JOURNEYING AHEAD, PAVING THE WAY

2016/17
INTEGRATED ANNUAL REPORT

MAKING IT HAPPEN TOGETHER

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Ithala
DEVELOPMENT FINANCE CORPORATION LIMITED

VISION MISSION VALUES

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

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

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

COMPANY INFORMATION

GROUP COMPANY SECRETARY:
LS Mahamba

BANKERS:
ABSA Bank Ltd

AUDITORS:
The Auditor-General

CORPORATE ATTORNEYS:
Approved panel of attorneys

BUSINESS ADDRESS:
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REFERENCE OVERVIEW

INTRODUCTION

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

AIR

ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED ANNUAL INTEGRATED REPORT

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

ACR

ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED AUDIT COMMITTEE REPORT

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

AFS

ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED ANNUAL FINANCIAL STATEMENTS

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

ABOUT THIS REPORT

The annual integrated report encompasses the Ithala Development Finance Corporation Limited's ('Ithala') strategy, material issues and performance for the period 1 April 2016 to 31 March 2017 and our prospects for the future.

Ithala is a state-owned entity and through this report sets out to address our material stakeholders, most notably, our shareholder, regulators, clients and communities, as well as potential investors, with regard to our ongoing viability. In determining the contents of this report, we are bound by the reporting requirements set by the Auditor-General in regard to conveying our performance against our annual performance plan (see pages 31 to 32).

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

Ithala undertakes no obligation to update the historical information or forward-looking statements in this document.

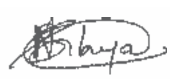
APPROVAL AND ASSURANCE OF OUR REPORT

The audit committee is responsible for reviewing and recommending the annual integrated report and the annual financial statements to the board of directors for approval. The board of directors has applied its mind to the integrated report and believes that it addresses all material issues and fairly presents our performance. Internal and external audit provide additional assurance on the effectiveness of our risk management of material issues.

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

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

Chairman



Audit and Risk Committee

WHO WE ARE

Being a development finance institution, we are regarded as one of the key channels through which Government funding reaches communities.

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

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

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

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

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

OUR MANDATE
Section 3 of the KwaZulu-Natal Ithala Development Finance Corporation Act, No. 5 of 2013, mandates us to:
- Mobilise financial resources and to provide financial and supportive services to the people of KwaZulu-Natal;
- Plan, execute, finance and monitor the implementation of development projects and programmes in the Province;
- Promote, assist and encourage the development of the Province's human resources and its social, economic, financial and physical infrastructure;
- Promote, encourage and facilitate private sector investment in the Province and the participation of private sector and community organisations in development projects and programmes, and in contributing to economic growth and development; and
- Act as the Government's agent for performing any development-related tasks and responsibilities that the Government considers may be more efficiently or effectively performed by a corporate entity.

HOW WE DELIVER ON OUR MANDATE
- We fund business enterprises, SMMEs and co-operatives;
- We provide entrepreneurial support and skills development;
- We develop and manage commercial and industrial property; and
- We provide savings, loans, insurance, home loans and financial services.

MEC'S FOREWORD

The financial year 2016/17 was once again, a year in which Ithala Development Finance Corporation Limited recorded remarkable progress in spite of a number of challenges in the economic and social spheres.

The impact of constrained economic growth and prolonged drought in our country remained apparent across many industry sectors, including our own. As an enabler of development, Ithala faced a two-fold challenge. On one hand, the management team had to ensure the organisation was sustained as it faced reduced income levels arising from unfavourable conditions in the environment. On the other hand, the organisation needed to demonstrate its resilience to the public, as well as continued relevance and effectiveness in delivering its mandate.

Thus, Ithala's ability to finance 382 businesses and co-operatives in 2016/17, enabling the creation of up to 2 644 jobs is a commendable effort. This result is noteworthy, especially given the difficult conditions that prevailed in the environment.

It is also pleasing to note that Ithala was able to forge ahead on its property business turn-around strategy, which entails refurbishing industrial properties. Refurbishment projects have started in Isithebe, Madadeni and Ezakheni, amongst a number of others in the portfolio. These properties have relevance, not only to Ithala, but to the provincial strategic infrastructure programme to support the establishment and growth of Industrial Economic Hubs in the respective provincial locations. We expect this recapitalisation effort to translate to the increased attraction of new investors into Ithala-owned properties, for the benefit of Ithala, the local areas and the Province at large. Within the next two years we will be able to report comprehensively on the outcomes of these investments.

Given that Ithala is at the epicentre of the Government's efforts to drive the radical economic transformation agenda, this entity has gained added prominence in the capacitation of youth and women entrepreneurs across the Province. Ithala's tailor-made youth and women empowerment initiatives, in the form of Inkunz'Isematholeni and Imbokodo Iyazenzela, amongst others, have demonstrated Ithala's connection and hand-holding commitment to emerging entrepreneurs. This is in line with our view that the empowerment of entrepreneurs should not be defined only in financial terms, but also in terms of knowledge, access to markets and beneficial networks.

The Provincial Government remains steadfast in its resolve to see Ithala SOC Limited fulfilling its institutional and compliance obligations, as set out by the South African Reserve Bank towards acquiring a permanent banking licence. We take cognisance of the current challenges faced by the subsidiary in the process of achieving full turn-around to a profitable position. We are, however, convinced that with our ongoing support, Ithala SOC Limited will be set on the path to becoming a State Bank, in accordance with our vision.

The scale of need on the journey to economically transform society remains great. More work still needs to be done in ensuring that the benefits of our democratic breakthrough are realised in economic forms, particularly by historically disadvantaged groups. The radical economic transformation pronouncement pre-empts a higher level for expected contributions and creates the platform for renewed organisational strategies that are geared to expedite economic transformation, where previous efforts have fallen short.

As a Province, we have lobbied both Government and private sector organisations in our efforts to secure markets for supply value chains in which local SMMEs and co-operatives are expected to play an active role. The programmes secured in this facilitation serve as good grounding for Ithala to advance its developmental inputs within structured environments. Examples of these opportunities lie within pre-defined multi-stakeholder programmes, including Operation Vula, the Radical Agrarian Socio-Economic Transformation Programme, Youth Economic Empowerment, Women Economic Empowerment, the Black Industrialists Programme and the Government Auto-Service Park, to name but a few.

The role of Ithala in unleashing the potential of the SMMEs and Co-operatives involved in these programmes will be in the spotlight and we have no doubt that the organisation will gladly take on this challenge.

I wish to acknowledge the efforts of the Chairman of the board of directors, Dr Gantsho and the entire board of directors of Ithala in guiding the organisation through all its seasons. My gratitude also goes to Ithala's Group Chief Executive, Ms Zwane, the management team and all staff for demonstrating their commitment to developmental effectiveness and ensuring that the organisation is able to fulfil its mandate.

Finally, I would like to assure all stakeholders that a new momentum has been set for us to take our development facilitation and enablement to the next level. The path has been set and we have the willingness and ability to run it.

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

CHAIRMAN'S LETTER TO STAKEHOLDERS

"The results communicated in this report are a positive testimony of Ithala's continued commitment to serve the people of KwaZulu-Natal through any circumstance."

DR. MSV GANTSHO
CHAIRMAN

In the 2016/17 financial year, Ithala continued to prove its strength and resilience in maintaining its position and fulfilling its development mandate, in spite of the persistent challenges which exist in its environment and which had both a direct and indirect impact on the organisation.

Ithala's demonstrable resilience is motivated by the example it is determined to set for, particularly, the small business sector, typifying the business journey - in unfavourable economic circumstances - as a way of paving the way for others to follow.

