-cancellable operating leases are as follows:				
Next 12 months	**(3 174)**	(6 496)	**(2 014)**	(6 481)
From 2 to 5 years	**17 472**	14 559	**16 265**	15 207
Later than 5 years	**35 969**	40 458	**28 576**	32 230
	50 267	48 521	**42 827**	40 956
Less: Provision for bad debts	**(2 318)**	(2 128)	**(2 080)**	(1 955)
	47 949	46 393	**40 747**	39 001
Analysis of provisions				
Balance at the beginning of the year	**2 128**	3 603	**1 955**	3 432
Charge to income statement	**190**	(1 475)	**125**	(1 477)
Balance at end of the year	**2 318**	2 128	**2 080**	1 955

Operating leases relate to investment property owned by the Group with lease terms of between three to 10 years and an average escalation rate of 7%. Some operating lease contracts contain an option to renew for a further three to 10 years at market related rates. The lessee does not have an option to purchase the property at the expiry of the lease period.

	Group 2013	Group 2012	Corporation 2013	Corporation 2012
6. SUBSIDIARIES (ANNEXURE 2)				
6.1. Cowslip Investments (Pty) Ltd				
Shares at cost	**3**	3	**3**	3
Share premium	**2 514 650**	2 278 029	**2 514 650**	2 278 029
Grants applied	**(2 514 653)**	(2 278 032)	**(2 514 653)**	(2 278 032)
	-	-	**-**	-
6.2. Other subsidiaries	**-**	-	**139 060**	139 060
Shares at cost	**-**	-	**190 060**	190 060
Less provisions	**-**	-	**(11 000)**	(11 000)
Less grants applied	**-**	-	**(40 000)**	(40 000)
Net loans	**-**	-	**94 295**	78 997
Loans to subsidiaries	**-**	-	**157 926**	139 841
Less provisions	**-**	-	**(63 631)**	(60 844)
Total investment in subsidiaries	**-**	-	**233 355**	218 057

In the prior year, the Group disposed of its shares in Richards Bay Industrial Development Zone (Pty) Ltd following a decision taken by the MEC for Economic Development and Tourism to convert the company into a Schedule 3D public entity. The effective date of disposal was 1 April 2011.

Details of movements in intercompany loans are disclosed in Annexure 2.

	Group 2013	Group 2012	Corporation 2013	Corporation 2012
6.3. Goodwill	**237**	232	**237**	232

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

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
7. ASSOCIATED COMPANIES (ANNEXURE 3)				
7.1. Unlisted Investments				
Shares at cost	**3**	3	**3**	3
Less:	**(2)**	(2)	**(2)**	(2)
Group carrying value	**1**	1	**1**	1
Net loans	**212**	270	**212**	270
Loans to associates	**8 333**	8 144	**8 333**	8 144
Less: provisions	**(8 121)**	(7 875)	**(8 121)**	(7 875)
Total interest in associated companies	**213**	271	**213**	271
7.2. **Significant financial information of associated companies**				
Total Assets	**30 603**	34 453	**30 603**	34 453
Total Non-current assets	**20 366**	23 947	**20 366**	23 947
Total Current Assets	**10 244**	10 506	**10 244**	10 506
Total Liabilities	**149 050**	156 261	**149 050**	156 261
Total Non-current liabilities	**132 671**	146 468	**132 671**	146 468
Total Current liabilities	**16 379**	9 793	**16 379**	9 793
Net Liabilities	**(118 441)**	(85 132)	**(118 441)**	(85 132)
Group's share of net liabilities of associates	**(44 627)**	(40 419)	**(44 627)**	(40 419)
Total Revenue	**4 634**	11 177	**4 634**	11 177
Total Losses	**(3 475)**	(10 775)	**(3 475)**	(10 775)
Unrecognised share of losses:				
- Current Period	**(3 418)**	(19)	**(3 418)**	(19)
- Cumulative	**(12 786)**	(7 324)	**(12 786)**	(7 324)

Although the Group holds less than 20% of the equity shares of Mabibi Development Company (Pty) Ltd and it has less than 20% of the voting power at shareholder meetings, the Group exercises significant influence by virtue of its contractual right to appoint two directors.

The financial year end of The Good Sugar Company SA (Pty) Ltd is 28 February, and for purposes of equity accounting, the audited financial statement of the associated company for February 2011 was used in the comparatives for 2012. Ithala's interest in the Good Sugar Company was sold to the majority shareholder in September 2012, being the date of final payment of the purchase price.

	Group 2013 R'000	Group 2012 R'000 Restated	Corporation 2013 R'000	Corporation 2012 R'000 Restated
8. CASH AND LIQUID ASSETS				
8.1. Cash and cash equivalents**				
Coin and bank notes	**42 124**	52 492	**11**	6
Balance with banks *	**1 642 002**	1 618 696	**1 148 494**	962 060
	1 684 126	1 671 188	**1 148 505**	962 066

* Corporation balance includes R306 million (2012: R359.8 million) held on behalf of KZN Growth Fund Trust.

** Included in cash is an amount of R11.2 million (2012: R11.1 million) relating to cash in transit at year-end.

The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings ranging from AA- to AAA+. These financial institutions are Investec Limited, Nedbank Limited, Standard Bank Limited, First National Bank and Absa Bank Limited. Due to investments being held in institutions that are highly-rated, these instruments are neither past due nor impaired.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

		Group		Corporation	
		2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
8.2.	**Statutory liquid assets**				
	South African Reserve Bank (SARB) debentures	**117 175**	116 275	**-**	-
	Treasury bill	**100 862**	-	**-**	-
		218 037	116 275	**-**	-
	Undrawn facilities available are as follows:				
	Absa Bank				
	Overdraft facility	**50 000**	50 000	**50 000**	50 000
	Day light facility	**50 000**	50 000	**50 000**	50 000
		100 000	100 000	**100 000**	100 000

Debentures comprise three instruments and yield interest at 5%. Their maturity values are as follows:

R40.3 million on 15 May 2013;

R55.4 million on 15 May 2013; and

R22.2 million on 22 May 2013.

The treasury bill yields interest at 5.1%. This instrument matures on 10 April 2013 and its maturity value is R101 million.

Statutory investments are utilised to ensure that the minimum reserve requirements are met. These funds are not available for use in operational activities. Amounts held as at 31 March 2013 exceed the minimum reserve requirements by R109 million, and are invested in terms of the Subsidiaries Capital Management strategy as disclosed in Note 34.

		Group 2013	Group 2012	Corporation 2013	Corporation 2012
9.	**TRADE AND OTHER RECEIVABLES**				
	Trade receivables	**112 339**	60 665	**77 680**	50 326
	Other receivables	**79 441**	97 325	**78 763**	108 507
		191 780	157 990	**156 444**	158 833
	Provisions	**(53 599)**	(34 744)	**(45 734)**	(30 584)
	Net trade and other receivables	**138 181**	123 246	**110 710**	128 249
	Ageing of past due but not impaired trade and other receivables				
	<30 days	**79 984**	66 819	**55 518**	73 256
	30 to 60 days	**8 126**	7 019	**8 041**	6 816
	60 to 90 days	**7 719**	9 681	**7 707**	9 679
	> 90 days	**42 352**	38 993	**39 444**	38 364
		138 181	122 512	**110 710**	128 114
	Ageing of past due and impaired trade and other receivables				
	<30 days	**4 886**	3 402	**4 333**	3 264
	30 to 60 days	**6 040**	2 740	**5 692**	2 696
	60 to 90 days	**3 638**	2 473	**3 195**	2 231
	> 90 days	**39 035**	26 862	**32 514**	22 527
		53 599	35 477	**45 734**	30 719
	Analysis of provisions				
	Balance at beginning of year	**34 744**	37 956	**30 584**	32 210
	Amounts written off	**(1 098)**	(21 689)	**(449)**	(7 443)
	Charged to income statement	**19 953**	18 477	**15 599**	5 817
	Balance at end of year	**53 599**	34 744	**45 734**	30 584

Included in trade and other receivables are amounts due by the Departments of Education and Health in respect of the schools and clinics projects that are managed by Ithala. These funds are recovered on a monthly basis, in arrears. The amount due by the Department of Education at year end was R14,3m (2012: R26,5m) and Department of Health R22,3m (2012: R15,8m).

	Group 2013 R'000	Group 2012 R'000 Restated	Corporation 2013 R'000	Corporation 2012 R'000 Restated
10. INVESTMENTS				
Designated at fair value through profit and loss				
At beginning of year	**12 069**	13 456	**12 069**	13 456
Fair value movement	**4 072**	113	**4 072**	113
Disposal	**-**	(1 500)	**-**	(1 500)
At end of year	**16 141**	12 069	**16 141**	12 069

Investments comprise of 3 736 400 units in SA Corporate Real Estate Fund (2012: 3 736 400). The investment in Glenrand MIB was disposed of during the previous financial year as a result of a take-over by AON Limited.

Fair value is determined by reference to stock exchange quoted bid prices.

	Group 2013 R'000	Group 2012 R'000 Restated	Corporation 2013 R'000	Corporation 2012 R'000 Restated
11. INVENTORY AND CONTRACTS IN PROGRESS				
Raw materials	**1 815**	1 310		-
Finished goods	**-**	2	**-**	2
Consumables	**3 231**	3 307	**3 231**	3 307
Contracts in progress	**36 435**	36 435	**36 435**	36 435
Residential stands and houses	**1 466**	1 487	**1 466**	1 487
	42 947	42 541	**41 132**	41 231
Write down to net realisable value	**(19 442)**	(19 442)	**(19 442)**	(19 442)
	23 505	23 099	**21 690**	21 789
12. ORDINARY SHARE CAPITAL				
Authorised				
1 008 582 361 (2012: 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 (2012: 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	**66**	(1 168)	**-**	-
Disposal	**-**	1 170	**-**	-
Movement	**76**	64	**-**	-
Balance at end of year	**142**	66	**-**	-
14. BORROWINGS (ANNEXURE 1)				
At amortised cost				
Total borrowings	**101 355**	129 961	**99 219**	127 822
Portion repayable within 12 months	**(22 134)**	(44 584)	**(22 134)**	(44 584)
Long term portion	**79 221**	85 377	**77 085**	83 238

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
15. DEPOSITS DUE TO CUSTOMERS				
Call deposit accounts	**44 595**	41 103	-	-
Savings accounts	**745 511**	821 823	-	-
Term deposits	**1 013 352**	912 457	-	-
	1 803 458	1 775 383	-	-
Maturity analysis repayable:				
On demand	**796 471**	862 926	-	-
Up to 1 month	**159 042**	97 586	-	-
From 1 month to 6 months	**501 265**	477 835	-	-
From 6 months to 1 year	**320 936**	296 223	-	-
From 1 year to 5 years	**25 744**	40 813	-	-
	1 803 458	1 775 383	-	-

The maturity analysis is based on the remaining periods to contractual maturity from year end. At 31 March 2013, 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 accounts	**465 987**	576 467	-	-
Trust accounts	**95 291**	121 661	-	-
Debit card	**84 742**	83 474	-	-
Corporate	**99 491**	40 221	-	-
Total savings	**745 511**	821 823	-	-

Term deposits are further analysed as follows:

Pass Book*	**782 648**	667 015	-	-
Trust	**230 704**	245 442	-	-
Total term deposits	**1 013 352**	912 457	-	-

*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.

		Group			
		2013 R'000	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated

16. EMPLOYEE BENEFITS

16.1. Post-retirement medical obligations

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 2013 quantified the present value of unfunded obligations at R80,9 million (Group) and R61,4 million (Corporation). These actuarial valuations are conducted annually, as at balance sheet date. The principal actuarial assumptions used included a discount rate of 8.60% (2012 : 8.06%), and a health care cost inflation rate of 8.30% (2012: 5.64%).

The movement in the liability recognised in the balance sheet is as follows:

	2013 R'000	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated
Balance at beginning of year	**67 619**	64 218	61 926	59 700	55 216
Expensed during the year	**7 084**	6 255	4 782	4 533	6 054
Contributions paid	**(3 112)**	(2 854)	(2 490)	(2 307)	(1 570)
Balance at end of year	**71 591**	67 619	64 218	61 926	59 700
Amounts recognised in the balance sheet are as follows:					
Present value of unfunded obligations	**80 894**	70 247	58 474	46 380	48 637
Unrecognised actuarial gain/(loss)	**(9 303)**	(2 628)	5 744	15 546	11 063
Liability at end of year	**71 591**	67 619	64 218	61 926	59 700
Amounts recognised in the income statements are as follows:					
Current service cost	**1 548**	1 222	908	1 154	1 828
Interest cost	**5 536**	5 033	4 066	4 221	4 668
Net actuarial gain recognised in the year	**-**	-	(192)	(842)	(442)
	7 084	6 255	4 782	4 533	6 054
Membership statistics:					
In-service members	**178**	194			
Continuation members	**151**	153			
	329	347			

Sensitivity Analysis – unfunded accrued liability

Assumptions	**Change**	2013	2012	2011
Central assumptions:		**80 894**	70 247	58 474
CPI inflation	+1%	**92 376**	80 064	66 278
	+1.50%	**98 117**	85 727	70 758
	+1.75%	**100 987**	88 775	73 164
	-1%	**71 898**	62 093	58 543
Post-retirement mortality	-1 year	**83 704**	72 463	67 188
Average retirement age	-1 year	**87 567**	72 644	59 979

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

	Corporation				
	2013 R'000	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated
16. EMPLOYEE BENEFITS (continued)					
16.1. Post-retirement medical obligations (continued)					
Balance at beginning of year	**46 245**	44 256	42 878	41 634	39 250
Expensed during the year	**4 681**	4 360	3 488	3 251	3 849
Contributions paid	**(2 624)**	(2 371)	(2 110)	(2 007)	(1 465)
Balance at end of year	**48 302**	46 245	44 256	42 878	41 634
Amounts recognised in the balance sheet are as follows:					
Present value of unfunded obligations	**57 927**	49 602	42 596	34 291	36 013
Unrecognised actuarial gain/(loss)	**(9 625)**	(3 357)	1 660	8 587	5 621
Liability at end of year	**48 302**	46 245	44 256	42 878	41 634
Amounts recognised in the income statements are as follows:					
Current service cost	**789**	706	493	628	897
Interest cost	**3 892**	3 654	2 995	3 112	3 157
Net actuarial gain recognised in the year	**-**	-	-	(489)	(205)
	4 681	4 360	3 488	3 251	3 849
Membership statistics:					
In-service members	**75**	80			
Continuation members	**141**	129			
	216	209			

Sensitivity analysis – unfunded accrued liability

Assumptions	Change	2013	2012	2011
Central assumptions:		**57 927**	49 602	49 715
CPI inflation	+1%	**65 409**	55 898	55 726
	+1.50%	**69 700**	59 497	59 142
	+1.75%	**72 002**	61 425	60 966
	-1%	**51 808**	44 309	51 216
Post-retirement mortality	-1 year	**62 515**	51 203	58 190
Average retirement age	-1 year	**59 372**	50 850	50 447

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 a pension 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 2013 showed that in respect of the Defined Benefit Pension fund, the present value of the obligation was adequately covered by the fair value of the scheme assets. However, for the Defined Benefit Provident Fund, the present value of the obligation did not adequately cover the fair value of the scheme assets and a liability has accordingly been recognised as at 31 March 2013.

The most recent actuarial valuation of plan assets and present value of defined benefits obligations were carried out for the current and prior annual financial years by Old Mutual Actuarial 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.

	Group				
	2013 R'000	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated

16. EMPLOYEE BENEFITS (continued)

16.2. Pension and provident fund schemes (continued)

16.2.1 Defined benefit pension fund

Amounts recognised in the balance sheet are as follows:

	2013	2012	2011	2010	2009
Present value of funded obligations	**44 128**	66 871	68 112	58 357	57 609
Fair value of plan assets	**(44 644)**	(71 825)	(70 841)	(68 934)	(70 315)
	(516)	(4 954)	(2 729)	(10 577)	(12 706)
Unrecognised actuarial gain	**516**	4 954	2 729	10 577	12 706
Liability at end of year	**-**	-	-	-	-

It was resolved during the current year to close the Defined Benefit Pension Fund. All active members of the fund have been transferred to a defined contribution fund of the Company as at 31 December 2011. The approval for closure of the fund in terms of Section 14 of the Pensions Fund Act of 1956 is still outstanding from the Financial Services Board. Accordingly, the trustees have not yet apportioned the surplus in the fund.

The movement in the defined benefit obligation over the year is as follows:

	2013	2012	2011	2010	2009
Balance at beginning of year	**66 871**	68 112	58 357	57 609	52 103
Interest cost	**4 151**	5 304	4 578	4 567	4 724
Current service cost	**-**	552	573	579	509
Benefits paid	**(30 541)**	(4 495)	(4 812)	(6 173)	(4 586)
Contributions by plan participants (employees)	**-**	230	336	327	304
Actuarial (gain)/loss on obligation	**3 647**	(2 832)	9 080	1 448	4 555
Balance at end of year	**44 128**	66 871	68 112	58 357	57 609

The movement in the fair value of plan assets over the year is as follows:

	2013	2012	2011	2010	2009
Balance at beginning of year	**71 825**	70 841	68 934	70 315	67 007
Expected return on assets	**5 119**	6 193	6 018	6 082	5 854
Contributions received	**-**	344	591	594	567
Benefits paid	**(30 541)**	(4 495)	(4 812)	(6 174)	(4 586)
Investment gain/(loss) on assets	**(1 759)**	(1 058)	110	(1 883)	1 473
Balance at end of year	**44 644**	71 825	70 841	68 934	70 315

Amounts recognised in the income statement are as follows:

	2013	2012	2011	2010	2009
Current service cost	**-**	552	573	579	509
Interest cost	**4 151**	5 304	4 578	4 567	4 724
Expected return on plan assets	**(5 119)**	(6 192)	(6 018)	(6 082)	(5 854)
Recognised actuarial losses	**532**	448	1 122	1 203	884
	(436)	112	255	267	263

Plan Assets Portfolio:

	2013	2012	2011	2010	2009
Investment assets	**42 514**	47 115	45 557	44 656	43 027
Annuity contracts	**-**	27 134	27 962	27 883	28 271
Current assets/(liabilities)	**2 130**	(2 424)	(2 678)	(3 605)	(983)
	44 644	71 825	70 841	68 934	70 315

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 31 March 2013 (Continued)

		Group				
		2013 R'000	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated
16. EMPLOYEE BENEFITS (continued)						
16.2. Pension and provident fund schemes (continued)						
16.2.1. Defined Benefit Pension Fund (continued)						
Effective rate of return on plan assets (actual)		**7.48%**	10.16%	10.16%		
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (Annualised yield on R208, 2012: R157)		**6.50%**	8.00%	8.00%		
Expected rate of return on plan assets		**9.00%**	9.00%	9.00%		
Future salary increases (Inflation plus 1%)		**7.40%**	7.30%	7.30%		
Inflation (Difference in annualised yield between R186 and R197)		**6.40%**	6.30%	6.30%		
Sensitivity analysis (fund liability)	**Change**					
At valuation assumptions:		**44 128**	66 871	68 112		
Discount rate	+1%	**44 128**	66 871	67 229		
	-1%	**44 128**	66 871	69 111		
Expected rate of salary increases	+1%	**44 128**	66 871	68 983		
	-1%	**44 128**	66 871	67 333		
No salary increases		**44 128**	66 871	64 026		

Amounts recognised in the balance sheet are as follows:	Corporation				
	2013 R'000	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated
Present value of funded obligations	**19 856**	44 746	45 972	41 475	38 904
Fair value of plan assets	**(20 090)**	(48 061)	(47 814)	(48 992)	(41 342)
	(234)	(3 315)	(1 842)	(7 517)	(2 438)
Unrecognised actuarial gain	**234**	3 315	1 842	7 517	2 438
Liability at end of year	**-**	-	-	-	-

The Trustees have not yet apportioned the surplus in the Fund to the Employer, thus no surplus has been recognised in the Balance Sheet.

The movement in the defined benefit obligation over the year is as follows:					
Balance at beginning of year	**44 746**	45 972	41 475	40 944	35 186
Interest cost	**1 868**	3 549	3 090	3 246	3 190
Current service cost	**-**	(26)	387	411	344
Benefits paid	**(13 742)**	(3 008)	(3 248)	(4 387)	(3 097)
Contributions by plan participants (employees)	**-**	154	227	232	206
Actuarial (gain)/loss on obligation	**(13 016)**	(1 895)	4 041	1 029	3 075
Balance at end of year	**19 856**	44 746	45 972	41 475	38 904

		Corporation				
		2013 R'000	**2012 R'000 Restated**	**2011 R'000 Restated**	**2010 R'000 Restated**	**2009 R'000 Restated**
16. EMPLOYEE BENEFITS (continued)						
16.2. Pension and provident fund schemes (continued)						
16.2.1. Defined Benefit Pension Fund (continued)						
The movement in the fair value of plan assets over the year is as follows:						
Balance at beginning of year		**48 061**	47 815	48 992	49 974	45 251
Expected return on assets		**2 304**	3 733	4 062	4 323	3 953
Contributions received		**-**	229	400	422	383
Benefits paid		**(13 742)**	(3 007)	(3 248)	(4 388)	(3 097)
Investment gain/(loss) on assets		**(16 533)**	(709)	(2 392)	(1 339)	995
Balance at end of year		**20 090**	48 061	47 814	48 992	47 485
Amounts recognised in the income statement are as follows:						
Current service cost		**-**	369	387	411	344
Interest cost		**1 868**	3 548	3 090	3 246	3 190
Expected return on plan assets		**(2 304)**	(4 144)	(4 062)	(4 322)	(3 953)
Recognised actuarial losses		**436**	301	757	855	596
		-	74	172	190	177
Plan Assets Portfolio:						
Investment Assets		**19 132**	31 526	30 749	31 738	29 056
Annuity Contracts		**-**	18 157	18 873	19 817	19 092
Current Assets/(Liabilities)		**958**	(1 622)	(1 807)	(2 563)	(664)
		20 090	48 061	47 815	48 992	47 484
Effective rate of return on plan assets (Actual)		**7.34%**	9.98%	10.09%		
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (annualised yield on R208, 2012: R157)		**6.50%**	8.00%	8.00%		
Expected rate of return on plan assets		**9.00%**	9.00%	9.00%		
Future salary increases (inflation plus 1%)		**7.40%**	7.30%	7.30%		
Inflation (difference in annualised yield between R186 and R197)		**6.40%**	6.30%	6.30%		
Sensitivity analysis (fund liability)	**Change**					
At valuation assumptions:		**19 856**	44 746	45 972		
Discount rate	+1%	**19 856**	44 746	45 376		
	-1%	**19 856**	44 746	46 646		
Expected rate of salary increases	+1%	**19 856**	44 746	46 560		
	-1%	**19 856**	44 746	45 446		
No salary increases		**19 856**	44 746	43 214		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

	Group				
	2013 R'000	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated
16. EMPLOYEE BENEFITS (continued)					
16.2. Pension and Provident Fund Schemes (continued)					
16.2.2. Defined Benefit Provident Fund					
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**55 557**	44 011	47 255	42 807	39 253
Fair value of plan assets	**(53 159)**	(51 172)	(50 155)	(48 593)	(44 631)
	2 398	(7 161)	(2 900)	(5 786)	(5 378)
Unrecognised actuarial gain	**-**	7 161	2 900	5 786	5 378
Liability at end of year	**2 398**	-	-	-	-

The Trustees have not yet apportioned the surplus in the Fund to the Employer, thus no surplus has been recognised in the Balance Sheet.

The movement in the defined benefit obligation over the year is as follows:					
Balance at beginning of year	**44 011**	47 255	42 807	39 253	34 402
Interest cost	**3 432**	3 603	3 351	3 232	3 213
Current service cost	**1 739**	2 091	1 979	1 982	1 863
Benefits paid	**(4 663)**	(7 343)	(5 824)	(4 103)	(3 113)
Contributions by plan participants (employees)	**676**	720	790	758	790
Benefit increase	**(2 436)**	-	-	686	-
Actuarial (gain)/loss on obligation	**12 798**	(2 315)	4 152	999	2 098
Balance at end of year	**55 557**	44 011	47 255	42 807	39 253
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**51 172**	50 155	48 593	44 631	43 775
Expected return on assets	**4 498**	4 264	4 204	4 184	3 889
Contributions received	**2 170**	1 683	1 970	1 870	1 962
Benefits paid	**(4 663)**	(7 343)	(5 824)	(4 105)	(3 113)
Investment gain/(loss) on assets	**(18)**	2 413	1 212	2 013	(1 881)
Balance at end of year	**53 159**	51 172	50 155	48 593	44 631
Amounts recognised in the income statement are as follows:					
Current service cost	**1 739**	2 091	1 979	1 982	1 863
Interest cost	**3 433**	3 603	3 350	3 230	3 213
Expected return on plan assets	**(4 496)**	(4 264)	(4 204)	(4 184)	(3 889)
Benefit increase	**5 440**	-	-	689	-
Recognised actuarial (gains)/losses	**-**	(702)	24	(2 412)	(15)
	6 116	728	1 149	(695)	1 172
Plan Assets Portfolio:					
Investment Assets	**53 513**	53 707	51 817	51 602	46 152
Net Current Liabilities	**(355)**	(2 535)	(1 662)	(3 009)	(1 521)
	53 159	51 172	50 155	48 593	44 631
Effective rate of return on plan assets (Actual)	**7.34%**	9.00%	10.16%		

	Group				
	2013 R'000	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated

16. EMPLOYEE BENEFITS (continued)

16.2. Pension and provident fund schemes (continued)

16.2.2. Defined Benefit Provident Fund (continued)

The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:

	Change	2013	2012	2011
Discount rate (annualised yield on R208, 2012: R157)		**6.50%**	8.00%	8.00%
Expected rate of return on plan assets		**9.50%**	9.00%	9.00%
Future salary increases (inflation plus 1%)		**7.40%**	7.30%	7.30%
Inflation (difference in annualised yield between R186 and R197)		**6.40%**	6.30%	6.30%
Sensitivity Analysis (fund liability)	**Change**			
At valuation assumptions:		**54 975**	40 706	47 255
Discount rate	+1%	**52 630**	39 050	45 267
	-1%	**57 561**	42 532	49 451
Expected rate of salary increases	+1%	**56 912**	42 086	48 931
	-1%	**53 180**	39 447	45 021
No salary increases		**44 941**	33 832	38 810

Amounts recognised in the balance sheet are as follows:	Corporation				
	2013 R'000	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated
Present value of funded obligations	**29 929**	26 145	28 278	24 809	23 246
Fair value of plan assets	**(28 637)**	(30 399)	(30 013)	(28 163)	(26 431)
	1 292	(4 254)	(1 735)	(3 354)	(3 185)
Unrecognised actuarial gain	**-**	4 254	1 735	3 354	3 185
Liability at end of year	**1 292**	-	-	-	-

The Trustees have not yet apportioned the surplus in the Fund to the Employer, thus no surplus has been recognised in the Balance Sheet.

The movement in the defined benefit obligation over the year is as follows:

	2013	2012	2011	2010	2009
Balance at beginning of year	**26 145**	28 278	24 809	22 749	20 373
Interest cost	**1 849**	2 140	2 005	1 872	1 903
Current service cost	**937**	1 036	1 184	1 149	1 103
Benefits paid	**(2 512)**	(4 362)	(3 485)	(2 378)	(1 844)
Contributions by plan participants (employees)	**365**	427	473	439	468
Benefit increase/(decrease)	**(2 436)**	-	-	399	-
Actuarial (gain)/loss on obligation	**5 581**	(1 374)	3 292	579	1 243
Balance at end of year	**29 929**	26 145	28 278	24 809	23 246

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

	Corporation				
	2013 R'000	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated

16. EMPLOYEE BENEFITS (continued)

16.2. Pension and provident fund schemes (continued)

16.2.2. Defined Benefit Provident Fund

	2013	2012	2011	2010	2009
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**30 399**	30 013	28 162	25 866	25 924
Expected return on assets	**2 422**	2 315	2 516	2 425	2 303
Contributions received	**1 169**	1 000	1 179	1 085	1 162
Benefits paid	**(2 512)**	(4 362)	(3 485)	(2 379)	(1 844)
Investment gain/(loss) on assets	**(2 841)**	1 433	1 641	1 166	(1 114)
Balance at end of year	**28 637**	30 399	30 013	28 163	26 431
Amounts recognised in the income statement are as follows:					
Current service cost	**937**	1 242	1 184	1 149	1 103
Interest cost	**1 849**	2 140	2 005	1 872	1 903
Expected return on plan assets	**(2 422)**	(2 533)	(2 516)	(2 425)	(2 303)
Benefit increase	**2 931**	-	-	399	-
Recognised actuarial (gains)/losses	**-**	(417)	(75)	(1 398)	(9)
	3 295	432	598	(403)	694
Plan assets portfolio:					
Investment assets	**28 828**	31 905	31 008	29 907	27 331
Net current liabilities	**(191)**	(1 506)	(995)	(1 744)	(900)
	28 637	30 399	30 013	28 163	26 431
Effective rate of return on plan assets (actual)	**7.48%**	9.98%	4.60%		

The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:

	2013	2012	2011
Discount rate (annualised yield on R208, 2012: R157)	**6.50%**	8.00%	8.30%
Expected rate of return on plan assets	**9.50%**	9.00%	9.00%
Future salary increases (inflation plus 1%)	**7.40%**	7.30%	6.90%
Inflation (difference in annualised yield between R186 and R197)	**6.40%**	6.30%	5.90%

Sensitivity analysis (fund liability)	**Change**	2013	2012	2011
At valuation assumptions:		**29 616**	26 145	23 246
Discount rate	+1%	**28 352**	25 081	22 126
	-1%	**31 009**	27 318	24 491
Expected rate of salary increases	+1%	**30 659**	27 031	24 351
	-1%	**28 654**	25 336	22 252
No salary increases		**24 210**	21 730	18 072

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	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated

16. EMPLOYEE BENEFITS (continued)

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 6.5% (2012: 7.05%) and an average salary inflation of 5.8% (2012: 6.6%).

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.

	Change	Group 2013 R'000	Group 2012 R'000 Restated	Corporation 2013 R'000	Corporation 2012 R'000 Restated
Balance at beginning of year		**19 045**	16 129	**10 043**	8 576
Expensed during the year		**4 210**	3 512	**2 180**	1 881
Contributions paid		**(2 760)**	(1 614)	**(1 484)**	(821)
Unrecognised actuarial gain		**1 137**	1 018	**1 003**	407
Balance at end of year		**21 632**	19 045	**11 742**	10 043
Amounts recognised in the balance sheet are as follows:					
Present value of unfunded obligations		**20 480**	17 749	**10 739**	9 636
Unrecognised actuarial gain		**1 152**	1 296	**1 003**	407
Liability at end of year		**21 632**	19 045	**11 742**	10 043
Amounts recognised in the income statements are as follows:					
Current service cost		**2 970**	2 309	**1 525**	1 239
Interest cost		**1 240**	1 203	**655**	642
Net actuarial gain recognised in the year		**1 137**	1 018	**1 003**	407
		5 347	4 530	**3 183**	2 288
Membership statistics:					
In-service members		**870**	892	**433**	442
Sensitivity Analysis – unfunded accrued liability					
Assumptions	**Change**				
Central assumptions:		**21 200**	18 725	**11 742**	10 043
CPI Inflation	+1%	**22 850**	19 877	**12 598**	10 384
	-1%	**19 712**	17 677	**10 966**	9 282
Average retirement age	-2 years	**18 111**	16 332	**9 636**	8 268
	+2 years	**23 923**	20 833	**13 453**	11 044
Withdrawal rates	-50%	**26 208**	22 881	**13 937**	11 610

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
17. GOVERNMENT GRANTS				
17.1. GOVERNMENT GRANTS – DEFERRED INCOME				
BEE risk fund	**11 393**	13 873	**11 393**	13 873
Share participation	**13 972**	13 972	**13 972**	13 972
Co-operatives – Business	**37 433**	46 154	**37 433**	46 154
Co-operatives – Agriculture	**7 546**	13 490	**7 546**	13 490
Ithala Equity Fund	**103 127**	93 105	**103 127**	93 105
SMME onlending	**47 643**	-	**47 643**	-
	221 114	180 594	**221 114**	180 594
17.2. GOVERNMENT GRANTS – OTHER				
KZN Growth Fund – Capital Contribution	**293 040**	321 699	**293 040**	321 699
KZN Growth Fund – Operational Fund	**12 833**	36 818	**12 833**	36 818
Department of Economic Development and Tourism	**232 869**	163 258	**232 869**	163 258
Ithala Limited Share Capital	**40 000**	40 000	**-**	-
	578 742	561 775	**538 742**	521 775
TOTAL GOVERNMENT GRANTS	**799 856**	742 369	**759 856**	702 369
18. ACCOUNTS PAYABLE				
Trade creditors	**27 730**	4 835	**21 350**	10 544
Accruals	**27 535**	24 433	**19 735**	19 103
South African Revenue Service	**6 873**	5 659	**5 366**	2 023
Accrual for audit fee	**6 970**	5 185	**2 978**	2 162
Sundry creditors	**37 955**	58 875	**27 604**	38 649
Accrual for leave pay	**26 900**	23 700	**15 925**	13 644
Accrual for bonus pay	**2 878**	2 700	**1 325**	1 252
	136 841	125 387	**94 282**	87 377

The provision for audit fees is determined based on the audit fee to be incurred for the financial year under review. The audit fee is approved by the Audit Committee.