The results communicated in this report are a positive testimony of Ithala's continued commitment to serve the people of KwaZulu-Natal through any circumstance. As at the end of the 2016/17 financial year, Ithala had enabled a significant number of SMMEs to realise their growth potential, created many more employment opportunities and raised the standard of its properties in order to achieve improved returns. Our achievements have been recorded against GDP in South Africa which showed a decline from 3,0% to 0,3% between 2010 and 2016. This slow-down was driven by contraction in the agricultural, mining and manufacturing sectors. The impact of persistent drought during the past two years was also evident in our business, necessitating the facilitation of debt restructuring and other relief measures in order to ensure our funded agricultural business clients remained afloat. It is pleasing, however, to note that the waning of the drought's intensity in the latter part of 2016 translated to improved collections in the sector, which improved the organisation's overall profitability position.

Whilst both the global and national economic growth outlook remains subdued (estimated to remain below 3%) for the next several years, Ithala will journey ahead in the pursuit of maximising opportunities which present themselves, thus advancing growth through counter-cyclical interventions designed to give SMMEs hope and the means to move forward.

The continued contribution of Ithala to the development of the Province is proof of the solid foundation laid through our repositioning strategy implemented in 2012 and which is now in its third phase. This phase focuses on expanding the business, following the earlier phases which were concerned with the remediation and re-alignment of our business.

Ithala's ability to achieve and further exceed its developmental targets, as set out in the Annual Performance Plan confirms the outward and customer-centric approach of our management team and members of staff. Our loan disbursements during the review period continued to grow beyond stated targets and actual employment creation figures more than doubled the targeted baselines.

Our continued properties recapitalisation programme is also indicative of our positive outlook of the future and reflects our potential to advance our mandate, in spite of the challenging operating environment.

We continuously strive to align and channel our resources towards identified priority programmes, as determined by the Provincial Government, in order to fulfil our role as a catalyst for and an enabler of development. Our focus on the decentralised industrial estates of Isithebe, Ezakheni and Madadeni is set to be our contribution towards the Provincial goal concerned with revitalising township economies. This effort further readies our property assets as viable resources for the advancement of the Provincial Industrial Economic Hubs Strategy.

In the retail property sector, considerable competition has infiltrated the rural and township environments previously dominated by Ithala. Given the strategic positioning of our retail properties in small towns and townships, we seek to strengthen our position by renewing and remodelling our buildings in order to counteract moves by competitors, retain our tenant base and customer flows, as well as attracting new customer traffic. This is evidenced by our investment drives in our retail centres located in Madadeni, Estcourt, KwaMashu, Sundumbili, Gamalakhe, Mondlo, Nongoma, Ulundi, Jozini and Eshowe, to name but a few. The successful execution of these projects is also reliant on the novel means of raising funding, taking into account the high cost and the wide scale of these recapitalisation initiatives.

During the year under review, specific evaluations of state entities were undertaken to determine their current and future relevance, as well as to assess their structural and leadership efficiencies. The outcomes of these evaluations confirmed the critical and unique role fulfilled by Ithala in KwaZulu-Natal, together with the relevance and scope of our mandate going forward.

Based on this background, we embrace the future, as set out in the radical economic transformation agenda. As it is widely understood, the implementation of this agenda requires organisations such as ours to set truly transformational goals related to development finance, procurement quotas and other empowerment activities. In our next report, we will be able to articulate progress relating to the implementation of actions linked to this agenda. Presently, our activities are intentionally geared to benefit, in more quantifiable forms, African Black women, African youth, people living with disabilities, military veterans and Black South Africans in general, amongst other demographic groups.

Ithala aligns itself with and subscribes to economic development initiatives rolled-out by our Shareholder and the Provincial Government. We are keen to add value and to facilitate the enablement of identified projects which involve emerging entrepreneurs who display the potential for growth. Our attitude and approach is increasingly radical in taking advantage of economic opportunities and assisting small enterprises in their endeavours to achieve business breakthroughs.

With regard to the period under review, I take this opportunity to acknowledge the support and contributions made by my fellow board members towards the strengthening of Ithala.

I further thank the Group Chief Executive, Ms Yvonne Zwane, for her perseverance and focus in steering the organisation to its present position. The co-operation of our executive team, management and staff is truly evident in the results we have achieved in 2016/17.

Most importantly, I wish to thank our Shareholder representative, Mr Sihle Zikalala (MPL), MEC for Economic Development, Tourism and Environmental Affairs, for his clarity of strategic direction and steadfast support of the role and work of our organisation.

Finally, let me say that Ithala is doing everything possible to ensure that it remains a key strategic development enabler, an organisation capable of paving the way, not only for generations past, but for the current and future generations.

Dr MSV Gantsho
Chairman

SUBSEQUENT EVENTS

Subsequent to the completion of this report, the Group Chief Executive Officer, Ms Yvonne Zwane, passed away on 30 June 2017. She had served Ithala effectively from 1 November 2011. The results herein presented are the outcome of her unrelenting effort to lead the organisation to a position of optimum developmental effectiveness, financial sustainability and profitability.

New members of Ithala's board of directors were also appointed subsequent to the 2016/17 financial year-end. Their term of office commenced on 1 June 2017 with an acknowledgement of the excellent performance achieved by the outgoing board of directors.

Mr R Morar
Chairman

FROM THE GROUP CHIEF EXECUTIVE'S DESK

"In spite of the challenges faced, Ithala performed admirably against its set targets."

MS YEN ZWANE
GROUP CHIEF EXECUTIVE

This integrated annual report is a record of Ithala's successful business journey; a journey which has withstood the test of time, particularly from the point of the implementation of the business turn-around programme in 2012.

The impact of the prevailing economic conditions on businesses, large and small, cannot be over-emphasised. It is the inherent strength of our organisation that has enabled us to continue applying the pioneering spirit for which we are known in our quest to journey ahead, paving the way for those we exist to serve, in spite of the severity of economic forces conspiring to throw up seemingly insurmountable obstacles.

During the year under review, the challenges we faced in growing income levels against increasing cost structures became ever more pronounced. These challenges were the consequence of the tough operating conditions, the cumulative effect of our currency weakness, constrained economic growth, reduced Government spending, drought etc. In order to maintain sustainability, a number of major cost reduction undertakings were initiated across the organisation, leading the organisation to end the financial year in a favourable financial position.

Such cost containment efforts during tough economic times were not unique to Ithala, although we plan to carry such efforts into the future without compromising our organisation's capacity to deliver on its mandate.

In spite of the challenges faced, Ithala performed admirably against its set targets. This was, perhaps, best evidenced by Ithala's ability to disburse up to R183 million to SMMEs and co-operatives, a figure 9,0% higher than that of the 2015/16 financial year (R168 million). In this endeavour, Ithala extended its assistance to 351 businesses and co-operatives, thus facilitating the creation of 2 644 new employment opportunities across the Province.

During the latter part of 2016, some 70 Ithala-funded and drought-affected agri-business enterprises displayed encouraging signs of recovery through improved repayment patterns. Such improvement manifested itself rather late in the review period and will, hopefully, reflect more profoundly in the 2017/18 financial year, against a relatively large agricultural loan book of some R250 million.

Overall repayment difficulties experienced by clients did, however, have a negative impact on our Non-Performing Loans (NPLs), from 16,3% to 23,1% between 2015/16 and 2016/17. While the NPL figure is below the 25,0% cap set as a maximum for the organisation, it points to the critical need for management's intervention to curb losses and prevent further deterioration. Having noted this development, Ithala will not, however, be diverted from its development enablement assignment.

Achieving an improvement in our NPLs was one of the key milestones in our repositioning strategy and any reversal of the gains we have since accomplished will be counteracted by every possible means.