The provision for bonuses 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.

In the prior year, an amount of R36,8 million pertaining to grant funds held on behalf of the KZN Growth Fund – Operational Fund was incorrectly disclosed as sundry creditors and has since been corrected.

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
19. INTEREST				
19.1. Interest income				
Balances with banks and short-term funds	**61 737**	63 257	**20 200**	16 485
Advances	**184 412**	214 575	**60 251**	83 709
Other	**1 137**	1 005	**1 134**	1 004
	247 286	278 836	**81 585**	101 198
Analysis per financial instrument category				
Interest on financial assets at amortised cost	**247 286**	278 836	**81 585**	101 198

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
19. INTEREST (continued)				
19.2. Interest expenditure				
Interest on:	**53 979**	55 538	**-**	-
Savings and deposit accounts	**7 154**	9 516	**7 118**	9 516
Borrowings	**(3 683)**	4 440	**(8 323)**	4 266
Other (See Note 35)	**57 450**	69 494	**(1 205)**	13 782
Analysis per financial instrument category				
Interest on financial liabilities at amortised cost	**57 450**	69 494	**(1 205)**	13 782
20. OTHER OPERATING INCOME	**900 088**	860 006	**691 240**	659 634
Other operating income is stated after crediting the following items:				
20.1. Surplus/(Deficit) on sale of investment properties and property, plant and equipment	**3 873**	(641)	**3 420**	631
20.2. Profit on valuation of listed investments	**4 073**	113	**4 073**	113
20.3. Dividends received				
Listed investments	**1 127**	1 077	**1 127**	1 077
20.4. Grants applied	**150 541**	182 471	**150 541**	182 471
Co-operatives – Business	**8 682**	566	**8 682**	566
SMME onlending	**141 859**	181 905	**141 859**	181 905
20.5. Interest received				
Sale of Glenrand MIB shares	**-**	25	**-**	25
20.6. Rental received	**271 572**	249 480	**245 385**	226 344
20.7. Sale of electricity, water and sewerage	**200 056**	186 886	**200 056**	186 886
20,8 Fees, commission and Services recovered *	**189 796**	204 130	**38 543**	31 384

* Fee income comprises project management fees earned on development of own properties and government infrastructure projects, as well as commission income on short- and long-term insurance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 31 March 2013 (Continued)

		Group		Corporation	
		2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
21.	**OPERATING EXPENDITURE**	**874 182**	798 897	**570 086**	522 526
	Operating expenditure is stated after charging/(crediting) the following items:				
21.1.	**Auditor's remuneration**				
	Audit fees – current year	**7 657**	7 031	**2 978**	2 640
	– prior year under provision	**1 242**	(314)	**1 280**	-
		8 899	6 717	**4 257**	2 640
21.2.	**Depreciation of investment properties and property, plant and equipment**	**36 596**	43 171	**19 430**	24 522
21.3.	**Amortisation of intangible assets**	**6 591**	6 944	**5 596**	6 232
21.4.	**Non-credit related impairments**				
	Amounts due from subsidiaries	**-**	-	**2 788**	5 745
	Amounts due from associated companies	**(2 495)**	(124)	**(2 495)**	(124)
	Investment properties	**(10 771)**	(15 196)	**(10 771)**	(15 196)
		(13 267)	(15 320)	**(10 479)**	(9 575)
21.5.	**Professional fees**	**12 991**	12 794	**8 506**	10 224
21.6.	**Operating leases**	**16 803**	18 113	**1 583**	991
21.7.	**Purchases of electricity, water and sewerage**	**160 646**	147 391	**160 646**	147 391
21,8	**Rent, rates and utilities**	**113 293**	101 849	**79 371**	69 095
21.9.	**Directors' emoluments**				
	Chief Executives				
	DSD Shabalala - (resigned 31/07/2011)	**-**	2 464	**-**	2 464
	SE Madondo - Acting Chief Executive Officer	**1 999**	2 070	**1 999**	2 070
	YEN Zwane	**2 081**	667	**2 081**	667
	Chief Executives	**4 080**	5 201	**4 080**	5 201
	Emoluments paid to non-executive directors for the year:				
	MSV Gantsho – Chairperson	**877**	668	**877**	668
	DK Golding – Deputy Chairperson (resigned 29/03/2012)	**-**	502	**-**	392
	AN Zondi	**208**	366	**208**	207
	B Ngonyama (appointed 01/06/2012)	**213**	-	**-**	-
	BC Bam	**353**	265	**353**	265
	DM McLean	**1 027**	975	**356**	314
	G Simelane	**190**	155	**-**	-
	GNJ White	**772**	282	**389**	282
	L Van Lelyveld (appointed 01/10/2012)	**146**	-	**-**	-
	M Mia	**312**	220	**-**	-

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
21. OPERATING EXPENDITURE (continued)				
21.9. Directors' emoluments (continued)				
M Mosidi	**14**	-	**14**	-
MC Clark	**284**	185	**-**	-
MF Kekana	**424**	203	**424**	203
MM Buthelezi (resigned 31/12/2011)	**-**	668	**-**	-
N Khambule	**297**	395	**297**	291
NN Afolayan	**304**	280	**304**	280
NNA Matyumza	**682**	465	**359**	265
PD Christianson	**189**	84	**-**	-
PF Lugayeni (resigned 31/12/2012)	**-**	208	**-**	-
R Morar (resigned 31/03/2011)	**-**	32	**-**	8
RS Garach	**327**	254	**-**	-
S Ngidi	**262**	175	**-**	-
S Nzuza	**263**	258	**-**	-
WJ Jacobs	**310**	274	**310**	274
	7 454	6 913	**3 891**	3 448
Executive management remuneration				
BTT Mathe	**1 729**	1 867	**1 729**	1 734
B Silungwe (appointed 04/06/2012)	**1 319**	-	**1 319**	-
BS Nhleko (acting 15 /02/2013)	**52**	-	**52**	-
J Mubonderi	**911**	883	**911**	883
L Reynolds-Venter	**1 020**	997	**-**	-
LL Ntuane (resigned 28/04/2011)	**-**	208	**-**	208
LS Mahamba	**1 059**	561	**1 059**	561
MG Mashao (resigned 30/04/2012)	**272**	1 485	**272**	1 485
MM Matibe (appointed 01/12/2011)	**1 487**	481	**1 487**	481
NW Nhlangulela (appointed 10/07/2012)	**965**	-	**965**	-
PA Ireland (appointed 01/05/2012 Limited)	**1 497**	1 295	**728**	1 295
PM Ntsimane (resigned 15/02/2013)	**928**	1 027	**928**	1 027
S Adam (appointed 01/03/2012)	**1 775**	129	**-**	-
SS Mthethwa	**1 145**	1 109	**1 145**	1 109
SV Khoza - Chief Executive Officer (Appointed 01/11/2012)	**1 550**	-	**-**	-
TD Makhanya (appointed 01/11/ 2012)	**229**	-	**229**	-
VP Misra (terminated 16/05/2012)	**667**	2 091	**-**	-
VSM Nxasana (resigned 30/11/2011)	**-**	1 188	**-**	1 188
	16 605	13 321	**10 824**	9 970
21.10. Personnel costs	**310 317**	293 560	**173 460**	168 012

Included in personnel costs is R3,9 million (2012: R4,6 million) paid in resepct of staff costs for Ntingwe Tea (Pty) Ltd in terms of an agreement between Ithala and the Department of Agriculture.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 31 March 2013 (Continued)

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
21. OPERATING EXPENDITURE (continued)				
21.11. Contribution to retirement benefit schemes**				
Defined benefit schemes	**1 427**	1 981	**828**	1 127
Defined contribution schemes	**13 813**	13 333	**8 228**	7 948
	15 240	15 314	**9 056**	9 075
**Includes contributions paid on behalf of key management personnel	**1 595**	1 602	**1 317**	1 030
21.12. Value added taxation (not claimed)	**10 195**	16 358	**2 539**	2 662
22. TAXATION				
22.1. Indirect taxation				
Skills development levies	**2 245**	2 174	**1 390**	1 352
	2 245	2 174	**1 390**	1 352
22.2. Direct Taxation				
South African normal taxation	**3 452**	3 584	**-**	-
Deferred taxation	**(1 250)**	636	**-**	-
Secondary tax on companies	**-**	205	**-**	-
	2 202	4 425	**-**	-

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 2013 R'000	Group 2012 R'000 Restated	Corporation 2013 R'000	Corporation 2012 R'000 Restated
23. NOTES TO CASH FLOW STATEMENTS				
23.1. Cash generated from operating activities				
Net income before taxation	**76 156**	106 425	**84 174**	82 474
Adjustment for non-cash items:				
Landfill sites provision	**(10 706)**	4 089	**(10 706)**	4 089
Straightlining of operating lease income and expenditure	**(1 613)**	1 092	**(1 834)**	2 925
Depreciation and amortisation	**43 188**	50 115	**25 027**	30 754
Impairment of assets and inventory	**(10 771)**	(15 196)	**(10 771)**	(15 196)
Credit impairment for loans and advances	**117 824**	148 370	**102 888**	139 162
Loss from subsidiaries and associates	**-**	(124)	**-**	5 621
(Profit)/Loss on disposal of assets	**3 873**	2 146	**3 420**	(631)
Post retirement provision	**9 492**	6 255	**5 973**	4 360
Long service obligation provided and actuarial gains	**5 347**	4 530	**3 183**	2 288
Movement in other provisions	**1 741**	(4 975)	**1 222**	(4 555)
Revaluation of shares	**(4 072)**	(113)	**(4 072)**	(113)
	230 458	302 615	**198 504**	251 178

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
23. NOTES TO CASH FLOW STATEMENTS (continued)				
23.2. (Increase)/decrease in working capital				
Trade and other payables	**13 593**	(143 224)	**6 905**	7 144
Trade and other receivables	**(14 935)**	128 753	**17 539**	49 297
Inventory and contracts in progress	**(406)**	(1 119)	**99**	(330)
	(1 747)	(15 590)	**24 543**	56 110
23.3. Taxation paid				
Opening balance	**(1 967)**	(868)	**-**	-
Charge for the year	**(3 452)**	(3 789)	**-**	-
Closing balance	**(173)**	1 967	**-**	-
Taxation paid	**(5 591)**	(2 690)	**-**	-
24. COMMITMENTS				
24.1. Capital commitment				
Authorised but not yet contracted	**274 415**	81 043	**232 010**	62 303
Authorised and contracted	**3 642**	63 233	**-**	59 800
	278 057	144 276	**232 010**	122 103
24.2. Operating lease commitments				
The future minimum lease payments under non-cancellable leases are as follows:				
Next 12 months	**1 138**	16 828	**709**	699
From 1 - 5 years	**4 423**	12 146	**2 957**	2 907
Later than 5 years	**24 440**	25 202	**24 440**	25 202
Total future cash flows	**30 001**	54 176	**28 106**	28 808
Straight-lining of operating lease expenditure accrued on balance sheet:	**(7 095)**	(6 952)	**(5 512)**	(5 476)
Long-term portion	**(7 051)**	(5 901)	**(5 539)**	(5 440)
Short-term portion	**(44)**	(1 051)	**27**	(36)
Future expenses	**22 906**	47 224	**22 594**	23 332
Total commitments	**300 963**	191 500	**254 604**	145 435

ITHALA LIMITED

The Company as a lessee has entered into 16 (2012: 17) related party lease agreements with the holding company. These contracts, in aggregate, amount to R2,1 million (2012: R 6,8 million).

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 R25,02 million (2012: R26,08 million)

KZN GROWTH FUND

During the current year the Company entered into a five-year lease for office premises. In the prior year the Company had a month- to-month lease for the rental of office space with Redefine Properties Limited amounting to R50 570 per month.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated

24. COMMITMENTS (continued)

24.3. Finance lease commitments

The finance lease relates to the five-year lease of two printers KZN Growth Fund entered into with Xerox with effect from 1 June 2011. The lease agreements provide for 60 equal instalments amounting to R7 970.88 including VAT for both machines over the period of the lease. Ownership of the printers will not pass to the Company at the end of the lease period. The finance lease liability is included in liabilities.

The reconciliation between the total minimum lease payments and their present value:

	Up to 1 year	1 year to 5 years	Total
	R'000	R'000	R'000
Minimum lease payments	96	207	**303**
Finance cost	(48)	(14)	**(62)**
Present value	47	193	**241**

25. CONTINGENT LIABILITIES

25.1. GUARANTEES HELD

	Group 2013	Group 2012	Corporation 2013	Corporation 2012
Loans by petrol companies to service station operators	**131**	137	**131**	137
Credit balance on ABSA current account*	**-**	2 500	**-**	2 500
South African Insurance Association	**3 000**	3 000	**3 000**	3 000
Eskom Guarantees	**6 065**	6 052	**5 985**	5 971
eThekwini Municipality	**111**	111	**111**	111
Customs and excise	**-**	180	**-**	180
KZN Provincial Government	**-**	173	**-**	173
Development and Services Board	**-**	103	**-**	103
Total	**9 307**	12 256	**9 227**	12 175

No material losses are anticipated as a result of these transactions.

* During the prior year, the Corporation ceded R2,5 million to ABSA Bank Limited as continuing security to cover balances favourable to the bank.

25.2. LEGAL MATTERS

ITHALA LIMITED

25.2.1. KZN Security Services

A claim was instituted against the Company by KZN Security Services during the 2009/2010 financial year based on early termination of a written service level agreement between both parties which was due to expire on 31 March 2009. KZN Security Services has further alleged that the agreement was to have been extended based on a verbal agreement between the holding company and KZN Security Services for a further three years until 31 March 2012. The claim has been quantified by the applicant at an amount of R2, 8 million. The Company is opposing the application and as at the year-end, the outcome of this legal dispute is still uncertain.

25.2.2. Mr PR Bele

A claim was instituted against the Company by Mr. PR Bele. The claim is for damages allegedly resulting from incorrect investment advice given by a branch manager. The claim has been quantified by the applicant at an amount of R0.3 million. The Company is opposing the application and as at the date of this report, the outcome of this legal dispute is still uncertain.

25.2.3. Legal dispute with ex-employee

The Company is currently a co-defendant in a disputed dismissal case being arbitrated at CCMA. The Company is opposing the dispute, the outcome of which is still uncertain at the date of this report. Due to the sensitive nature of the case, further disclosure may be prejudicial to the outcome of the case.

25.2.4. Fraudulent transaction claims

The Company has been subject to receipt of Europa, MasterCard and Visa (EMV) liability shift claims for fraudulent transactions processed on the Company's ATMs. Such claims are subject to a validation process and may result in possible settlement. Management has reviewed the existing service level agreements with outsourced service providers and believe that the claims are recoverable. Furthermore, legal opinion has also been sought confirming the view on recoverability. Management has commenced engagement with the service providers on the matter.

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
26. DEFERRED TAXATION				
Deferred taxation liability comprises:				
- Provision for doubtful debts	**144**	(338)	**-**	-
- Straight-line rental debtors	**495**	2 394	**-**	-
- Provision for straight-line rental debtors	**17**	(62)	**-**	-
- Assessed losses	**22**	(66)	**-**	-
	678	1 927	**-**	-
The movement is reconciled as follows:				
Balance at beginning of year	**(1 927)**	(1 163)	**-**	-
Movement during the year:			**-**	
- Provision for doubtful debts	**(102)**	(359)	**-**	-
- Provision for leave pay	**-**	(127)	**-**	-
- Straight-line rental debtors	**1 237**	(319)	**-**	-
- Provision for straight-line rental debtors	**70**	8	**-**	-
- Assessed losses	**44**	33	**-**	-
	(678)	(1 927)	**-**	-

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 and Tourism. The Corporation and its subsidiaries, in the ordinary course of business, enter into various transactions with related parties. These occur under terms and conditions that are no more favourable to those entered into with third parties in arm's length transactions.

27.1. Loans to members of provincial legislature, senior management of the Department of Economic Development and Tourism

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
2013						
Corporation	**15 285**	**17 987**	**5 691**	**12 778**	**12 336**	**1 162**
2012						
Corporation	15 285	17 710	4 300	8 305	20 350	1 523

27.2. Loans to key management personnel

These are individuals responsible for planning, directing and controlling the activities of the company, namely non-executive directors and executive management of Ithala Development Finance Corporation, its subsidiaries and associated companies.

	Loans Granted	Outstanding Balance	Arrears	Specific impairment charge	Security Amount	Interest Received
2013						
Corporation	**8 621**	**9 664**	**9 664**	**7 672**	**3 837**	**173**
Ithala Limited	**-**	**2 577**	**-**	**-**	**2 670**	**170**
2012						
Corporation	8 321	9 488	9 459	7 374	4 400	387
Ithala Limited	1 602	2 796	-	-	5 042	257

No specific credit impairments (2012: Nil) 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 favourable to those entered into with third parties at arm's length except for housing loans where all full time employees qualify for the prime overdraft rate less 1.75%.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

	2013 R'000	2012 R'000
27. RELATED PARTIES (continued)		
27.3. Transactions between the Corporation and its subsidiaries		

These are wholly-owned subsidiaries of the Corporation. These amounts are therefore only included in the Corporation accounts and are eliminated on consolidation.

	2013 R'000	2012 R'000
Bank charges received		
Interest paid on retention account	**(51)**	(47)
Service fees	**49**	32
Rental	**-**	643
Recovery of operating expenses	**3 871**	3 672
Insurance commission	**(2 390)**	(2 608)
Remuneration	**(2 500)**	(1 798)
Short-term brokerage	**-**	9 137
	-	60
The outstanding balances of the Current and Shareholders Loan accounts:		
Outstanding balance on savings and fixed deposits	**2 929**	1 380
Ithala Development Finance Corporation inter-company balance	**(15 954)**	(23 989)

During the financial year, the Corporation waived cost recoveries amounting to R17.2 million (2012: R29.4 million) for services rendered to Ithala Limited.

Details of movements in intercompany loans are disclosed in Annexure 2.

	Deposits Due R'000	Interest expense R'000	Outstanding balance R'000	Fees Received R'000
27.4. KwaZulu-Natal Provincial Government				
2013				
Group				
Department of Corporate Governance and Traditional Affairs	**24 154**	**1 407**	**-**	**-**
Department of Agriculture	**1 100**	**18**	**-**	**-**
Department of Human Settlement	**1 287**	**201**	**-**	**-**
Department of Education	**-**	**-**	**14 190**	**14 301**
Department of Health	**2 254**	**3**	**22 476**	**2 749**
Total	**28 795**	**1 629**	**36 666**	**17 050**
Corporation				
Department of Education	**-**	**-**	**14 190**	**14 301**
Department of Health	**-**	**-**	**22 476**	**2 749**
Total	**-**	**-**	**36 666**	**17 050**
2012				
Group				
Department of Corporate Governance and Traditional Affairs	23 160	1 350	-	-
Department of Agriculture	1 083	22	-	-
Department of Human Settlement	12 114	251	-	-
Department of Education	-	-	26 416	3 046
Department of Health	-	-	15 961	7 279
Total	36 357	1 623	42 377	10 325
Corporation				
Department of Education	-	-	26 416	3 046
Department of Health	-	-	15 961	7 279
Total	-	-	42 377	10 325

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated
28. PRIOR YEAR ERRORS				
28.1. VAT Review				
During the year the Value Added Taxation (VAT) apportionment percentage for the 2012 financial year and the calculation of VAT on repossessions in respect of instalment credit agreements for the past five years were reviewed. The prior year results were restated for the effect of VAT incorrectly accounted for in those years.				
Effect on Statement of Financial Position:	**(4 361)**	(6 801)	**(2 757)**	(1 259)
Increase/(Decrease) in Accounts Payable				
Effect on Statement of Comprehensive Income:	**4 361**	6 801	**2 757**	1 259
Decrease/(increase) in VAT expense				
28.2. Reconciliation of the Impact on Retained Income				
Restated retained income as previously reported	**659 266**	652 465	**604 501**	603 242
Income attributable to shareholder as previously stated	**97 575**	-	**79 717**	-
Value added taxation (VAT)	**4 361**	6 800	**2 757**	1 259
Restated retained income	**761 202**	659 265	**686 975**	604 501
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:	**4 054**	1 100	**3 306**	-
Increase in net book value – Equipment				
Effect on Statement of Comprehensive Income:	**(4 054)**	(1 100)	**(3 306)**	-
Decrease in depreciation				
30. FRUITLESS AND WASTEFUL EXPENDITURE	**930**	126	**165**	126

Fruitless and wasteful expenditure of R165k was incurred by the Corporation due to suppliers imposing interest on Ithala as a result of late payment of invoices.

Fruitless and wasteful expenditure amounting to R0,8 million was incurred by Ithala Limited comprising the following:

- R0,2 million relates to claims made against the Company in respect of Europa, MasterCard and Visa (EMV) fraudulent transactions on Ithala ATMs. The request for condonation for the expenditure is being prepared and is expected to be presented to the Accounting Authority at their next meeting. Management is further reviewing the existing service level agreements with outsourced providers to explore the recoverability of claims made against the Company.
- R0,6 million relates to the settlement of a claim in respect of ownership/title deed to a previous property in possession (PIP) sale. The request for condonation for the expenditure is being prepared and is expected to be presented to the accounting authority at their next meeting.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated

31. EVENTS AFTER DATE OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31.1. Sale of KZN Growth Fund Managers SOC (Pty) Ltd to the KZN Growth Fund Trust

The Department of Economic Development and Tourism (DEDT) proposed a new unitary operational structure for KZN Growth Fund Trust on 3 December 2012, and thereby proposes the sale of the assets and liabilities of the current KZN Growth Fund Managers SOC Ltd to the Trust.

In order to give effect to this change in structure, a Heads of Agreement was entered into on 25 February 2013 between DEDT, KZN Growth Fund Trust, Ithala Development Finance Corporation Limited, KZN Growth Fund Managers SOC Ltd, the Standard Bank of South Africa Ltd, Infrastructure Finance Corporation Limited (INCA) and the Development Bank of South Africa (DBSA). This document stipulates the changes to be made to the existing agreements that govern the KZN Growth Fund Managers SOC Ltd and the Trust, and requires the sale of the assets and liabilities to the Trust.

This change in structure will have the following impact on Ithala:

- The subsidiary will cease to be the Fund Manager for the KZN Growth Fund Trust
- Capital Contribution and Operational Fund will be transferred to the Trust
- Any future operations of the KZN Growth Fund Managers SOC Ltd will be considered
- Decide whether to participate as a lender or in another form of support to the Trust's objectives.

The operational effective date of sale is 1 April 2013 subject to the finalisation of legal agreements. There is no accounting implication for the period under review.

31.2. Re-capitalisation of Ithala SOC Limited

According to South African Reserve Bank (SARB) requirements and Ithala Limited's internal policies the entity has to maintain a minimum Capital Adequacy levels. The repositioning of this entity is likely to place strain on these levels and as a result, the Board of Directors have agreed to the recapitalisation of up to R105 million in Ithala Limited at the Board meeting of 6 May 2013 for the 2013/14 financial period. The re-capitalisation has no effect in the current reporting year. As at 31 July 2013 R60 million has been advanced of the total R105 million.

31.3. Ubuciko Twines and Fabrics (Pty) Ltd and Ntingwe Tea (Pty) Ltd

At a Board meeting held on 8 March 2013, the Board of Directors took a decision to put a process in place in terms of which Ubuciko Twines and Ntingwe Tea will be 'converted' into Co-operatives during the 2013/2014 financial year. The 'conversion' is likely to be achieved through the sale of the assets and liabilities to the co-operatives to be formed and will therefore result in a disposal, at fair value, of Ithala's interest in these entities.

It is envisaged that the entities will then be funded through the co-operative grant funding provided by the Department of Economic Development and Tourism.

32 IRREGULAR EXPENDITURE

	Group 2013 R'000	Group 2012 R'000 Restated	Corporation 2013 R'000	Corporation 2012 R'000 Restated
Opening balance	**1 033**	19 079	**1 033**	-
Add: Irregular Expenditure – current year	**1 116**	6 784	**853**	3 033
Less: Amounts condoned	**(2 149)**	(24 830)	**(1 886)**	(2 000)
Less: Amounts recoverable (not condoned)	**-**	-	**-**	-
Less: Amounts not recoverable (not condoned)	**-**	-	**-**	-
Irregular Expenditure awaiting condonation	**-**	1 033	**-**	1 033
Analysis of expenditure awaiting condonation per age classification				
Current year	**-**	1 033	**-**	1 033
Prior years	**-**	-	**-**	-
Total	**-**	1 033	**-**	-

Details of Irregular Expenditure – Current year

Incident	Disciplinary steps taken/ criminal proceedings	Group 2013 R'000	Group 2012 R'000 Restated	Corporation 2013 R'000	Corporation 2012 R'000 Restated
Non compliance with supply chain management policies	None taken to date as matter is still under investigation	**-**	6 320	**-**	2 569
Non compliance with supply chain management policies	Employee Dismissed	**-**	464	**-**	464
Non compliance with supply chain management policies	None taken as employee left the organisation	**770**	-	**770**	-
Non compliance with supply chain management policies	Employee warned and counselled regarding implications of not following SCM procedures	**346**	**-**	**83**	**-**
Total		**1 116**	6 784	**853**	3 033

		Group		Corporation	
		2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
32 IRREGULAR EXPENDITURE (continued)					
Details of irregular expenditure condoned					
Incident	**Condoned by**				
Non-compliance with supply chain management policies	Accounting Authority	**1 116**	24 830	**853**	2 000
Total		**1 116**	24 830	**853**	2 000

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 has delegated the responsibility for risk management to three Board Sub-Committees, namely the Enterprise Risk Committee, the Audit Committee, and the Human Resources 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 counterparties 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 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 counterparty is under judicial management or declared insolvent and management believes that further recoveries are no longer probable.

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 R30 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 31 March 2013 (Continued)

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated
33. FINANCIAL RISK MANAGEMENT (continued)				
33.1. Credit Risk (continued)				
Concentration risk by sector				
Housing and Commercial Property	**1 345 782**	1 267 017	**-**	-
Micro finance – secured	**23 164**	23 405	**-**	-
Micro finance – unsecured	**29 824**	18 191	**-**	-
Personnel	**4 553**	5 702	**4 553**	5 702
Co-operatives	**9 259**	30 662	**9 259**	30 662
Agri and Agro business	**329 001**	362 678	**329 001**	362 678
Manufacturing	**143 940**	147 928	**143 940**	147 928
Trade and services	**164 180**	178 288	**164 180**	178 288
Construction and tourism	**180 017**	177 761	**180 017**	177 761
	2 229 720	2 211 632	**830 950**	903 019
Concentration risk by location				
Staff Loans	**4 553**	5 701	**4 553**	5 701
Amajuba District	**29 125**	20 853	**29 125**	20 853
Ilembe District	**68 029**	89 878	**68 029**	89 878
Sisonke District	**45 060**	46 668	**45 060**	46 668
Thekwini Metropolitan	**364 330**	415 706	**364 330**	415 706
Ugu District	**55 542**	57 917	**55 542**	57 917
Umgungundlovu District	**107 415**	85 859	**107 415**	85 859
Umkhanyakude District	**57 942**	70 561	**57 942**	70 561
Umzinyathi District	**6 295**	5 035	**6 295**	5 035
Uthukela District	**8 532**	9 013	**8 532**	9 013
Uthungulu District	**58 320**	63 308	**58 320**	63 308
Zululand District	**25 807**	32 520	**25 807**	32 520
Ithala Limited loans – KZN Province	**1 398 770**	1 308 613		
	2 229 720	2 211 632	**830 950**	903 019

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.

Credit risk exposures relating to on-balance sheet assets are as follows:

	Group 2013 R'000	Group 2012 R'000 Restated	Corporation 2013 R'000	Corporation 2012 R'000 Restated
Assets	**4 339 804**	4 169 154	**2 152 040**	2 035 988
Loans and advances	**2 229 720**	2 211 632	**830 950**	903 019
Investments	**16 141**	12 069	**16 141**	12 069
Trade and other receivables	**191 780**	157 990	**156 444**	158 833
Statutory liquid funds	**218 037**	116 275	**-**	-
Cash and cash equivalents**	**1 684 126**	1 671 188	**1 148 505**	962 066
On-balance sheet exposure	**4 339 804**	4 169 154	**2 152 040**	2 035 988

** Corporation balance includes R306 million (2012: R359,8 million) held on behalf of KZN Growth Fund Trust.

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated

33. FINANCIAL RISK MANAGEMENT (continued)

33.1. Credit Risk (continued)

Credit risk exposures relating to off-balance sheet items are as follows:

	Group 2013 R'000	Group 2012 R'000 Restated	Corporation 2013 R'000	Corporation 2012 R'000 Restated
Loan Commitments:	**134 735**	108 317	**109 708**	90 773
Housing and commercial property	**25 027**	17 544	**-**	-
Agri and agro processing	**18 111**	18 568	**18 111**	18 568
Construction and tourism	**50 706**	16 435	**50 706**	16 435
Manufacturing	**4 840**	19 815	**4 840**	19 815
Trade and services	**36 051**	35 955	**36 051**	35 955
Off-balance sheet exposure	**134 735**	108 317	**109 708**	90 773

Analysis of impairment provisions per sector

	2013			2012		
	Original Carrying Amount	Impairment	Revised Carrying amount	Original Carrying Amount	Impairment	Revised Carrying amount
	R'000	R'000	R'000	R'000	R'000	R'000
GROUP						
Housing and commercial property	**1 345 782**	**89 488**	**1 256 294**	1 267 017	94 388	1 172 629
Micro finance - secured	**23 164**	**8**	**23 156**	23 405	7	23 398
Micro finance - unsecured	**29 824**	**11 512**	**18 312**	18 192	10 155	8 037
Agri and agro processing	**329 001**	**147 485**	**181 516**	362 678	119 448	243 230
Construction and tourism	**180 017**	**81 191**	**98 826**	177 761	85 428	92 333
Manufacturing	**143 940**	**96 888**	**47 052**	147 928	70 579	77 349
Trade and services	**164 180**	**98 166**	**66 014**	178 288	74 709	106 626
Personnel	**4 553**	**28**	**4 525**	5 701	175	5 374
Co-operatives	**9 259**	**917**	**8 342**	30 662	28 826	4 252
	2 229 720	**525 683**	**1 704 037**	2 211 632	483 715	1 727 917
CORPORATION						
Agri and agro processing	**329 001**	**147 485**	**181 516**	362 678	119 448	243 230
Construction and tourism	**180 017**	**81 191**	**98 826**	177 761	85 428	92 333
Manufacturing	**143 940**	**96 888**	**47 052**	147 928	70 579	77 349
Trade and services	**164 180**	**98 166**	**66 014**	178 288	74 709	103 579
Personnel	**4 553**	**28**	**4 525**	5 702	176	5 526
Co-operatives	**9 259**	**917**	**8 342**	30 662	28 826	1 836
	830 950	**424 675**	**406 275**	903 019	379 166	523 853

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 31 March 2013 (Continued)

	Loan Balance	Impairment	Carrying Amount	Collateral
	R'000	R'000	R'000	R'000

33. FINANCIAL RISK MANAGEMENT (continued)

33.1. Credit Risk (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.

GROUP	Loan Balance R'000	Impairment R'000	Carrying Amount R'000	Collateral R'000
2013				
Housing and commercial property	**376 389**	38 151	**338 238**	330 964
Agri and agro processing	**85 410**	82 670	**2 740**	38 906
Construction and tourism	**68 946**	66 539	**2 407**	18 350
Manufacturing	**74 660**	71 111	**3 549**	18 591
Trade and services	**73 141**	62 831	**10 310**	25 583
Co-operatives	**314**	314	**-**	130
	678 860	321 616	**357 244**	432 524
2012				
Housing and commercial property	334 219	36 677	297 542	322 365
Agri and agro processing	59 733	53 303	6 430	28 230
Construction and tourism	41 009	33 239	7 770	19 912
Manufacturing	42 773	38 571	4 202	16 498
Trade and services	22 430	19 743	2 687	15 341
Co-operatives	6 277	6 277	-	485
	506 441	187 810	318 631	402 831