Ithala is pleased with its continued involvement in programmes facilitated by Provincial Government Departments, inclusive of the Department of Education (through the National School Nutrition Programme) and the Human Settlements Department (through the Military Veterans' Programme), the Department of Economic Development, Tourism and Environmental Affairs (through the Black Industrialists Programme, Durban Aerotropolis, and other operations). In response to calls made by our Shareholder, Ithala foresees its involvement in similarly-arranged programmes increasing exponentially in future years.

For instance, the Government Auto Service Park, Minerals Beneficiation Initiative, Operation Vula and the like all present meaningful opportunities for viable business cases for Ithala to review and support, in line with available funding resources.

While Ithala does not have in place a dedicated business support function, we believe that we have a pivotal role to play in encouraging and nurturing entrepreneurship throughout the Province. The good standing of our brand and the trust attributable to it enables us to exert our influence as we co-ordinate and deliver inputs. The outreach initiatives, which we jointly host with the South African Revenue Service, Small Enterprise Development Agency, Department of Economic Development, Tourism and Environmental Affairs, Companies and Intellectual Property Commission, and Municipal Economic Development Units are proof of our unreserved commitment to not only disbursing funds, but to facilitating knowledge-sharing and network development, which - we believe - are just as important as access to funding in the ongoing mission to drive the sustainability and growth of small businesses in KwaZulu-Natal.

Our property investment portfolio is the organisation's single biggest asset and is valued at more than R2 billion. Our strategy in this regard is to maintain and further unlock its potential, as seen by the level of recapitalisation investments we have made during the year under review.

Some R76,0 million was expended in 2016/17 to refurbish our critical retail and light industrial portfolio. An additional R223,0 million is to be employed in completing the refurbishment programme during the 2017/18 financial year. Considerable investment, in the amount of R80,0 million, will be directed to the refurbishment of our Isithebe, Ezakheni and Madadeni Industrial Estates, again emphasising the value that Ithala attributes to our property assets.

Other prospective projects include various centres within our Provincial footprint and located in both small and large town and in both rural and urban environments. Strategically, these properties will fulfil a critical role in establishing and spreading manufacturing, industrial and warehousing opportunities across KwaZulu-Natal, in line with the Provincial Growth and Development Plan.

Importantly, we look to the continuous improvement of our internal governance and human capital systems in order to ensure optimal productivity levels within and integrity of our organisation.

The board of directors has been hugely influential in providing guidance with regard to initiatives pertaining to the governance, enterprise risk management, leadership and people management practices which define the mature organisational system into which Ithala has evolved. In addition, the commitment of the management team and our members of staff to contain costs and improve productivity have most certainly contributed appreciably to the positive outcomes communicated in this report.

As we turn now to focus our sights on the future, I take this opportunity to thank most sincerely the Shareholder representative, Mr Sihle Zikalala (MPL), for the unfailing support and guidance he has afforded Ithala. We hold dear our commitment to align Ithala's programmes with those in the broader environment, as championed by the Shareholder, and look to add real value to the development outcomes sought at both Departmental and Provincial levels.

I must also thank our Chairman, Dr Mandla Gantsho, the members of the board of directors and board committees for their wisdom and for the support they have provided in our journey forward. They have played and continue to play an inspiring role in paving the way to a better life for all in KwaZulu-Natal.

I greatly appreciate, too, the dedication of our executive team, management and members of staff. Their loyalty and commitment to our organisation and its business activities is to be commended. Our results, presented in this report, are indicative of the fact that we have in place a team focused on its customers, a team with the capacity to deliver auditable operational results and a team geared to making successive systemic improvements.

Last, but not least, let me affirm Ithala's pledge to further raising the level of our contribution, in line with the radical economic transformation initiative, into the future.

We are steadfast in applying out-of-the-box thinking and to going the extra mile in ensuring that we effectively touch all those who look to us to support the realisation of their economic dreams.

YEN Zwane
Group Chief Executive Officer

GROUP CHIEF FINANCIAL OFFICER'S REPORT

"The strategic focus areas of increased revenue generation and cost containment have been achieved year-on-year."

MS F AMOD
GROUP CHIEF FINANCIAL OFFICER

Whilst the corporate strategy placed emphasis on increased revenue generation with concurrent cost containment for the period under review, continued effort will be required to rationalise costs to proportionate levels of the income-generating capability of the organisation.

FINANCIAL OVERVIEW

NET PROFIT	▼36,2% R152,4m
REVENUE	▲10,8% R104,8m
COST REDUCTION	▼11,0% R106,0m
COST-TO-INCOME RATIO	80,2% ▲ by 4,8%
RETURN ON ASSETS	2,3% ▼ by 1,3%
CAPITAL ADEQUACY RATIO	11,99% ▲ by 5,8%

The strategic focus areas of increased revenue generation and cost containment have been achieved year-on-year. Conversely, against the backdrop of the combined effect of slow economic growth, drought which has afflicted the agricultural sector and reduced consumer demand, stretch revenue targets set for the year were impeded and could not be met.

The Corporation posted satisfactory results, generating profit of R218,1 million, reflecting a year-on-year decrease in profit of R26,3 million, and is in line with the broader economic circumstances. The Group generated a profit of R152,4 million, a year-on-year drop in performance of R86,6 million, or 36,2%, attributable, largely to our largest subsidiary, Ithala SOC Limited.

Whilst high vacancy rates, as a result of reduced consumer demand and combined with slow economic growth, impeded the attainment of stretch rental targets set for the year, the property department exhibited a 10% year-on-year increase in profits, driven by an increase in the fair value of the investment property portfolio, which appreciated by R45,3 million during the financial year and increased rental income of R26,9 million (9%). Gross profit on the sale of municipal services (5%) and fee income and recoveries (31%) also contributed to the year-on-year increase in profits. However, the subdued economic environment has further impinged rental debtors default rates, thereby increasing credit impairment charges against these rental debtors. To ensure future sustainability, the department has commenced discussions with private sector companies to jointly invest in new projects which will have the effect of ensuring new income streams.

The business finance unit reported a profit of R112,4 million, representing a 26,8% year-on-year decline, the result, largely, of lower interest received as a consequence of reduced deal volumes because of funding constraints and large loan settlements in Ithala funds. The non-performing loans percentage increased from 16,36% in 2016 to 23,13% in 2017, the result of several large-valued loans becoming non-performing. As a result, provision for bad debts and bad debts written-off were higher during the financial year under review.

The impact of the drought, which has afflicted the agricultural sector, also increased default rates of clients as a result of declining revenue streams, thereby compelling the need to restructure these loans in order to assist affected farmers. The impact of the drought also filtered down to other sectors. In addition, the recoveries of bad debts were significantly lower in 2017.

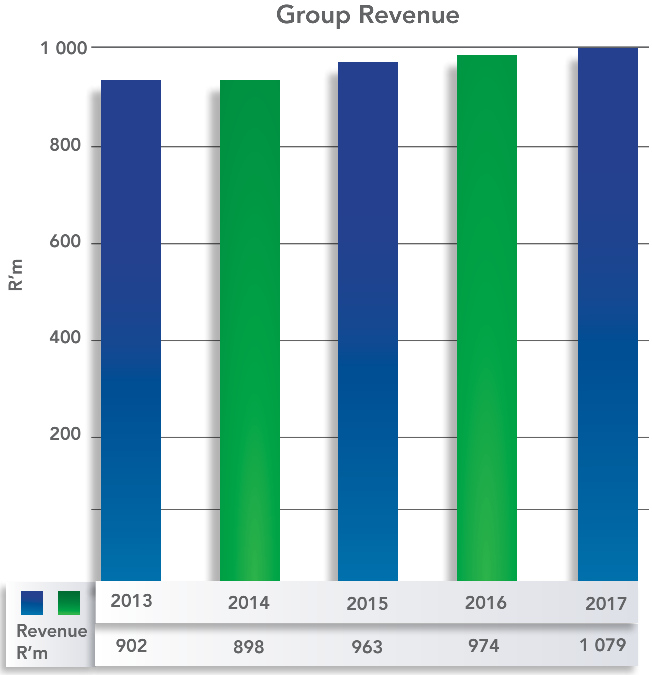
Support services have continued from the trend set in the prior year of cost containment. There has been a 4,0% reduction of costs year-on-year and management remains committed to reducing operational costs.