CORPORATION	Loan Balance R'000	Impairment R'000	Carrying Amount R'000	Collateral R'000
2013				
Agri and agro processing	**85 410**	82 670	**2 740**	38 906
Construction and tourism	**68 946**	66 539	**2 407**	18 350
Manufacturing	**74 660**	71 111	**3 549**	18 591
Trade and services	**73 141**	62 831	**10 310**	25 583
Co-operatives	**314**	314	**-**	130
	302 471	283 465	**19 006**	101 560
2012				
Agri and agro processing	**59 733**	53 303	**6 430**	28 230
Construction and tourism	**41 009**	33 239	**7 770**	19 912
Manufacturing	**42 773**	38 571	**4 202**	16 498
Trade and services	**22 430**	19 743	**2 687**	15 341
Co-operatives	**6 277**	6 277	**-**	485
	172 222	151 133	**21 089**	80 466

	Group		Corporation	
	2013 R'000	2012 R'000 Restated	2013 R'000	2012 R'000 Restated

33. FINANCIAL RISK MANAGEMENT (continued)

33.1. Credit Risk (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

Valuation of collateral

The fair value of collateral held at balance sheet date was as follows:

	Group 2013 R'000	Group 2012 R'000 Restated	Corporation 2013 R'000	Corporation 2012 R'000 Restated
Housing and commercial property	**1 557 671**	1 635 375	**-**	-
Agri and agro processing	**372 058**	426 007	**372 058**	426 007
Construction and tourism	**107 518**	158 905	**107 518**	158 905
Manufacturing	**99 680**	125 319	**99 680**	125 319
Trade and services	**95 262**	123 470	**95 262**	123 470
Co-operatives	**5 523**	3 914	**5 523**	3 914
	2 237 712	2 472 990	**680 041**	837 615

Enforcement of collateral

Carrying amounts of assets held as a result of enforcement of collateral were as follows:

	Group 2013 R'000	Group 2012 R'000 Restated	Corporation 2013 R'000	Corporation 2012 R'000 Restated
Properties in possession:				
Opening balance	**16 291**	20 403	**5 654**	7 631
Acquisitions	**7 299**	5 756	**5 018**	3 917
Disposals	**(5 571)**	(9 868)	**(3 787)**	(5 894)
Closing balance	**18 019**	16 291	**6 885**	5 654

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.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 31 March 2013 (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. FINANCIAL RISK MANAGEMENT (continued)					
33.1. Credit Risk (continued)					
Loans and advances past due and not impaired (continued)					
GROUP					
2013					
Housing and commercial property	**5 635**	**9 506**	**7 306**	**29 731**	**52 178**
Personal loans	**-**	**-**	**-**	**-**	**-**
Agri and agro processing	**595**	**1 120**	**-**	**1 442**	**3 157**
Construction and tourism	**1 687**	**146**	**-**	**207**	**2 040**
Manufacturing	**384**	**158**	**20**	**74**	**636**
Trade and services	**243**	**1 244**	**48**	**719**	**2 254**
Personnel	**-**	**1**	**-**	**-**	**1**
Co-operatives	**-**	**-**	**-**	**64**	**64**
	8 544	**12 175**	**7 374**	**32 237**	**60 330**
2012					
Housing and commercial property	25 637	7 045	8 319	20 096	61 097
Personal loans	2 838	903	99	-	3 840
Agri and agro processing	455	387	894	2 051	3 787
Construction and tourism	17	779	1 811	860	3 467
Manufacturing	36	45	67	111	259
Trade and services	1	15 102	20	538	15 661
Personnel	1	-	1	-	2
Co-operatives	15	-	26	20	61
	29 000	24 261	11 237	23 676	88 174
CORPORATION					
2013					
Agri and agro processing	**595**	**1 120**	**-**	**1 330**	**3 045**
Construction and tourism	**1 687**	**146**	**-**	**207**	**2 040**
Manufacturing	**384**	**158**	**20**	**74**	**636**
Trade and services	**243**	**1 244**	**48**	**719**	**2 254**
Personnel	**-**	**1**	**-**	**-**	**1**
Co-operatives	**-**	**-**	**-**	**64**	**64**
	2 909	**2 669**	**68**	**2 394**	**8 040**
2012					
Agri and agro processing	455	387	894	2 051	3 787
Construction and tourism	17	779	1 811	860	3 467
Manufacturing	36	45	67	111	259
Trade and services	1	15 102	20	538	15 661
Personnel	1	-	1	-	2
Co-operatives	15	-	26	20	61
	525	16 313	2 819	3 580	23 237

	<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. FINANCIAL RISK MANAGEMENT (continued)					
33.1. Credit Risk (continued)					
Loans and advances past due and impaired					
GROUP					
2013					
Housing and commercial property	**-**	**-**	**-**	**114 952**	**114 952**
Agri and agro processing	**-**	**-**	**-**	**89 076**	**89 076**
Construction and tourism	**-**	**-**	**-**	**49 943**	**49 943**
Manufacturing	**-**	**-**	**-**	**53 657**	**53 657**
Trade and services	**-**	**-**	**-**	**75 713**	**75 713**
Co-operatives	**-**	**-**	**-**	**447**	**447**
	-	**-**	**-**	**383 788**	**383 788**
2012					
Housing and commercial property	-	-	-	108 526	108 526
Agri and agro processing	-	-	-	62 289	62 289
Construction and tourism	-	-	-	59 856	59 856
Manufacturing	-	-	-	37 439	37 439
Trade and services	-	-	-	56 405	56 405
Personnel	-	-	-	106	106
Co-operatives	-	-	-	25 354	25 354
	-	-	-	349 975	349 975
CORPORATION					
2013					
Agri and agro processing	**-**	**-**	**-**	**89 076**	**89 076**
Construction and tourism	**-**	**-**	**-**	**49 943**	**49 943**
Manufacturing	**-**	**-**	**-**	**53 657**	**53 657**
Trade and services	**-**	**-**	**-**	**75 713**	**75 713**
Co-operatives	**-**	**-**	**-**	**447**	**447**
	-	**-**	**-**	**268 725**	**268 725**
2012					
Agri and agro processing	-	-	-	62 289	62 289
Construction and tourism	-	-	-	59 856	59 856
Manufacturing	-	-	-	37 439	37 439
Trade and services	-	-	-	56 405	56 405
Personnel	-	-	-	106	106
Co-operatives	-	-	-	25 354	25 354
	-	-	-	268 836	268 836

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 31 March 2013 (Continued)

	GROUP		CORPORATION	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
33. FINANCIAL RISK MANAGEMENT (continued)				
33.1. Credit Risk (continued)				
Fair value of collateral for loans past due and impaired				
Housing and commercial property	**170 435**	157 978	**-**	-
Agri and agro processing	**133 853**	120 926	**133 853**	120 926
Construction and tourism	**38 268**	34 830	**31 968**	34 830
Manufacturing	**63 025**	30 175	**63 025**	30 175
Trade and services	**43 153**	40 154	**43 153**	40 154
Co-operatives	**213**	3 550	**213**	3 550
	448 947	387 613	**272 212**	229 635

Loans and advances renegotiated

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group has provided initially.

Rescheduled/renegotiated loans include extended payment arrangements, modification and deferral of payments:

	GROUP 2013 R'000	GROUP 2012 R'000	CORPORATION 2013 R'000	CORPORATION 2012 R'000
Continuing to be impaired after rescheduling:				
Agri and agro processing	3 879	-	3 879	-
Non-impaired after rescheduling – would otherwise have been impaired:				
Agri and agro processing	1 461	3 973	1 461	3 973
Construction and tourism				
Manufacturing	-	6 030	-	6 030
Non-impaired after rescheduling – would otherwise not have been impaired:				
Agri and agro processing	-	425	-	425
Construction and tourism				
Trade and services	5 580	33 447	5 580	16 825
	10 920	43 875	10 920	27 253

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 Group's Board of Directors sets the Group strategy for managing liquidity risk and delegates the responsibility for the oversight of the implementation thereof to the Group Enterprise 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.

33. FINANCIAL RISK MANAGEMENT (continued)

33.2. Liquidity Risk (continued)

A summary of the Group liquidity profile is reflected in the table below:

	On demand to 1 month R'000	1 to 6 Months R'000	6 months to 1 year R'000	From 1 to 5 years R'000	After 5 years R'000
GROUP					
2013					
Financial assets					
Loans and advances	**106 143**	**122 033**	**130 290**	**668 505**	**1 202 749**
Investments at fair value through profit and loss	**16 141**	-	-	-	-
Trade receivables	**84 870**	**106 910**	-	-	-
Statutory liquid assets	**218 037**	-	-	-	-
Cash and cash equivalents **	**936 433**	**747 693**	-	-	-
Total assets	**1361 624**	**976 636**	**130 290**	**668 505**	**1 202 749**
Financial Liabilities					
Borrowings	22 134	20 465	12 888	22 934	22 934
Liability to depositors	955 512	501 265	320 936	25 745	-
KZN Growth Fund	305 873	-	-	-	-
KZN Growth Fund -Capital Contribution **	293 040	-	-	-	-
KZN Growth Fund -Operational Fund **	12 833	-	-	-	-
Trade payables	103 062	33 779	-	-	-
Total liabilities	1386 581	555 509	333 824	48 679	22 934
Net liquidity excess/ (shortfall)	(24 958)	421 127	(203 534)	619 826	1 179 815
Cumulative liquidity	(24 958)	396 170	192 636	812 462	1992 277
2012					
Financial assets					
Loans and advances	74 061	121 129	128 071	738 684	1 149 687
Investments at fair value through profit and loss	12 069	-	-	-	-
Trade receivables	70 222	87 768	-	-	-
Statutory liquid assets	116 275	-	-	-	-
Cash and cash equivalents **	361 406	793 540	136 242	380 000	-
Total assets	634 033	1 002 437	264 313	1 118 684	1 149 687
Financial Liabilities					
Borrowings	13 349	12 513	18 722	31 251	54 126
Liability to depositors	862 926	97 586	477 835	296 223	40 813
KZN Growth Fund	358 517				
KZN Growth Fund - Capital Contribution **	321 699	-	-	-	-
KZN Growth Fund - Operational Fund **	36 818				
Trade payables	91 704	2 776	2 720	28 187	-
Total liabilities	1326 496	112 875	499 277	355 661	94 939
Net liquidity excess/ (shortfall)	(692 463)	889 562	(234 964)	763 023	1 054 748
Cumulative liquidity	(692 463)	197 099	(37 865)	725 158	1 779 906

** Corporation balance includes R306,0 million (2012: R359,8 million) held on behalf of KZN Growth Fund Trust.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

	On demand to 1 month	One 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. FINANCIAL RISK MANAGEMENT (continued)					
33.2. Liquidity Risk (continued)					
A summary of the Group liquidity profile is reflected in the table below:					
CORPORATION					
2013					
Financial Assets					
Loans and advances	**97 597**	**83 586**	**87 318**	**358 597**	**203 852**
Investments at fair value through profit and loss	**16 141**	-	-	-	-
Trade receivables	**59 851**	**96 593**	-	-	-
Cash and Cash equivalents**	**420 758**	**727 747**	-	-	-
Total Assets	**594 347**	**907 926**	**87 318**	**358 597**	**203 852**
Financial Liabilities					
Borrowings	**22 134**	**18 329**	**12 888**	**22 934**	**22 934**
KZN Growth Fund	**305 873**				
KZN Growth Fund -Capital Contribution **	**293 040**	-	-	-	-
KZN Growth Fund -Operational Fund **	**12 833**	-	-	-	-
Trade payables	**73 131**	**21 150**	-	-	-
Total liabilities	**401 138**	**39 479**	**12 888**	**22 934**	**22 934**
Net liquidity excess/ (shortfall)	**193 209**	**868 447**	**74 430**	**335 663**	**180 918**
Cumulative liquidity	**193 209**	**1 061 656**	**1 136 086**	**1 471 749**	**1 652 667**
2012					
Financial Assets					
Loans and advances	66 643	86 311	87 312	428 861	233 892
Investments at fair value through profit and loss	12 069	-	-	-	-
Trade receivables	76 520	82 313	-	-	-
Cash and Cash equivalents**	66 066	386 000	130 000	380 000	-
Total Assets	221 298	554 624	217 312	808 861	233 892
Financial liabilities					
Borrowings	13 349	12 513	18 722	31 251	51 987
KZN Growth Fund	358 517	-	-	-	-
KZN Growth Fund - Capital Contribution **	321 699	-	-	-	-
KZN Growth Fund - Operational Fund **	36 818	-	-	-	-
Trade payables	87 377	-	-	-	-
Total liabilities	459 243	12 513	18 722	31 251	51 987
Net liquidity excess/(shortfall)	(237 945)	542 111	198 590	777 610	181 905
Cumulative liquidity	(237 945)	304 166	502 756	1 280 366	1 462 271

** Corporation balance includes R306,0 million (2012: R359,8 million) held on behalf of KZN Growth Fund Trust.

	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. FINANCIAL RISK MANAGEMENT (continued)

33.2. Liquidity Risk (continued)

Contractual maturity analysis of financial liabilities

The following table details the group's expected contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted contractual maturities of financial liabilities including interest that would be payable.

GROUP

	On Demand to 1 month	1 to 6 Months	6 months to 1 year	From 1 to 5 years	After 5 years
2013					
Financial liabilities					
Borrowings	**22 134**	**20 465**	**12 888**	**22 934**	**22 934**
Deposits due to customers	**955 512**	**501 265**	**320 936**	**25 745**	**-**
KZN Growth Fund Trust	**305 873**	**-**	**-**	**-**	**-**
KZN Growth Fund - Capital Contribution **	**293 040**	**-**	**-**	**-**	**-**
KZN Growth Fund - Operational Fund **	**12 833**	**-**	**-**	**-**	**-**
Trade payables	**103 062**	**33 779**	**-**	**-**	**-**
Total Liabilities	**1 692 454**	**555 509**	**333 824**	**48 679**	**22 934**
2012					
Financial Liabilities					
Borrowings	13 349	12 513	18 722	31 251	54 126
Deposits due to customers	862 926	97 586	477 835	296 223	40 813
KZN Growth Fund	358 517	-	-	-	-
KZN Growth Fund - Capital Contribution **	321 699	-	-	-	-
KZN Growth Fund - Operational Fund **	36 818	-	-	-	-
Trade payables	91 704	2 776	2 720	28 187	-
Total Liabilities	1 326 496	112 875	499 277	355 661	94 939

CORPORATION

	On Demand to 1 month	1 to 6 Months	6 months to 1 year	From 1 to 5 years	After 5 years
2013					
Financial Liabilities					
Borrowings	**22 134**	**18 329**	**12 888**	**22 934**	**22 934**
KZN Growth Fund	**305 873**	**-**	**-**	**-**	**-**
KZN Growth Fund - Capital Contribution **	**293 040**	**-**	**-**	**-**	**-**
KZN Growth Fund - Operational Fund **	**12 833**	**-**	**-**	**-**	**-**
Trade payables	**73 131**	**21 150**	**-**	**-**	**-**
Total Liabilities	**401 138**	**39 479**	**12 888**	**22 934**	**22 934**
2012					
Financial Liabilities					
Borrowings	13 349	12 513	18 722	31 251	51 987
Financial Assets	358 517	-	-	-	-
KZN Growth Fund - Capital Contribution **	321 699	-	-	-	-
KZN Growth Fund - Operational Fund **	36 818	-	-	-	-
Trade payables	87 377	-	-	-	-
Total Liabilities	459 243	12 513	18 722	31 251	51 987

** Corporation balance includes R306,0 million (2012: R359,8 million) held on behalf of KZN Growth Fund Trust.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

33. FINANCIAL RISK MANAGEMENT (continued)

33.3. Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange risks will affect the Group's income or the value of its holdings of financial instruments.

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 2013 would increase by R15,4 million (2012: R28,8 million) or decrease by R15,4 million (2012: R28,8 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 2013. 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 R807 062 (2012: R67 280)

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 and Executive Committee, and submitted to the Audit Committee and the Enterprise Risk Committee.

	Regulatory limit	2013 R'000	2012 Restated R'000

34. CAPITAL MANAGEMENT – ITHALA LIMITED

Capital requirements

Tier I and Tier II capital comprises 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 11.06% (2012: 12.14%). The current year 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.

	Regulatory limit	2013 R'000	2012 Restated R'000
Capital adequacy			
Capital adequacy ratio	≥10.00%	**11.06%**	12.14%
Primary share capital and reserve funds adequacy ratio	≥7%	**10.26%**	11.33%
Risk weighted assets			
Risk weighted assets		**918 163**	936 034
Risk weighted other assets		**89 523**	92 700
Operational risk		**440 095**	428 243
Total risk weighted assets		**1 447 781**	1 456 977
Capital structure			
Share capital		**190**	190
Share premium		**189 810**	189 810
Reserves		**(38 633)**	(21 398)
Prescribed deductions against capital and reserve funds		**(2 769)**	(3 481)
Total Tier I capital		**148 598**	165 121
General provisions		**11 477**	11 700
Total Tier II capital		**11 477**	11 700
Total qualifying capital		**160 075**	176 821

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2013 (Continued)

	Group		Corporation	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
35. PROVISION FOR LANDFILL RESTORATION				
Balance at beginning of year	**41 614**	45 426	**41 614**	45 426
Finance costs *	**(8 323)**	4 089	**(8 323)**	4 089
Change in estimates	**(2 383)**	-	**(2 383)**	-
Utilised during the year	**(10 908)**	(7 901)	**(10 908)**	(7 901)
Balance at end of year	**20 000**	41 614	**20 000**	41 614

* The reversal of finance costs is as a result of a substantial reduction in the estimated cost of restoring the landfill sites.

The provision is in respect of the restoration of two landfill sites. The site at Isithebe Industrial Estate was restored during the year whilst the site at Ezakheni Industrial Estate is expected to continue in operation for a further three years after which it will be closed and will require restoration.

	Group		Corporation	
36. Cell Captive Insurance Fund				
Unearned premium provision	**5 267**	5 284	**-**	-
Re-insurance unearned provision	**(749)**	(814)	**-**	-
Gross outstanding claims	**1 494**	-	**-**	-
Deferred acquisition cost	**(987)**	(1 031)	**-**	-
Gross incurred but not reported	**824**	747	**-**	-
Re-insurance incurred but not reported	**(86)**	(114)	**-**	-
Balance at end of year	**5 764**	4 072	**-**	-

BORROWINGS – ANNEXURE 1

	Instalment	Date of final repayment	Interest Rate	Group		Corporation	
				2013	2012	2013	2012
	R'000		%	R'000	R'000	R'000	R'000
Development Bank of Southern Africa Ltd							
Repayable in half-yearly instalments	4 672	2012	7.89	-	4 672	-	4 672
	2 569	2018	7.44	18 239	24 649	18 239	24 649
	5 297	2020	6.79	46 704	59 568	46 704	59 568
				64 943	88 889	64 943	88 889
Land and Agricultural Development Bank of South Africa							
Repayable in annual instalments	3 636	2017	5.50	13 636	16 394	13 636	16 394
Khula Enterprise Finance Ltd							
Repayable in monthly instalments	230	2025	3.95	20 640	22 539	20 640	22 539
Sundumbili Plaza Ltd							
No fixed terms of repayment	-	-	10.65	283	286	-	-
Nongoma Plaza Ltd							
No fixed terms of repayment	-	-	10.65	69	69	-	-
Sibaya Conservation Projects (Pty) Ltd							
No fixed terms of repayment	-	-	-	1 784	1 784	-	-
Total borrowings				101 355	129 961	99 219	127 822

SUBSIDIARIES – ANNEXURE 2

UNLISTED	Issued Share Capital		Percentage Interest		Shares		Loans	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000	2013 R'000	2012 R'000	2013 R'000	2012 R'000
Property Development								
Sundumbili Plaza Ltd	7 570	7 570	98	98	**7**	7	**20 845**	20 862
Nongoma Plaza Ltd	48 016	48 016	99	99	**47**	47	**23 925**	24 593
Sibaya Conservation Projects (Pty) Ltd	1 900	1 900	-	-	**-**	-		
Durban Wharfside Trust	-	-	100	100	**6**	6	**33 748**	32 585
Other								
Ithala Ltd	190 000 000	190 000 000	100	100	**139 000**	139 000	**15 777**	23 957
Cowslip Investments (Pty) Ltd	3 275	3 275	100	100	**-**	-	**-**	-
Ubuciko Twines and Fabric (Pty) Ltd	100	100	100	100	**-**	-	**-**	-
KZN Growth Fund Managers (Pty) Ltd	100	100	100	100	**-**	-	**-**	-
					139 060	139 060	**94 295**	101 997

ASSOCIATED COMPANIES – ANNEXURE 3

	Number of shares held	Number of shares held	Percentage holding		Shares		Loans	
	2013	2012	2013	2012	2013	2012	2013	2012
			%	%			R'000	R'000
Unlisted								
The Good Sugar Company SA (Pty) Ltd	**-**	270	**-**	27	**-**	-	**-**	-
Banzi Pan Development Co (Pty) Ltd	**826**	826	**42**	42	**-**	-	**-**	-
Rocktail Bay Devco (Pty) Ltd	**763**	763	**42**	42	**-**	-	**-**	-
Mabibi Devco (Pty) Ltd	**460**	460	**8**	8	**1**	1	**213**	271
Ntingwe Tea (Pty) Ltd	**384**	384	**38**	38	**-**	-	**-**	-
					1	1	**213**	271

2012/2013 REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

The performance against predetermined objectives as set out in the Annual Performance Plans is contained in this section. The section presents actual performance against targets for:

1. Ithala Corporation
2. Ithala SOC Limited
3. KZN Growth Fund Managers SOC Ltd
4. Ubuciko Twines and Fabrics

Objectives	Key Performance Indicators	2012/2013 Target	2012/2013 Actual Performance	Management Comment
Goal 1: Financial Sustainability and Viability				
To achieve financial excellence	Cost to income ratio	107%	89%	Cost to income ratio is favourable to budget due to the under-expenditure on staff costs, professional services, maintenance, as well as depreciation (as a result of reduced capital spend)
	Debt to equity	0.05 times	0.05 times	Target achieved
	Return on assets	5%	3.9%	Return on assets is unfavourable to budget due to net income budget not being achieved by R48m, mainly due to the non-recognition of grant income of R69,5m and bad debts provisions of R48m offset by underspent expenses of R65m. Assets employed also did not grow as budgeted, due to a reduced capital spend
To raise funding for expansion and growth	Amount of external funding to be raised during the financial year in place	N/A	N/A	Funding plan not required as no borrowings needed by the organisation for the 2012/2013 financial year
	Secured lines of credit	May/Nov 2012	Secured lines of credit in place	Target achieved
Revenue growth	Rental income	R257 million	R269,6 million	Total collected amounts to R269,6 million – budget exceeded
	% growth in rental income	2.39%	9.4%	Target achieved
	Vacancy rate as a %ge of Gross Lettable Area (GLA)	15%	12.22%	Target achieved
Improve performance of the loan book	% of non-performing loans to total book	35%	59% NPLs	Delays in write-offs affected cleaning up of the book and reduction of NPLs
	Amount collected from the loan book	R192 million	R188 million	Collections for all quarters total R188 million – slightly below budget. However shows improvement from past years
Goal 2: Developmental Effectiveness				
To enhance the development dividend	**Value of loans** SMMEs co-operatives	**R270 million** R230 million R40 million	**R222,4 million** R211,8 million R10,6 million	Target not achieved. Year to date approvals total R222,4 million. In quarter 4 there was a large number of co-operatives for the school nutrition programme.
	Number of businesses funded SMMEs and co-operatives	**137** 57 80	**308** 261 47	Target achieved. There was an increase in number of applications for the school nutrition programme.
	Funded capital spend on Ithala properties within rural and township communities	R120 million	R63,6 million	Target not achieved. Total spent for the year is only R63,6 million (i.e 53%). The under-expenditure is due to capacity constraints within the unit and the rainy season.
	Maintenance spend on Ithala properties within rural and township communities	R45 million	R34,4 million	Target not achieved. Total spent for the year is R34,4 million, an under-expenditure of 23%. The under-expenditure is due to capacity constraints as well as delays in the procurement process.

2012/2013 REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES (Continued)

Objectives	Key Performance Indicators	2012/2013 Target	2012/2013 Actual Performance	Management Comment
Goal 2: Developmental Effectiveness (continued)				
To facilitate job creation	**Number of jobs created by businesses funded**	**1 080**	**3 650**	Target achieved. The total number of jobs created is linked to the number of businesses funded
	SMMEs	920	3 288	
	Co-operatives	160	326	
	Number of jobs created through capital and maintenance spend on Ithala properties	330	392	Target achieved. Total number of jobs created is 392 – target has been achieved
Increase participation of BBBEE businesses in Ithala's procurement spending	% spent on BBBEE suppliers and contractors	90%	95.1%	Target achieved
Provide non-financial support to Ithala clients	Number of businesses assisted (trained, coached, mentored) by Business Support	40% of Business Finance clients	Nil	Target not achieved. Limited financial and human resources hampered the Business Support activities
	% of businesses turned around through Ithala's intervention over 12 months	100% of clients identified for debt rehabilitation	Nil	Target not achieved. Lead time in turning around agricultural entities is longer. The Unit will continue to monitor these accounts but no specific businesses identified and proceeded to debt rehabilitation by year-end
Goal 3: Operational Excellence and Good Corporate Governance				
Enhanced Information and Communications Technology enabling services	User satisfaction rating	User satisfaction rate of 85%	User satisfaction rating of 91.7%	Target achieved
	Approved IT Strategic Plan	N/A	IT Strategic Plan approved	Target achieved
	Implementation of ICT Strategy	Centralise current banking system by 31 March 2013	Target not achieved	Project reprioritized for the new financial year
		Rollout of ERP system for Finance and HR by 31 March 2013	Rollout started but not completed. Target not achieved	To be completed as per the ICT Strategy implementation plan
	Development of Enterprise Architecture	EA business units by 31 October 2012	Business process mapping completed	Target achieved
	Implementation of efficient ICT Governance	Maturity level of 3.5	Maturity level of 3.5	Target achieved
		Approval and implementation of all ICT policies by 31 March 2013	Policies approved and implementation is ongoing	Target achieved

Objectives	Key Performance Indicators	2012/2013 Target	2012/2013 Actual Performance	Management Comment
Goal 3: Operational Excellence and Good Corporate Governance (continued)				
Capable human resources	Development and implementation of enterprise wide organisational structure	Bi-annual alignment to structure report	Report compiled	Target achieved
	Implementation of the Human Capital Development Strategy	Submit approved Work Skills Plan (WSP) to BANKSETA by 30 June 2012	Approved Work Skills Plan submitted on time	Target achieved
		Conduct compliance training and prepare quarterly reports	Compliance training conducted and report compiled	Target achieved
	Implementation of Culture Change Document	Implement Incentive Bonus Scheme by end of June 2012	Target not achieved	The incentive scheme was approved by both the Group HR and Remuneration Committee and the Group Board. The implementation date for the Incentive Bonus Scheme is April 2013
		12 eellness events per annum	12 wellness events held	Target achieved
	Implementation of effective performance management, systems and processes	100% signed performance agreements by 30 May 2012	Target not achieved	There has been a delay in contracting for employee performance in general. HR continues to drive the importance of performance contracting, reviews and monitoring
		Quarterly performance reports within 3 weeks of the end of quarter	Target not achieved	Adherence to the set timelines was challenging for the organisation
	Development of reward and remuneration system and salary benchmarking	Conduct salary benchmark by 31 May 2012	Salary benchmark conducted	Target achieved. HR is in the process of conducting salary roadmap
	Implement Talent Management Framework	Quarterly report on scarce skills training	Target not achieved	The framework has been approved. Mission critical skills have been identified and signed off. Talent Forum Sessions were scheduled for March 2013 but rescheduled to April 2013
Adequate internal and external communications	Informed and engaged staff through effective internal communication	Implementation plan for employee survey recommendations by end April 2012	Implementation plan done	Target achieved
		Quarterly implementation reports	Quarterly implementation reports done	Target achieved
	Measure of Ithala brand and reputation among customers and stakeholders (stakeholder engagement campaigns, CSI)	Brand audit by March 2012 – establish a base	Brand audit done	Target achieved. Implementation of recommendations is ongoing

2012/2013 REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES (Continued)

Objectives	Key Performance Indicators	2012/2013 Target	2012/2013 Actual Performance	Management Comment
Goal 3: Operational Excellence and Good Corporate Governance (continued)				
Adequate internal and external communications	Build Ithala brand through effective media relations and positive publicity	Increase positive media from 23% to 40%	Positive media at 58%	Target achieved
	Increase business leads generated through marketing campaigns	Establish a system to track incoming leads by end June 2012	System established	Target achieved
	Revenue growth (% increase in clients attracted through marketing campaigns)	2% increase in Ithala clients	Target not achieved	Client numbers did not increase as planned.
Customer service excellence	Development of Customer Services Strategy	Approved Strategy by end September 2012	Target not achieved	Strategy not developed. To be prioritised in 2013/2014
	Improved customer service	Reduce complaints by 60%	Target not achieved	A project to implement the customer contact centre is underway for 2013/2014
	Improve turnaround time to the market	Adhere to approved times as per business processes	Loan approvals in terms of the approved timeframes	Target achieved
Sound financial management	Develop budget linked to strategy	Approved budget by February 2012	Budget approved on 21 February 2012	Target achieved
	Monthly budget reviews (budget vs actual analysis)	Monthly MIF reports 10 days after month end	MIF reports prepared and presented to EXCO	Target achieved
	Quarterly financial reports identifying key strategic financial matters	Quarterly reports 10 days after end of quarter	Quarterly report prepared timeously	Target achieved
Efficient business processes	Identification of key business processes and workflows	End March: Complete BF, Properties and Limited. End September complete all supporting units	Key business processes and workflows identified	Target achieved
Compliance with applicable legislation, policies and procedures	Adherence to applicable legislation (SARB, PFMA, EE, Skills Dev Act, etc.)	Periodic reports as per the requirements of each legislation	Reports submitted	Target achieved
	Approved compliance risk management framework and plan	End April 2012	Compliance Risk Management Framework and Plan approved	Target achieved
	Review of group delegations	First April 2012	Reviewed Group Delegations presented to Board in June 2012	Target achieved
	Implementation and adherence to Good Codes of Corporate Governance & Principles (Adoption of King III)	End May 2012	Target achieved	None

Objectives	Key Performance Indicators	2012/2013 Target	2012/2013 Actual Performance	Management Comment
Goal 3: Operational Excellence and Good Corporate Governance (continued)				
Ethical leadership and corporate citizenship	Approved shareholders compact	March annually	Shareholders compact approved timeously	Target achieved
	Board Performance Management System	End May 2012	Board Performance Management System in place	Target achieved
Strategic leadership and oversight	Approved Corporate Plan	February annually	Corporate Plan approved	Target achieved
	Approved Annual Performance Plan and Budget	February annually	APP and Budget approved	Target achieved
	Submitted financial statements	Within 2 months of end of financial year (to Provincial Treasury and AG)	Financials submitted timeously	Target achieved
	Submitted annual report	Within 5 months of end of financial year. Achieved in Q2	Annual Report submitted on time	Target achieved
Corporate governance	Functioning Board	Meetings conducted as per corporate plan	Board meetings conducted as per calendar	Target achieved
	Functioning Board sub-committees	Board sub-committees fully constituted before beginning of every financial year	Board Sub-committees fully constituted	Target achieved
The governance of risk	Approved risk management plan	End April 2012	Risk Management Plan approved	Target achieved
	Approved risk management framework	June 2012	Risk Management Framework approved	Target achieved
	Group Strategic Risk Assessment	End October 2012	Risk Assessment conducted	Target achieved
	Approved Business Continuity Management Plan	End April 2012	Target not achieved	Plan submitted to Board but not approved
	Approved Fraud Prevention Plan	End April 2012	Fraud Prevention Plan approved	Target achieved
	Approved audit plan/charter	End February 2012	Audit plan/charter approved	Target achieved
Effective monitoring and evaluation	Development and implementation of monitoring and evaluation systems	Quarterly performance report	Performance reports compiled and submitted on time to DEDT	Target achieved

2012/2013 REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES (Continued)

Objectives	Key Performance Indicators	2012/2013 Target	2012/2013 Actual Performance	Management Comment
Goal 4: Forge Strategic Partnerships				
Identification of strategic partnerships	Number of new implementable Memoranda of Understanding (MOUs) signed	2 new MOUs	Signed MOU with NYDA and with the IDC	Implementation of existing MOUs is ongoing
	Percentage of existing MOUs implemented	100% implementation of MOUs	Ithala is working with Deloitte and Touche for in-service training, Guaranteed Trust for experiential training, BANKSETA for management training and IDC for business finance	Target achieved. A bursary student sponsored by Ithala for a BComm degree at UCT was placed with Deloitte for the next three years to be mentored and trained towards her Articles to qualify as a Chartered Accountant.
Financial and non-financial support to Ithala from strategic partnerships	Financial support	R5 million	Nil	No external funding sourced
	Non-financial support	100 market opportunities/ training opportunities	Nil	No MOUs have been utilised to assist Ithala clients
	Number of property re-developments	Complete plan by end November 2012	Development Plan not completed	Target not achieved
Partner with universities/ educational institutions	Identify educational institutions and sign partnership agreements	Partnerships agreements signed by end June 2012	Nil	A partnership with Mangosuthu University of Technology is in the process of being signed to guarantee access to Information Technology graduates. Programmes initiated at supporting career guidance for High Schools and Career Exhibitions with FETs, Universities and Technikons through MUT, DUT and the Office of the Premier – Training Academy is in the pipeline to focus on youth from previously disadvantaged communities.
Goal 5: Knowledge Management				
To become a centre of excellence	Document best practice in each business unit	Documentation of all corporate high level business processes by 31 March 2013	Business processes mapped	Target achieved
	Engage with other DFIs to share good business practice	1 session per year	Business finance staff have received training from IDC	Target achieved
Data management	Develop Document Management Policy, Practices and Procedures	Approved policy by end September 2012	Document Management Policy, Practices and Procedures developed	Target achieved
	Rollout Document Management System	System rolled out across the organisation by end March 2013	Target not achieved	To be reprioritised in the new financial year
	Implement data warehousing for the entire organisation	N/A	N/A	To be reprioritised in the new financial year