Ithala SOC Limited, the organisation's main subsidiary, reported a loss of R46,3 million for the review period. Lower interest and fee income contributed significantly to this loss. In spite of the deterioration in performance when compared to the prior year, the subsidiary's turn-around strategy is still in progress and is anticipated to yield positive results in the forthcoming year.

Ithala SOC Limited has applied for a full banking licence with the South African Reserve Bank. An exemption licence for the next two years has been given, whilst the application for the full banking licence is finalised.

	Group			Corporation		
	2017	2016	%	2017	2016	%
	R'000	R'000		R'000	R'000	
Interest income	353 925	321 517	10,1%	95 616	91 264	4,8%
Interest expenditure	108 814	92 279	17,9%	9 699	5 777	67,9%
Net interest income before credit impairment charges	245 111	229 238		85 917	85 487	
Credit impairment charges	66 832	29 400	127,3%	46 255	38 611	19,8%
Other operating income	1 031 405	1 049 392	-1,7%	847 295	863 851	-1,9%
Operating expenditure	1 050 263	1 003 805	4,6%	668 254	666 784	0,2%
Equity accounting loss	(606)	496		(606)	496	
Operating profit before taxation	158 815	245 921		218 097	244 439	
Taxation expense	6 435	6 921		-	-	
COMPREHENSIVE INCOME FOR THE YEAR	152 380	239 000	-36,2%	218 097	244 439	-10,8%

REVENUE



There has been a 10,8% increase in the revenue of the Group, due to increases in rental income and the sales of municipal services to tenants. It is anticipated that revenue will continue to grow at a steady pace during the next Medium-Term Expenditure Framework period. In spite of the challenges resulting in low deal volumes, interest income increased by 15,7% during the financial year under review.

CREDIT IMPAIRMENT CHARGES

Credit impairments increased during the review period.

There was no significant reversal of provisions in 2016/17, as was experienced in the prior year. In addition, there was an increase in the non-performing book, which has increased the provisions.

OTHER INCOME

Other income decreased during the year under review, due mainly to the reduction in grant income applied during the review period.

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

OPERATIONAL EXPENDITURE

Operational expenditure reflected a marginal increase of 4,6% in the Group and increased by 0,2% in the Corporation.

Management continues to monitor and contain operational expenditure. An analysis of operational expenditure is included in note 21.

GROUP CHIEF FINANCIAL OFFICER'S REPORT (continued)

FINANCIAL POSITION

	Group			Corporation	
	2017	2016		**2017**	2016
	R'000	R'000		**R'000**	R'000
ASSETS					
Non-current assets	**4 651 674**	4 593 079		**3 578 072**	3 462 498
Current assets	**2 138 599**	1 850 456		**766 005**	599 583
Total assets	**6 790 273**	6 443 535		**4 344 077**	4 062 081
EQUITY AND LIABILITIES					
Capital and reserves	**3 870 525**	3 718 241		**3 862 546**	3 644 449
Non-controlling interest	**(166)**	(262)		**-**	-
Total equity	**3 870 359**	3 717 979		**3 862 546**	3 644 449
Non-current liabilities	**2 564 158**	2 536 224		**224 754**	291 037
Current liabilities	**355 756**	189 332		**256 777**	126 595
Total liabilities	**2 919 914**	2 725 556		**481 531**	417 632
Total equity and liabilities	**6 790 273**	6 443 535		**4 344 077**	4 062 081

Total assets increased by 5,4% in the financial year under review, the result, mainly, of an increase in Investment Properties, consisting of property investments and a fair value adjustment of R45 million.

Cash increased by 6,3% and statutory liquid assets increased by 36,9%. The Group is highly solvent and liquid.

FUTURE OUTLOOK

The Corporation continues with phase three of its repositioning strategy, a phase which involves broadening the business portfolio.

To this end the property department will embark on a number of strategic projects in the 2017/18 financial year.

These projects are designed to increase the number of new property developments and cater for the refurbishment of the existing property portfolio.

This is expected to increase the future income-generation capability and positively impact on current vacancy levels, which are expected to reduce to 16,0% in the forthcoming financial year, thereby ensuring future financial sustainability.

Whilst funding constraints have impeded the business finance department in growing its Ithala Fund, it will embark on a number of projects which will enable Ithala to deliver on its developmental mandate.

The specific focus for 2017/18, for all Ithala's strategic business units, will be to rationalise expenditure to the extent that it is proportionate to the income-generating capability of the organisation.

ITHALA SOC LIMITED

The financial year closed with a disappointing net loss of R46,3 million (2016: R0,02 million) due to lower than anticipated results in interest income, fee income and insurance income. Total assets and customer deposits grew by 2,3% and 4,2% to R2,62 billion (2016: R2,56 billion) and R2,29 billion (2016: R2,19 billion) respectively.

Credit performance deteriorated marginally, with the non-performing loans percentage up 0,4% to 7,3% (2016: 6,9%) and the impaired advances ratio at an acceptable 6,2% (2016: 8,3%).

FUTURE OUTLOOK

Against the backdrop of subdued economic growth prospects in the forthcoming year, as with all financial institutions, Ithala SOC Limited will continue to face difficult trading conditions. Total new advances will be limited to R500 million for the year. The main driver of income growth will continue to come from non-interest revenue, namely fees on the new and innovative electronic banking and insurance products.

Distribution channels will be expanded to include self-service devices and additional ATMs. Our 'branch of the future' project will continue into the next year. Ithala SOC Limited is forecasting a moderate loss in the next financial year.

F Amod
Group Chief Financial Officer

OUR LEADERSHIP

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

BOARD OF DIRECTORS

Dr MSV Gantsho (55)
INDEPENDENT NON-EXECUTIVE DIRECTOR (CHAIRMAN)

PhD, M.Phil, M.Sc, CA (SA), B.Comm (Hons)
Appointed 1/06/11 (re-appointed wef 1/06/14)

Area of Expertise

- Corporate strategy formulation and execution
- Infrastructure development finance
- Financial management and reporting
- Investment and corporate banking

Other directorships

- Sasol Limited
- Impala Platinum Limited
- Africa Rising Capital (Pty) Ltd
- Kudumane Manganese Resources (Pty) Ltd

Mr DM McLean (61)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Tax Law Programme, CA (SA), B Accounting
Appointed 15/09/09 (re-appointed wef 15/09/15) Acting deputy chairman 1/12/14

Area of Expertise

- Financial management and reporting
- Banking and financing (corporate finance, private equity, public finance advisory, treasury and trading, capital raising and debt markets)
- Corporate governance
- Business rescue
- Taxation advisory

Other directorships

- Labyrinth Solutions
- KwaZulu-Natal Property Development Holdings SOC Limited (formerly KZN Growth Fund Managers SOC Limited)
- Durban Country Club

Ms NN Afolayan (39)
INDEPENDENT NON-EXECUTIVE DIRECTOR

MBA (in finance), Executive Leadership Programme, Advanced Business Management, Post-graduate Diploma: Accounting Sciences - Appointed 21/04/08