ITHALA SOC LIMITED REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Measurable Objective	Performance Measure/ Indicator	2012/2013 Target	Actual	Remarks
Programme 1: Savings and Investments				
Strategic Objective: To ensure that the Savings and Investments Division increases its market share and enhances the revenue of the entity.				
a) Increase customer savings deposit base	Increase savings deposit by 4.9% y.o.y. by 31 March 2013	Growth of 4.9% y.o.y. in savings deposit	Not achieved – Growth of 1.5% y.o.y in savings deposit	Due to harsh economic market conditions and competition. Further attributed to not being able to introduce new products as planned.
b) Increase sales of insurance products	Sale of 8 832 insurance products,	Sale of 8 832 insurance products per year	Not achieved – 2 453 products	
c) Increase sales of insurance products	Refer 4 416 short-term leads per year	Referral of 4 416 short-term leads per year	Not achieved – 1 479 leads	A rigid sales plans will be implemented together with advertising campaigns in the 2013/2014 year in an effort to increase deposits.
d) Increase card savings accounts by 31 March 2013	Increase (non-SASSA and Zibambele) card savings accounts by 20 160 by 31 March 2013	Growth of 20 160 (in non-SASSA and Zibambele) card savings account by 31 March 2013	Achieved	N/A
e) Achieve a balanced product mix	Product mix balanced as follows by 31 March 2013: Business account 2% Club account 8% Fixed deposit 31% Savings 39% Target Save 20%	Achieve Product Mix of Bus account 2% Club account 8% Fixed deposit 31% Savings 39% Target 20% by 31 March 2013	Not achieved – The following product mix was noted at 31 March 2013: Business account 2% Club account 7% Fixed deposit 36% Savings 35% Target save 20%	This was attributable to large withdrawals during the festive seasons and loss of SASSA clients.
f) Increase sales for all loan products	R72m of personal loans, R49m of home loans, R3.6m of PTOs and R15m of home improvement loans by 31 March 2013	R72m of personal loans, R49m of home loans, R3.6m of PTO's and R15m of home improvement loans by 31 March 2013	Not achieved – R22,011m of personal loans achieved, R40m of home loans and PTO's achieved, R3,657m of home improvement loans achieved.	Targets not achieved due to competitive market conditions.
g) Improve product offering to Ithala clients	Develop 5 new savings products: 32 days notice account by 1 May 2012 Business card savings account by 1 September 2012. Current account by 30 March 2013 Cell phone banking by 30 March 2013 Internet banking by 30 March 2013	Develop 5 new savings products: 32 days notice account by 1 May 2012, Business card savings account by 1 September 2012. Current Account by 30 March 2013, Cell phone banking by 30 March 2013 Internet banking by 30 March 2013	Not achieved – 32 day notice deposit launched in May	New products were put on hold until finalisation of the technical solution

ITHALA SOC LIMITED REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES (Continued)

Measurable Objective	Performance Measure/ Indicator	2012/2013 Target	Actual	Remarks
Programme 1: Savings and Investments (continued)				
Strategic Objective: To ensure that the Savings and Investments Division increases its market share and enhances the revenue of the entity.				
h) Improve accessibility of all Ithala Products and services	All Ithala Limited products to be available through the branch network	Distribution of credit, insurance and savings & investment products through the branch network by 1 April 2012	Achieved	
	No. of ATMs installed	Install 10 ATMs by end of march 2013 (2 Ithala ATMs, 8 retail ATM's)	Not Achieved	No ATM installed due to management strategy
i) Achieve the budgeted cost to income ratio of 115% by 31 March 2013	Cost to Income ratio of 115% by 31 March 2013	Cost to income ratio of 115%	Achieved	N/A
Programme 2: Housing and Loans				
Strategic Objective: To ensure that the Housing and Loans Division increases its market share whilst attracting new customers.				
a) Utilise the branch network to ensure client access to Housing and Loans products	Achieve new advances of R70m from the branch network by 31 March 2013	New advances of R70m from the branch network as at 31 March 2013	Not achieved – R65,7m	Target not achieved due to lower than budgeted uptake in personal loan product
b) Achieve budget of R373m of new advances by 31 March 2013	Achieve budget of R373m of new advances by 31 March 2013	R373m	Achieved – R354,1m	Attributed to lower than budgeted uptake in personnel loans products. During the 2013/2014 year, the Company will also seek to use 3rd party originators to increase volumes in this space
c) Improvement in the turnaround time from processing a new loan application to pay-out by 31/3/2013.	Adherence to the agreed turnaround time in processing loans.	Turnaround time in processing loans: HL – approval/decline – 48 hours HL – approval/decline – 48 hours HL – instructing attorneys for registration – 48 hours for properties within a 100km radius and 72 hours for properties outside the 100km radius HIL – 48 hours PL – 24 hours in respect of clients banking with Ithala and 48 hours in respect of clients banking elsewhere	Achieved – processed loans within agreed turnaround times per target.	N/A

Measurable Objective	Performance Measure/ Indicator	2012/2013 Target	Actual	Remarks
Programme 3: Long Term Insurance and Short Term Insurance				
Strategic Objective: To ensure that the Insurance Division increases its market share and enhances revenue of the entity whilst subscribing to the entity's retention strategy.				
a) Revise insurance products offering, by 31 March 2013	Revise the funeral cover and introduce income booster, tombstone benefits on the long term and introduce Homeowners insurance, household contents and car insurance by 31 March 2013	Introduce new products and revise existing products by 31 March 2013	Achieved – products revised by Q2	N/A
b) Achieve the budgeted growth in income of 16.8% by 31 March 2013	Achievement of growth in income	Achieve growth in Income of 16.8% by 31 March 2013	Not achieved – 1.1% increase in revenue income	There were only 3 Sales Consultants recruited at the end of quarter 2 and quarter 3 as compared to 7 vacancies to assist with revenue generation
c) Achieve a cost to income ratio of; 60% by 31 March 2013	Achievement of a cost to income ratio of 60%	Achievement of the budgeted cost to income ratio of 60% by 31 March 2013	Achieved – cost to income ratio of 36% for the year	N/A
Strategic Objective: To drive the overall customer services strategy ensuring a delivery of a high quality and comprehensive customer service.				
a) Develop and implement a client retention strategy by 30 November 2012	Approved client retention strategy and offer new products to the client	Approved client retention strategy	Not achieved	Client strategy was done at overall entity level
Strategic Objective: To ensure that the division adheres to the entity's mandate of providing accessible financial services to the citizens of KwaZulu-Natal.				
a) Offer insurance products to emerging markets by 30 April 2013	Offer 4 new products such as homeowners, household contents and car insurance, accidental death & disability cover and Hospital Cash Plan	Introduce homeowners, household contents and car insurance. Offer accidental death & disability cover and Hospital Cash Plan by 30 April 2013	Partially achieved – Homeowners, household content and car insurance, accidental death & disability products were introduced. Hospital Cash Plan was not introduced due to complexity of the roll-out and lack of applicable resources to sell product across the branch network	Hospital Cash Plan will be re-considered when branches are capacitated with personnel with the adequate skill and knowledge to sell the product

ITHALA SOC LIMITED REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES (Continued)

Measurable Objective	Performance Measure/ Indicator	2012/2013 Target	Actual	Remarks
Programme 4: Credit Risk				
Sub-Programme: Credit Assessment				
Strategic Objective: To ensure that the risk assumed by Ithala at the point of granting credit is in line with the organisation's risk appetite and is adequately mitigated, thus promoting efficiency by leveraging on the entity's assets.				
a) Implement the revised credit scorecard for the Home Loan portfolio	Revised home loan credit application scorecard	Implementation of the revised home loan credit scorecard by 31 August 2012	Not achieved	Approval process in motion; currently not finalised. Recommended by Management Credit Risk Committee for approval. EXCO approval in April 2013 Refinement of metrics to arrive at revised scorecard resulted in the deadline being met
b) Achieve budgeted average yield on new home loan advances	Yield on new home loan advances of prime plus 1%	Prime plus 1%	Achieved - 9.67%	N/A
Sub-Programme: Collections				
Strategic Objective: To ensure robust and dynamic collections processes and continually improve the Non-Performing Loan ratio.				
a) Achieve the budgeted non-performing loans percentage	Non-performing loan percentage of 11% of the total loan book	11% by 31 March 2013	Achieved – 8.93%	N/A
b) Achieve the targeted impaired advances percentage of 15%	Impaired advances as a percentage of loan book of 15% by 31 March 2013	15% by 31 March 2013	Achieved – 7.3%	N/A
Programme 5: Marketing				
Sub-Programme: Distribution				
Strategic Goal: Operational Excellence				
a) Build the brand distribution to all key consumer touch points	Marketing campaign to support the launch of virtual banking (internet and cellphone) developed and approved	Marketing campaign developed and approved by August 2012	Achieved	
	Roll-out the Marketing campaign to support the launch of virtual banking	Marketing campaign rolled out from September 2012	Not achieved	Projects put on hold until the implementation of the new banking system
Sub-Programme: Strategic Partnerships				
Strategic Goal: Operational Excellence				
a) Develop and leverage strategic partnerships to grow the brand	Form strategic partnerships aimed getting strategic partners to bank with Ithala	Conduct 24 presentations with identified strategic partners by March 2013	Achieved	This campaign was dependent on the launch of virtual banking products which was put on hold until the implementation of the new banking system
	Marketing campaign aimed at getting government employees to bank with Ithala developed and approved	Marketing campaign developed and approved by end December 2012	Not achieved	
	Roll-out marketing campaign government employee banking	Marketing campaign for the launch of government staff banking by January 2013	Not achieved	

Measurable Objective	Performance Measure/ Indicator	2012/2013 Target	Actual	Remarks
Programme 5: Marketing (continued)				
Sub-Programme: New Product Launches				
Strategic Goal: Operational Excellence				
a) Extend the product offering to include products that are the "gateway" to competing in the banking sector	Marketing campaign for the launch of 32 Days Express Account developed and approved	Marketing campaign developed and approved by end April 2012	Achieved	
	Roll-out marketing campaign for the launch of 32 Days Express Account	Roll-out the marketing campaign for the 32 Days Express Account from May 2012	Achieved	
	Marketing campaign for the re-launch of long-term Insurance developed and approved	Marketing campaign developed and approved by end April 2012	Achieved	
	Roll-out marketing campaign for the re-launch of long-term insurance	Marketing campaign for the re-launch of long-term insurance rolled out from May 2012	Achieved	
	Marketing campaign for the launch of short-term insurance developed and approved	Marketing campaign developed and approved by end April 2012	Achieved	
	Roll-out marketing campaign for the launch of short-term insurance	Marketing campaign for the launch of short-term insurance rolled out from May 2012	Achieved	
	Increase shorter insurance leads by 100%	Insurance leads increased by 100% by end March 2013	Achieved	
	Marketing campaign for the launch of electronic banking products (current account, card based savings accounts, business card based savings account) developed and approved	Marketing campaign developed and approved by August 2012	Not achieved	This campaign was dependent on the launch of virtual banking products which was put on hold until the implementation of the new banking system
	Roll-out marketing campaign for the launch of electronic banking products (current account, card based savings accounts, business card based savings account)	Roll-out the marketing campaign for the launch of Electronic Banking products by September 2012	Not achieved	
	Marketing campaign for the launch of staff package develop and approved	Marketing campaign developed and approved by end September 2012	Not achieved	Staff banking was not launched in the current year and has been moved to the next financial year
	Roll-out marketing campaign for the launch of staff package.	Roll-out the marketing campaign for the launch of staff banking by October 12	Not achieved	
	Achieve a 30% account opening hit rate on targeted employees	Achieve 30% account opening hit rate by March 2013	Achieved	Staff was targeted with existing products
Sub-programme: Image and Reputation Building				
a) Rebuild the image and reputation of Ithala brand	Circulate eight positive brand stories during the 2012/2013 financial year	Circulate eight positive brand stories by March 2013	Achieved	

ITHALA SOC LIMITED REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES (Continued)

Measurable Objective	Performance Measure/ Indicator	2012/2013 Target	Actual	Remarks
Programme 6: Finance				
Strategic Objective: To ensure that Ithala Limited achieves optimum financial results necessary for the Company to be a financially viable organisation.				
a) Achieve Budgeted quarterly cost to income ratio of 90.5% by 31 March 2013	Budgeted quarterly cost to income ratio of 9.5% by 31 March 2013	Achieve Budgeted quarterly cost to income ratio of 9.5% by 31 March 2013	Not achieved – 103.88%	Due to low uptake in personal loans product and lower than anticipated fee income from debit cards The Operations Committee is focused on ensuring that the Target Operating Model (TOM) is implemented across the branch network to ensure that all products are sold at the branches
b) Achieve Budgeted quarterly return on equity of 2.39% by 31 March 2013	Budgeted quarterly return on equity of 2.39% 31 March 2013	Return on equity of 2.39% by 31 March 2013	Not achieved – (16.38%)	
c) Achieve the budgeted return on assets of 0.18% by 31 March 2013	The budgeted quarterly return on assets of: 0.18% 31 March 2013	Return on assets of 0.18% by 31 March 2013	Not Achieved – (1.21%)	
d) Achieve minimum capital adequacy ratio of 12.25%	Capital adequacy ratio of 12.25% by 31 March 2013	Achieve Board approved minimum capital adequacy ratio of 12.25% by 31 March 2013	Not achieved – 11.06%	Ithala Development Finance Corporation Limited has further resolved to provide additional share capital amounting to R105million during the 2013/2014 financial year to recapitalise the Company. A total of R60 million of this was received subsequent to year end to the date of this report. The capital is anticipated to be sufficient to ensure that the SARB regulatory prescribed minimum ratios are met as well as to ensure future growth of Company based on the Board approved strategy.
e) Achieve average budgeted return on deposits with banks of 5.33%	Average budgeted return on deposits with banks of 5.33% as at the end of March 2013	Average return surplus funds of 5.33% for the year ended 31 March 2013	Not achieved – 4.7%	Due to 50 basis prime rate cut in July. Furthermore due to negative volume variance attributable to lower than budget increase in customer deposits
Sub-programme: Supply Chain Management				
Strategic Objective: To deliver significant value to the business, its customers and to the shareholder to ensure that Ithala Limited's procurement spend is in line with BBBEE principles and procurement process is governed to ensure reduction in irregular expenditure.				
a) Achieve BBBEE procurement spend of 70%	Minimum of 70% of procurement spent on BBBEE suppliers for the year ended 31 March 2013	Achieve 70% of procurement spent on BBBEE suppliers for the year ended 31 March 2013	Achieve – 91%	N/A

Measurable Objective	Performance Measure/ Indicator	2012/2013 Target	Actual	Remarks
Programme 7: Secretariat				
Strategic Goal: Corporate governance and compliance.				
a) Provide comprehensive practical support and guidance to the Board both as individual as a and collective, with particular emphasis on supporting non-executive directors	Board assessment of secretariat	To achieve an average rating of 4	Not achieved	The secretariat function had capacity constraints and has been unable to meet its performance target. An administrator has since been appointed to improve capacity
b) Induction of directors, including assessing the specific training needs of directors	Induction pack	Induction of directors, including assessing the specific training needs of directors	Not achieved	Whilst the induction packs are provided to newly appointed directors, specific training needs are not assessed
c) Adherence to sound governance	Mandate reviews of corporate governance practices and principles	Review corporate governance principles by 31 March 2013	Not achieved	This will be done in the new financial year
d) Manage relations with the Shareholder	Approved shareholder compact	Review and approve the shareholders compact	Not achieved	Shareholders Compact was approved at the Special Board meeting held on 22 April 2013 and will be tabled at the Group Board meeting on 6 May 2013
Programme 8: Risk				
Strategic Goal: Corporate Governance.				
a) Develop and approve the Risk Enterprise Management Framework	Approved Risk Enterprise Management Framework by 30 June 2012	Develop and approve the Risk Framework by 30 June 2012	Achieved	N/A
b) Develop and approve Risk Management Strategies and Policies	Approved Risk Management Strategies and Policies by 31 March 2013	Update and approve Risk Management Strategies and Policies by 31 March 2013	Not achieved – Four out of five policies / framework were updated and approved	Not achieved due to capacity constraints. Recruitment process is being finalised in order to ensure risk plan is achieved
c) Develop and approve a Fraud Prevention Plan	Approved Fraud Prevention Plan for the entity by 31 March 2013	Update and approve the Fraud Prevention Plan by 31 March 2012	Not achieved	
d) Develop and approve a Business Continuity Plan for the entity	Approved Business Continuity Plan for the entity by 31 August 2012	Update and approve the Business Continuity Plan by 31 August 2012	Achieved	N/A
e) Conduct the Annual Risk Assessment	Risk Register with top 10 risks by 30 June 2013	Conduct Annual Risk Assessment by 30 June 2013	Not achieved – Risk Assessment conducted on 4 September 2012	Timing of risk assessment was moved to 30 September due to resource constraints

ITHALA SOC LIMITED REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES (Continued)

Measurable Objective	Performance Measure/ Indicator	2012/2013 Target	Actual	Remarks
Programme 9: Compliance Division				
Strategic Goal: Corporate governance and compliance				
a) Draft and approve the Compliance Framework by 30 June 2012	Approved Compliance Framework by 30 June 2012	Develop and approve the Compliance Framework by 30 June 2012	Achieved	N/A
b) Achieve 24 monitoring reviews per the approved Compliance Programme throughout the financial year	Number of completed monitoring reviews	Achieve 24 monitoring reviews per the approved compliance programme throughout the financial year	Not achieved – 22 reviews were completed	The target was amended subsequently to 23 monitoring reviews. Based on subsequent review of the programme 1 review was deemed duplication of effort as IGARAS had already reviewed and was accordingly removed from scope. The statutory register will be revised according to what is required for the purposes of regulatory compliance only
c) Statutory reporting to the relevant regulators within the relevant deadlines, as stipulated by each regulatory body.	Statutory reports to the relevant regulators	Statutory reports to the relevant regulators per Board approved statutory register	Achieved	N/A
Programme 10: IGARAS				
Strategic Goal:				
a) To have Annual Audit Plan approved by Audit Committee by 31 March 2012	Approval of the Annual Audit Plans by the Audit Committees per the minutes of the Audit Committee meetings.	Approved Group Annual Audit Plans by 31 March 2012	Achieved	N/A
b) To issue 195 audit activity reports per the Annual Audit Plan by 31 March 2013	Complete all audits as per the approved plan	Complete 195 audits as per the approved audit plan	Achieved	N/A
c) To attain an average of 3 from performance appraisal by Audit Committee	Appraisal by the Audit Committee	Positive appraisal by the Audit Committee	Achieved	N/A
d) To complete 90% of investigations that commenced by end of March	Percentage of reports issued in relation to number of investigations commenced	90% of investigations that had commenced by end of March 2012 are completed by 31 March 2013	Not achieved	Certain forensic investigations remain incomplete as at 31 March 2013. These will be completed during the 2013/2014 financial year.
e) Assessment of fraud risk and red flags	Percentage of fraud incidents investigated compared to the previous year	Reduce fraud incidents by 20%	Not achieved	

Measurable Objective	Performance Measure/ Indicator	2012/2013 Target	Actual	Remarks
Programme 11: Research, Development and Innovation				
Strategic Goal:				
a) Understanding of Market Intelligence and Competitor Analysis.	4 reports submitted 2 weeks after quarter ends	4 reports	Achieved	N/A
b) Alignment to Provincial Policy Documents	Analysis of Provincial State of the Province Address Analysis of Provincial Budget	1 Report 3 days after speech	Achieved	N/A
c) In-depth understanding of industry/sector	As and when requested – 3 days turnaround time	Reports done within agreed timeframes	Achieved	N/A
d) Monitor industry trends and report them accordingly	1 day after official publication of statistics	Industry trends report 3 days after publication	Achieved	N/A
e) Facilitate product development and innovation research	Number of products developed	Research report within the agreed timeframes	Achieved	NA.
Programme 12: Information Technology				
Strategic Objective: Delivery of Business ICT Systems within budget, time and scope.				
a) Develop and implement production systems that extend product offerings	Implemented core banking system for Ithala Limited	Build requirements for new core banking system by 31 March 2013	Not achieved	In progress but is dependent on the conclusion of the contracts and the plan.
	Implementation of funeral scheme product	Design and enhance current system to accommodate the implementation of new funeral scheme products	Achieved	N/A
	Implemented insurance system	Implement insurance system by 31 March 2013	Not achieved	In the process of acquiring a system/service to facilitate this requirement
b) Optimise the usage of the Enterprise Resource Planning System (JDE)	Implementation of the P2P functionality	Close P2P Project 30 June 2012	Not achieved	The process of setting up the delegations has delayed the delivery as has the changing of the service provider
	Improvements to JD Edwards including COA implemented	Improvements to JD Edwards including COA review by 30 Sept 2012	Not achieved	The evaluation has been completed, the delivery is however dependent on the JDE upgrade
	Implementation of the contract management and costing functionality	Implement contract management and project costing	Not achieved	These two sub-projects have been re-scheduled to the new financial year
	Implemented treasury system	Implement treasury system 30 Sept 2012	Not achieved	Rescheduled to 2015/2016
	HR system converted from CRSPay to JDE	Approved business case by 31 March 2012	Not achieved	Rescheduled to 2014/2015

ITHALA SOC LIMITED REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES (Continued)

Measurable Objective	Performance Measure/ Indicator	2012/2013 Target	Actual	Remarks
Sub-programme: IT Service Delivery				
Strategic Objective: Delivery of Business ICT Systems within budget, time and scope.				
a) Delivery of Business ICT Systems within budget, time and scope	Implemented replacement of printers as planned	Roll-out replacement MFDs by 31 March 2013	Achieved	Phase one delivery was achieved, phase two has commenced.
	Approved printer optimisation strategy and practices	Produce Printer Optimisation Strategy and standards by 30 June 2012	Achieved	N/A
	All identified problem devices replaced and operational	Replace all problem devices before the end of May 2012	Achieved	N/A
Programme 13: Human Resources				
Strategic Objective:				
a) Ensure proper implementation of Human Resources Development Strategy	Approved HRD	Quarterly report on implementation of HRD Strategy	Achieved	N/A
	Strategy approved and signed Work Skills Plan	Quarterly report on implementation of skills audit findings	Achieved	N/A
b) Ensure that there is a succession plan in place	Existence of succession plan for all critical and scarce skills in line with the Talent Management Strategy	Quarterly reports on implementation of Talent Management Strategy	Achieved	N/A
c) Inculcate a culture of performance	Rollout of Performance Management System throughout Ithala Limited	100% signed performance contracts by 1 May 2012 Quarterly performance reports 3 weeks after end of quarter	Not achieved	There has been a delay in contracting for employee performance in general. Only 91% have been submitted. Some of the business units have been revising their business model. HR with the assistance of IT, is relooking at the process of submitting Performance Agreements and Performance Scorecards for better monitoring and statistical accuracy. In the interim, an electronic version of the scorecard has been created and is available on the intranet

Measurable Objective	Performance Measure/ Indicator	2012/2013 Target	Actual	Remarks
Programme 13: Human Resources (continued)				
Strategic Objective:				
d) Instill organisational Culture and Values	Design and implement Change Management Programme based on the Plan	Quarterly reports on implementation of Change Management Programme	Not achieved	HR has completed the process of finalising the preliminary processes i.e. Job Profile for Organisational Development and Change Management. The profile will also be aligned with customised business unit interventions that are aimed at supporting the repositioning of Ithala. Resource to be secured early 2013. Revised plan to be implemented in April 2013. OHS resource is resuming duties on 2 April 2013
e) Create and implement Ithala incentive scheme	Create/develop Ithala incentive scheme to promote culture of good performance	Implementation Plan for Incentive Scheme by 1 April 2012 Bi-annual reports on implementation of incentive scheme	Not achieved	The incentive scheme was approved by both the Group HR and Remuneration Committee and the Group Board but requires endorsement by the Shareholder
f) Assist line managers with the reduction of cost to income ratio through staffing cost monitory	Existence of business cases for change and restructuring processes with detailed staffing cost impact	Business case document	Achieved	N/A
g) Improve employee wellness	Redefine the whole programme (incorporate employee debt consolidation)	12 wellness events	Achieved	N/A
h) Improved control and management of labour	Improve relations with labour (union)	Quarterly Labour Forums	Achieved	N/A

KZN GROWTH FUND MANAGERS SOC LTD REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Strategic Objective	Measurable Objective	Performance Measure Indicator	Reporting Period	Annual Targets 2012/2013	Actual Performance 2012/2013	Management Comments
To provide strategic direction and ensure adherence to fund management agreement	To facilitate effective performance management	Percentage of total employees' performance appraisals conducted	To be performed within one month following the quarter end and reported in the quarter following the appraisal period	100%	100%	Target achieved
	High performance culture	Average performance score for the organisation	To be reported quarter after appraisal is done	Average score greater than 3	Average score of 4	Target achieved
To ensure statutory compliance in respect of financial management and corporate	Financial reporting	Submission of report on time:				
		Unaudited AFS to AG by 31 May	Annual	31/05/2012	31/05/2012	Target achieved
		Audited AFS to Ithala and Provincial Treasury by 31 August	Annual	31/08/2012	30/08/2012	Target achieved
		QPR to be submitted to Ithala and DED&T as indicated by DED&T from time to time	Quarter	13/07/12 12/10/12 18/01/13 12/04/13	13/07/12 12/10/12 18/01/13 12/04/13	Target achieved
	Design and implement-ation of sound system of internal controls	Unqualified audit report by 31 July 2012	Annual	Unqualified	Unqualified	Target achieved
		Number of repeat findings on internal audit report	Annual	No repeat findings	No repeat findings	Target achieved
		% of audit findings unresolved in quarter	Quarter	Less than15% unresolved findings at the end of the quarter.	25% as at 31 March 2013	Target not achieved. Certain findings require a longer lead time to resolve while others are related to positions currently vacant such as the Chief Investment Officer and Compliance Analyst. The latter was filled in 1 April 2013, while the former is still vacant
To implement sound financial management practices	Ensure financial stability	% actual overhead expenses variance against budget	Quarter	Actual vs budget variance less than 15% over budget	23% under spending on budget	Target achieved
		% actual deal specific costs variance against budget	Annual	Actual vs budget variance less than 25% over budget	86% under spending on budget	Target achieved

Strategic Objective	Measurable Objective	Performance Measure Indicator	Reporting Period	Annual Targets 2012/2013	Actual Performance 2012/2013	Management Comments
To implement additional revenue streams	Ensure financial sustainability	Securing 1 additional revenue stream for Fund 2	Annual	Revenue steam obtained	Nil	Target not achieved. Fund II framework has not yet been approved and therefore fundraising process in this regard cannot commence
To ensure that the Trust reaches its disbursement target	Project origination	Value of projects approved by the KZN Growth Fund Trust	Quarter	R505m	R123m	Target not achieved. Low level of approvals was due to the low conversation rate of projects from initial screening stage to approval stage. The major factor affecting the conversion rate is the quality and readiness of projects evaluated. The company's targeted origination strategy is to be further enhanced during the forthcoming financial year, to ensure that the Company attracts the right projects
	Project team efficiency	Conversion of approved ISR on project pipeline to approved FAR	Quarter	50% of approved ISRs converted into approved FARs	18% approved ISR's converted into FARs	Target not achieved. This is directly related to the explanation given above
	Project disbursement	Value of projects approved and disbursed per quarter	Quarter	R463m	R130,4m	Target not achieved. This is due to approved projects not being able to timeously meet the required conditions precedent. The major outstanding issues related to the non-availability of the project promoters' equity contribution for one of the approved projects, while the other was approved in March 2013, hence it is in the process of meeting the required conditions precedent

KZN GROWTH FUND MANAGERS SOC LTD REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES
(Continued)

Strategic Objective	Measurable Objective	Performance Measure Indicator	Reporting Period	Annual Targets 2012/2013	Actual Performance 2012/2013	Management Comments
To ensure appropriate portfolio management and aftercare is being done	To ensure that project collections are done timeously	% of non-performing loans	Quarter	Less than10% of loans are non-performing	0% of loans are non-performing	Target achieved
	To ensure that performance of projects is reported timeously to the Investment Committee and the Board of Trustees	Identification of non-compliance to loan covenants within 7 working days	Quarter	100% identification and reporting of non-compliance within 7 days of requirements	100% identification and reporting of non-compliance within 7 days of requirements	Target achieved
	To ensure Trust loan portfolio is managed accordingly	Trust Designated percentage is met[1]	Bi-annual	Designated percentage greater than 33%	35.51	Target achieved

[1] Designated percentage = aggregated capital contributed amount*/ aggregated borrower funder amount.

* Aggregated capital contributed amount being capital contribution (excluding reserve) less amounts written off.

UBUCIKO TWINES AND FABRICS (PTY) LTD REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Objectives	Key Performance Indicators	2012/2013 Target	Full Year Performance	Explanation for Variance
Goal 1: Financial Sustainability and Viability				
To achieve revenue growth	Sales	R20 million	R13,6 million	The sales for the year were R6,4m below budget. Unfortunately, in December, our largest customer defaulted on payments. Strict collections procedures were applied to this customer, resulting in production orders being cancelled and a steep reduction in sales for the last quarter of the year. As a start-up company and in this sector of business, it is difficult to quickly change the customer base. Going forward, we envisage retaining a core customer base of between three and five main customers. We have recruited a salesperson with his portfolio of 'small bags' customers and we have started sales to them. This sales mix in this financial year was largely 'fabric sales'. Operations going forward will result in mainly 'manufactured bag sales'. The packaging industry is innovative and we are obliged to keep pace. We have identified customer preferences for other styled bags viz. gusseted bags. We have submitted a Capex proposal that would equip us to enter this market. In the interim, we have implemented cost reduction measures in relation to the low throughput. Management shall maintain focus on marketing, with the goal of reaching break-even volumes and thereafter profitability.
	Gross Profit	32%	42%	Target achieved
	Operational Profit	0%	-36%	The extent of the loss has been exacerbated by the loss of a large single customer. The low volumes / throughput are unable to adequately cover the operational overheads. Rental charges are too high and we have requested a reduction in the rental charges. Cost reduction measures are earnestly being administered and shall be become apparent in the coming months.
Increase customer base	Sign long-term contracts	Obtain three new customers	Achieved sales to the following new customers :	
			AVI Products	June 2012
			Tiger Brands	July 2012
			NM Packaging	July 2012
			Safal	July 2012
			Hulamin	September 2012
			Petro Agri	November 2012
			Linkseed	January 2013
			Favourite Products	February 2013
			Calmasil	February 2013
			Klein Karoo Saad	February 2013

UBUCIKO TWINES AND FABRICS (PTY) LTD REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES
(Continued)

Objectives	Key Performance Indicators	2012/2013 Target	Full Year Performance	Explanation for Variance
Goal 2: Operational Excellence and Good Corporate Governance				
Obtain compliance certificates	ISO 9000	Obtain ISO 9000 Certificate	Obtained certification	Target achieved
	SADC Trading Certificate	Obtain SADC Trading Certificate	Obtained certificate	Target achieved
	Health, Safety, Environment	Obtain HSE Compliance Certificate	Engaged the services of an external consultant – Prosafe Consultancy. Two audits have been completed.	This project has been postponed until the business cash flow improves
	BBBEE Status	Obtain at least level 4 status	Obtained Certificate	Target achieved
Goal 3: Skills Development and Job Creation				
Create jobs	Number of employees	Workforce of 169 employees	We ended the year with 81 employees. The contracts of 16 employees become renewable in Mid-April. Their contracts shall be renewed on a short-term basis	The workforce is increased or decreased in relation to book orders. This would ensure that returns can be matched to actual wage expenses The sales department has now been strengthened by the addition of an experienced sales person
Skills development	Payment of skills development levy	Registration with the Seta /Sector	Ithala HR is assisting with determining the sector to belong to viz. Textile or MERSETA	Target not achieved. To be clarified in the 1st quarter of the new financial year

Ithala Limited - Dorothy Nyembe Street.

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