Area of Expertise

- Enterprise risk management
- Strategy development and projects
- Organisational and change management
- Cost management and accounting

Other directorships

- Umgeni Water
- Delta Property Fund (Pty) Ltd

Ms BC Bam (58)
INDEPENDENT NON-EXECUTIVE DIRECTOR

BA Personnel Management, BA (Hons) (Sociology), Project Management Diploma, Management Advancement Programme - Appointed 15/09/09 (re-appointed wef 15/09/15)

Area of Expertise

- Strategic management
- Organisational development
- Change management
- Training and development
- Policy development, implementation, co-ordination, monitoring and evaluation

Other directorships

- Rand Water

OUR LEADERSHIP (continued)

BOARD OF DIRECTORS (continued)

Rev NNA Matyumza (54)
INDEPENDENT NON-EXECUTIVE DIRECTOR

LLB, CA (SA), B.Compt (Hons), B.Comm
Appointed 1/06/11 (re-appointed wef 1/06/14) (resigned on 31/12/16)

Area of Expertise
- Financial management and reporting
- Audit
- Law
- Risk and strategic management
- Governance and ethics

Other directorships
- KwaZulu-Natal Property Development Holdings SOC Ltd (formerly KZN Growth Fund Managers SOC Limited)
- Hulamin Limited
- Sasol Limited
- WBHO Limited

Mr GNJ White (56)
NON-EXECUTIVE DIRECTOR

BA (Economics), BA. Admin (Hons): Development Studies, Executive Leadership Programme (USA)
Appointed 1/06/11 (resigned wef 30/09/14) (re-appointed wef 1/12/15)

Area of Expertise
- Infrastructure finance
- Business strategy formulation and management
- Human resources management

Ms R Ramdew (47)
CO-OPTED MEMBER

MBA (Strategic Management), Post-graduate Diploma in Mangement, BSc (Computer Science and Economics) - Appointed 1/04/16

Area of Expertise
- Enterprise architecture
- Project management
- Strategy formulation and implementation
- Risk management
- Business process and requirements analysis
- Policy development

Ms YEN Zwane (57)
EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE

MBL, Associate Diploma (CAIB) (SA), Management of Technology and Innovation Diploma, B.Comm (Accounting), University Education Diploma (Accounting) - Appointed 1/12/11

Area of Expertise
- Banking (corporate and retail)
- Credit risk
- Liquidations
- Development banking
- Innovation management
- Strategic management

Other directorships
- Ithala SOC Limited

MANAGEMENT TEAM

Ms YEN Zwane (57)
GROUP CHIEF EXECUTIVE

Appointed: 1/12/11

Qualification

- MBL
- Associate Diploma (CAIB) (SA)
- Management of Technology and Innovation Diploma
- B.Comm (Accounting)
- University Education Diploma (Accounting)

Ms F Amod (45)
GROUP CHIEF FINANCIAL OFFICER

Appointed: 1/12/15

Qualification

- CA (SA)
- Honours B.Compt
- B.Compt
- Post-graduate Diploma in Auditing
- CIA
- CFSA

Mr NW Nhlangulela (44)
PROPERTIES EXECUTIVE

Appointed: 10/07/12

Qualification

- B.Comm (Corporate Finance and Economics)
- Post-graduate Diploma in Business Management

Mr MM Matibe (58)
GROUP CHIEF INFORMATION OFFICER

Appointed: 1/12/11

Qualification

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

Mr BTT Mathe (54)
EXECUTIVE: GROUP COMMUNICATIONS, MARKETING AND HR

Appointed: 1/01/11

Qualification

- Bachelor of Arts
- Post-graduate Diploma in Business Management
- Credit Diploma and Advanced Marketing Diploma (CAIB)
- International Executive Programme (IEP)

OUR LEADERSHIP (continued)

MANAGEMENT TEAM (continued)

Mr M Muthusamy (47)
ACTING BUSINESS FINANCE EXECUTIVE

Appointed Acting Business Finance Executive wef 1/03/15

Qualification

- B.Comm (Financial Management)
- Post-graduate Diploma - Management
- MBA
- CAIB (SA) Banking Credit Diploma

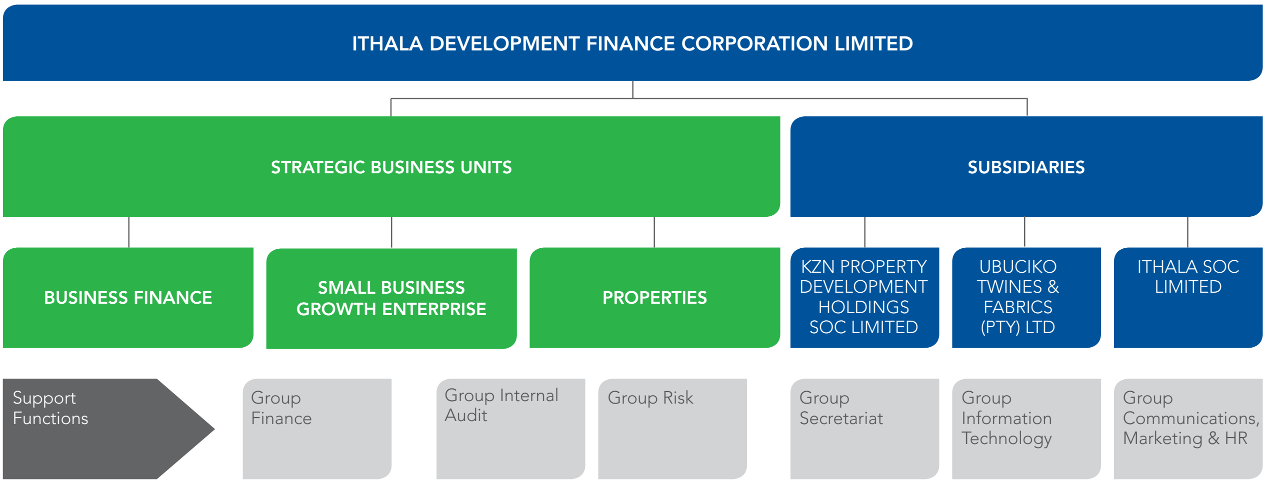
Ms B Mokgatle (41)
GROUP CHIEF RISK OFFICER

Appointed: 4/05/15

Qualification

- B.Comm (Accounting)
- MBA (Enterprise Risk Management)

OPERATIONAL STRUCTURE



PROPERTIES

Our properties business assumes responsibility for the management and development of Ithala's property portfolio, comprising a range of large industrial, retail, light industrial and SMME properties. We are one of the largest property portfolio holders in KwaZulu-Natal. Read about our properties division's performance and prospects on pages 28 to 29.

BUSINESS FINANCE

Lending activities are provided through our business finance unit, offering financial services to SMMEs and co-operatives within KwaZulu-Natal. In so doing, the unit packages an array of products and services designed to stimulate entrepreneurship amongst, especially, historically disadvantaged individuals and communities. Our lending concentrates on sectors in line with the Provincial Spatial Economic Development Strategy, as well as meeting our primary mandate, in terms of the Ithala Act. Read about our business finance performance and prospects on page 27.

SUBSIDIARIES

ITHALA SOC LIMITED

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

It provides financial services to the people of KwaZulu-Natal, especially in areas where such services have been lacking in the past. We deliver retail financial services, savings and investment products, housing and loan products, as well as insurance products. Ithala SOC Limited functions in terms of a multi-channel distribution network, servicing the needs of individuals, groups, businesses and other public sector entities. Support services shared between the corporation and Ithala SOC Limited include ICT and Communications, Marketing and Human Resources.

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

UBUCIKO TWINES & FABRICS SOC LTD

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

However, in November 2015, Ithala's board of directors resolved to close the Ubuciko factory and lease equipment on commercial terms, a move necessitated by the fact that Ubuciko Twines & Fabrics was unable to reach financial self-sustainability and required Ithala to continuously invest funds to sustain its operations. During the review period, Ithala successfully secured a company to lease both the equipment and the property previously occupied by Ubuciko Twines & Fabrics. These two rental revenue streams continue being collected by Ithala. Importantly, the majority of operational staff members previously employed by Ubuciko Twines & Fabrics were absorbed into the business by the new operator.

KWAZULU-NATAL PROPERTY DEVELOPMENT HOLDINGS

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

ASSOCIATE COMPANY

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

OUR STRATEGY

We decide on strategic objectives with our Shareholder and measure progress towards their achievement via a set of agreed upon key performance indicators (please see our Annual Performance Plan report on pages 31 to 32).

During the period under review, we embarked on strengthening our property business so as to unlock additional revenue generation potential from our property portfolio and to reduce the holding and maintenance costs associated with the operation.

We apply continuous improvement interventions in terms of our business units and work to constantly strengthen our corporate risk, governance and internal audit structures and systems (please see pages 42 to 47 for more information).

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

CORE STRATEGIC THEMES

This report concentrates on material developments and issues affecting Ithala.

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

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

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

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

The following table depicts our strategic issues, material risks and opportunities, as well as their existing mitigation controls.

ENTERPRISE RISK MANAGEMENT

We recognise that effective risk management is fundamental to the generation of sustainable profits, the safeguarding of Ithala's reputation and the establishment of a competitive edge. Risk management is required to ensure Ithala's success and stability, primarily for the benefit of historically disadvantaged people in the region.

The implementation of our Enterprise Risk Management (ERM) Framework included enhancing our Enterprise Risk Management and Operational Risk Management activities and the formulation of a business continuity management committee. This provided the foundation for embedding a robust risk culture within Ithala.

During the period under review, we focused on entrenching such a robust risk culture across Ithala and developing a Risk Appetite and Tolerance Framework. The risk management culture has been further embedded by conducting an ERM Maturity Assessment within the business, benchmarking Ithala against international best practices.

Ithala defines risk as any factor, which could cause it not to achieve its desired business objectives or result in adverse outcomes, inclusive of reputational damage. Our risk management process ensures that risks are identified and understood, evaluated and managed. Risk mitigation is an integral part of this process. Indeed, risk management within Ithala is guided by the following key principles:

- Protection of Ithala's reputation through a sound risk culture;
- Compliance with regulatory requirements and principles;
- Implementation of a strongly defined risk management structure; and
- Communication and co-ordination between executive management and board committees.

The board of directors is ultimately responsible for effective management of risks and has mandated the enterprise risk committee (ERC) to assist in the execution of its responsibilities with respect to risk management.
The ERC reviews Ithala's ERM framework and oversees the control and enhancement of systems, policies, practices and procedures in order to ensure risks (strategic and operational) are identified, measured, controlled, monitored and reported.

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or a lack of responsiveness to industry changes. It includes processes and systems, regulatory compliance, legal risk and business continuity. Ithala proactively manages its strategic risk by ensuring that such risks are identified annually in terms of the strategic objectives and direction of the organisation.
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. These include risk issues which impact Ithala's day-to-day operations.

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

An Ithala risk workshop was held in October 2015, at which time the Corporation's strategic risk register was revised and mapped to Ithala's strategy. A total of 11 strategic risks faced by Ithala were identified.

STRATEGIC RISK

Risk Name	Strategic Goals	Opportunities	Mitigating Controls
Liquidity risk	Financial sustainability	• Diversification of funding sources • Proactive cash and capital management	• Budget process • Monthly management information reports • Monthly reports on liquidity position • Capital adequacy ratio buffer • Established guidelines for acceptable minimum cash balances • Asset and liability management system • ERC and board (governance structures) • Weekly cash flow forecasting • Funding requirements planning • Cost rationalisation
Return on assets risk - Properties	Financial sustainability	• Diversification of funding sources • Public-Private Partnerships • Implementation of properties turn-around strategy	• Risk management strategy • Tenant attraction and retention strategy • Defined disinvestment strategy for unproductive assets • Property marketing strategy • Adjusting lease rentals to market-related rates
Return on assets risk - Business finance	Financial sustainability	• Improved loan book performance • Improved governance, risk and compliance management • Diversification of revenue streams	• Governance processes (board sub-committee structures and delegations) • Business finance strategy • Investment screening committee • Post-investment monitoring and reporting • Business support model • Segregation of duties for approvals and post-investment monitoring • Application of policies
Market (relevance in the market place)	Development effectiveness	• Attract target market • Influence customer perceptions • Client-centricity • Market intelligence • Innovative product offerings	• Stakeholder relations management • Reputation • Corporate and social investment • Advertising
Human capital	Operational excellence and good corporate governance	• High performance culture • Proactive talent management • Building trust with organised labour • Skills development • Staff wellness • Cost rationalisation	• Attraction and retention strategy • HR policies and procedures • Performance management system (including individual development plans) • Talent management strategy (including leadership development and succession planning) • Code of ethics • Cost optimisation
Knowledge management	Development effectiveness	• Improved customer relationships • Increased revenue	• Knowledge retention strategy • Business process re-engineering • Documentation of department user procedure manuals • IT project • Properties and business finance strategies
Technology	Operational excellence and good corporate governance	• Systems readiness for business continuity • Retention of IT personnel • Improved operationalisation of IT projects	• IT disaster recovery plan • Service level agreement management • Collaboration technologies, such as intranet, share point and Microsoft exchange • IT policy and framework (including IT governance) • IT strategy • Change control board
Compliance and regulatory	Operational excellence and good corporate governance	• Maintain good governance of risks and compliance with applicable legislation	• Regulatory universe of various legislation facing the group • Compliance policy • Risk and compliance coverage plan • Enterprise risk management framework • Governance structures • ERM framework implementation plan • Internal controls • Internal audit • Anti-fraud and ethics committee

Risk Name	Strategic Goals	Opportunities	Mitigating Controls
Strategic	Development effectiveness	• Alignment of strategy with stakeholder expectations • Meeting stakeholder expectations • Improved reputation	• Governance structures • Stakeholder meetings • Annual reports, with developmental indicators • Annual performance plan • Quarterly performance reporting • Internal audit plan covering performance information • Ithala Act and PFMA • Shareholder compact • Governance structures (MEC, portfolio committee reporting and the like)
Stakeholder relations risk	Operational excellence and good corporate governance	• Increased stakeholder engagement to communicate plan successes and foster co-operation between role-players	• Clean audit roadmap • Approved group marketing strategic plan • Internal communication strategy • Media relations strategy • Stakeholder engagement • Corporate social investment • Brand management • Marketing strategies for income-generating SBUs • Anti-fraud pledge • Marketing and communication strategy • Code of ethics for Group.
Health, safety and environmental	Operational excellence and good corporate governance	• Employee wellness • Environmental impact • Regulation	• OHS policy • OHS department • Training • Broadcasting • Marketing • Awareness

Existing controls are in place for the identified risks and, where additional controls are required, management has 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 risk and compliance and are then reported to the executive committee (EXCO).

Quarterly update reports are submitted to the ERC, ensuring that management is able to execute its risk management responsibility in terms of the PFMA and King III.

COMPLIANCE

Ithala operates in a highly regulated environment and we consider all applicable legislative and regulatory requirements when determining our strategic objectives. Regulatory compliance ensures that Ithala meets its legal and regulatory requirements across the industry.

Some of the key controls in place to mitigate this risk include the development of compliance manuals, policies and procedures and compliance regulatory management plans (CRMPs).

During the period under review, our focus was on improved compliance methodologies, policies and the development and testing of CRMPs, thus working towards the establishment of a compliance culture within the Corporation.

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

We are also a registered credit and authorised financial services provider in terms of the National Credit Act No. 34 of 2005 (NCA) and Financial Advisory and Intermediary Services (FAIS) Act No. 37 of 2005 respectively.

Ithala is the holding company of Ithala SOC Limited, a wholly-owned subsidiary currently operating under an exemption notice as a deposit-taking institution and which is regulated by the provisions of the Banks Act No. 94 of 1990.

Compliance is also strategically important in protecting our reputation, minimising our operational risk and setting standards for a strong compliance culture throughout all our business activities.

We have adopted a compliance risk management framework which is aligned with the Generally Accepted Compliance Practice Framework of the Compliance Institute of South Africa, which supports the active management of compliance risk. It utilises a four-phase approach to identify, assess, manage and monitor compliance risk.

STRATEGIC RISK (continued)

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

OPERATING CONTEXT

ECONOMIC CONTEXT

According to the International Monetary Fund (IMF)'s April 2017 World Economic Outlook (WEO) publication, global growth measured in the region of 3,0% throughout 2016.

The key driver of this growth rate was largely improved manufacturing output, which is expected to accelerate in 2017 and 2018.

Global growth is expected to pick-up to 3,5% in 2017 before accelerating further in 2018, as illustrated in the table below:

In South Africa, Stats SA reports that for 2016 as a whole, Gross Domestic Product (GDP) growth slowed to 0,3% - the lowest annual growth rate since 2009.

This was due, mainly, to two quarters of negative quarter-to-quarter growth.

With the exception of 2009, when real GDP contracted by 1,5%, this was the lowest annual growth rate since 1998. Indications from Stats SA and the South African Reserve Bank are that the low GDP growth rate for 2016 could, to a large extent, be attributed to:

- Weak consumer demand;
- An acceleration in consumer price inflation;
- Stagnant formal sector employment;
- Persistent subdued business and consumer confidence levels which suppressed fixed investment; and
- The adverse effects of the prolonged drought conditions experienced in many parts of the country.

On the consumption side of the South African economy, Stats SA reports that for 2016 as a whole, real gross domestic expenditure declined by 0,8%.

This is the first annual contraction in real gross domestic expenditure since 2009 when the impact of the global financial crisis was at its worst and is indicative of the subdued domestic demand environment.

Short to medium-term South African GDP growth forecasts remain modest, as illustrated in the table overleaf from the Bureau for Economic Research (BER):

GLOBAL GROWTH OUTLOOK (YEAR-ON-YEAR % CHANGE)

	2016	2017	2018
World	3,1	3,5	3,6
Advanced Countries	1,7	2,0	2,0
USA	1,6	2,3	2,5
Euro Area (19 Euro Zone Countries)	1,7	1,7	1,6
United Kingdom	1,8	2,0	1,4
Japan	1,0	1,2	0,6
Developing Countries	4,1	1,7	1,7
China	6,7	6,6	6,2
India	6,8	7,2	7,7
Emerging Europe	3,0	3,0	3,3
Latin America and Caribbean	-1,0	1,1	2,0
Sub-Saharan Africa	1,4	2,6	3,5
South Africa	0,3	0,8	1,6

Source - IMF World Economic Outlook Report: April 2017

OPERATING CONTEXT (continued)

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

	2017	2018	2019	2020	2021	2022
SOUTH AFRICAN ECONOMY						
Real GDP growth (real y-o-y %)						
Final household consumption expenditure	1,1	1,5	2,1	2,3	2,4	2,4
Government consumption expenditure	0,8	0,3	0,8	0,8	1,1	1,3
Gross fixed capital formation	-2,7	0,0	1,6	2,5	6,4	4,7
Real GDE	0,6	1,2	1,8	2,1	2,9	2,6
Total exports	1,8	2,5	2,2	3,2	3,4	3,6
Total imports	1,7	2,2	2,6	3,3	4,9	4,3
Real GDP	0,6	1,3	1,7	2,0	2,4	2,4

Source - BER Forecast 2017 to 2022 (April 2017)

The KwaZulu-Natal economy mirrors the national trend of constrained growth.

The Province's agriculture sector has been particularly hard-hit by adverse climatic conditions, although some good rains in the latter part of 2016 provided some hope for the sector.

The KwaZulu-Natal Provincial Government is focused on economic development plans in, particularly, the productive sectors of the economy, such as agriculture and manufacturing.

This was highlighted in a recent (August 2016) update of the KwaZulu-Natal Provincial Growth and Development Strategy, which emphasised the following initiatives:

- Revitalisation of the agriculture and agro-processing value chain (APAP);
- Industrial Economic Hubs (Ithala - Ezakheni, Madadeni and Isithebe);
- AgriZone precinct (agriculture) and minerals beneficiation (manufacturing);
- Youth entrepreneurship, township and rural enterprises (legislative framework supporting the involvement of small enterprises and local equity in township malls and rural shopping centres);
- Oceans economy; and
- Green economy/renewable energy.

Ithala is a key role-player in the ongoing execution of sound economic growth initiatives throughout the Province of KwaZulu-Natal.



STAKEHOLDER CONTEXT

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

Stakeholder Groups' Material Issues	Engagement Method	Stakeholder Expectations	Ithala's Response
Provincial Government	• Quarterly performance reports • Quarterly meetings • Annual general meeting • Meetings with Legislature/Portfolio Committee	• Financial sustainability and viability • Alignment with Provincial Government's economic development agenda • Efficient and effective utilisation of allocated funds	• We signed our Shareholder's Compact with the Department of Economic Development, Tourism and Environmental Affairs • Our Annual Performance Plan (APP) is aligned to the Provincial Growth and Development Plan • Quarterly performance reports against the APP are compiled and submitted to the department • Quarterly engagements are held with the department to discuss performance and the achievement of targets
Clients	• Business finance clients - pre-funding interaction • Post-funding interaction • We visit and interact with our properties' clients and tenants on an ongoing basis	• Accessible and affordable financial services • Non-financial support services • Well maintained commercial and industrial properties • Affordable rentals • Business premises in prime development nodes	• Business finance has business centres in each municipal district • Pricing for Government Grant funding is less than prime • Post-funding non-financial support is provided through the business support and post-investment monitoring units of business finance • Increased allocations for capital and maintenance expenditure • We offer competitive and, in most cases, highly favourable rentals • Industrial and commercial premises are located in growth nodes
Regulators	• Regulatory reporting	• Responsible lending • Fair treatment of clients • Safekeeping of client records • Good corporate governance	• Submission of all regulatory reports in a timely manner • A fully capacitated compliance unit established
Employees	• Quarterly briefings by the group chief executive • On-line internal magazine business broadcasts	• Job security • Fair reward and recognition • Personal growth and development • Healthy working environment	• Stabilising the finances of the organisation to ensure sustainability • Advancing skills development through study loans and other forms of training support • Advancing talent management initiatives
Service Providers	• Ongoing	• Fair and transparent process of selecting service providers • Pay for services rendered in a timely manner • More opportunities for smaller enterprises	• Approved supply chain policies and procedures in line with Government policy • Specific focus on engaging B-BBEE-compliant service providers (see page 38)

HOW WE CREATE VALUE

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

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

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

INPUTS

- **Financial capital:** We receive grant funding from Government for lending to SMMEs (R66,0 million during the 2016/17 financial year);
- **Social and relationship capital:** We are dependent on the support of our Shareholder, the Provincial Government of KwaZulu-Natal; and
- **Intellectual capital:** We are guided by our mandate from the Provincial Government of KwaZulu-Natal.

BUSINESS ACTIVITY

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

OUR IMPACTS

- Our activities result in a broad economic impact by stimulating the private sector and assisting to fuel the economy through the creation of employment opportunities, providing income and improving living standards, thus generating lasting development impacts;
- During the past five years, we have facilitated the creation of 16 232 employment opportunities, generated by way of our lending activities. We have advanced loans valued in excess of R1 billion;
- We facilitate access to financial services, enabling socio-economic development and financial well-being, which are especially relevant to our markets;
- Our activities facilitate the allocation of capital for economic development; and
- We focus on understanding the needs of the public sector environment and to developing innovative solutions relevant to the municipal structures of Local Government.

THIS YEAR

During the 2016/17 financial year, we:

- Created 2 644 employment opportunities through the financing of business enterprises;
- Funded 382 entrepreneurs (2016: 336);
- Disbursed business loans to the value of R183 million (2016: R167 million);
- Created 425 employment opportunities through our property developments and maintenance; and
- Opened 36 921 new savings accounts through our wholly-owned subsidiary, Ithala SOC Limited.

OUR PERFORMANCE

During the course of the 2016/17 financial year, we financed no fewer than 382 businesses and co-operatives, estimated to have enabled the creation of 2 644 new employment opportunities. Business finance is responsible for the provision of financial services for SMMEs and co-operatives across KwaZulu-Natal.

BUSINESS FINANCE

Business finance contributes significantly to the establishment and strengthening of small business growth and the promotion of employment creation, in line with our mandate. Lending in this area focuses on various sectors, in accordance with the Provincial Spatial Economic Development Strategy (PSEDS) and includes:

- Agriculture and agro-processing;
- Construction, commercial properties and tourism;
- Manufacturing; and
- Trade and services.

We provide clients with working capital, structured finance, agri-finance, procurement and asset-based finance, finance for commercial property and franchises, as well as micro-finance.

Access to business finance for SMMEs is provided through business centres positioned throughout KwaZulu-Natal, assisting to significantly broaden participation and facilitate the provision of information to the benefit of local communities. It is required that such economic activity be KwaZulu-Natal-based, or the benefits of such activity substantially accrue to the Province in terms of both job creation and empowerment.

We actively support entities which are owned substantially (30%) by historically disadvantaged individuals. Loans of up to R15 million are approved by our management credit committee, while loans exceeding this amount are escalated to the board credit and investment committee for consideration and approval.

POST-INVESTMENT MONITORING AND SUPPORT

Upon the approval of funding, clients are assigned an investment monitoring officer who is responsible for the effective provision of post-investment monitoring interventions, inclusive of portfolio management, monitoring and support provision.

CREDIT RISK MANAGEMENT

Clients who default on their obligations to Ithala are referred to debt collection within our business finance unit.

Here, assistance, including the re-scheduling or suspension of instalments, is negotiated. In cases where such intercession fails and client accounts fall into arrears for a period of three months, they are referred to our legal division for collection.

We also have in place a debt rehabilitation facility, whose responsibility it is to assist in the effective turn-around of those distressed businesses which, potentially, could become viable.

PERFORMANCE

By the end of the 2016/17 financial year, our investment portfolio totalled R874 million, representing a 3,0% increase year-on-year. Our performing portfolio was valued at R671 million, being 76,8% of the overall investment portfolio, while the non-performing component of the portfolio amounted to R203 million in value, or 23,2% of the total investment portfolio. The period also witnessed the realisation of a significant number of cross-selling opportunities, whereby our products were offered in conjunction with Ithala SOC Limited's insurance products.

LOOKING AHEAD

Our future strategic priorities are to:

- Develop our loan book by growing credit advances annually;
- Maintain the quality of the loan book by maintaining non-performing loan levels to below 25%;
- Improve liquidity by increasing the levels of credit collections;
- Improve profitability levels by increasing loan yields by way of risk-adjusted pricing;
- Sustain and increase the number of employment opportunities in KwaZulu-Natal by facilitating increased financing of SMMEs and co-operatives; and
- Improve customer service through a reduction in application turn-around times.

Although it would be true to say that a lack of funding and, therefore, financial sustainability remains a material risk, we have identified various new opportunities of which to take advantage, such as asset finance for replacement and expansion and the micro-financing of township businesses.

HIGHLIGHTS

- Credit advances: Up, year-on-year, by 9,0% to R183 million;
- Gross collections: Ahead of budget by R21 million. An amount of R225 million was collected against a budget of R204 million;
- Non-performing loans: Remained below the threshold of 25% at 23,2%; and
- Development impact: Financed 382 businesses and co-operatives, estimated to facilitate the creation of 2 644 jobs.

LOWLIGHTS

- Investment performance: Interest income adverse to budget by 18% due to reduced interest margins on the Enterprise Development Fund and reduced lending on the Ithala Fund;
- Net Income: Adverse to budget by R20,6 million due, mainly, to the lower interest margins on lending and increased provisions on certain loans which were not performing;

OUR PERFORMANCE (continued)

LOWLIGHTS (Continued)

- Funding constraints: Posed a challenge in terms of book growth; and
- Drought: The impact of the drought created challenges for clients in, particularly, the agricultural sector. This necessitated a review of loans and the restructuring of repayments to match productivity and reduced revenue levels. The impact of the drought was not limited to the agricultural sector alone, also having a negative impact on transport, manufacturing and other sectors.

PROPERTIES

Our properties business unit supplies integrated property management services, inclusive of:

- Property management;
- Asset management; and
- Technical services.

The unit is also responsible for leasing premises within our property portfolio, generating rental income. Asset management assumes responsibility for long-term, strategic and financial planning so as to optimise property asset values and realise return and growth objectives. Technical services is responsible for facilities management, project management and engineering services.

HIGHLIGHTS

- Total income up 10%, to R645 million;
- Net profit up 34%, to R196 million;
- Total expenses up 2%, to R449 million;
- Cash collections up 4% to R667 million; and
- Debtors down 9% to R71 million.

PROPERTY REPOSITIONING STRATEGY

During the 2016/17 financial year, the unit continued implementing its turn-around strategy, which was designed to assist in improving both operational and financial performance. The strategy was focused on ensuring the following key deliverables:

- An improvement in financial performance;
- The optimisation of the value of the investment portfolio;
- The recapitalisation of the investment portfolio; and
- The positioning of the business to take advantage of growth opportunities.

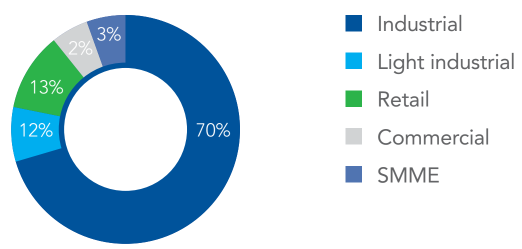
In this regard, the review period saw significant progress being made against the detailed deliverables, including:

- Revenue and profits displaying a steady increase;
- The commencement of the refurbishment of the retail and industrial portfolio. This is anticipated to be completed in the second quarter of the 2017/18 financial year, with R250 million committed to the programme;
- The remodelling and expansion of the existing retail portfolio being planned for commencement in the 2017/18 financial year, with an estimated R1 billion committed to the programme; and
- The pursuance of a number of investment opportunities - some with the private sector - which will result in the overall growth of the property portfolio and, especially, the retail portfolio.

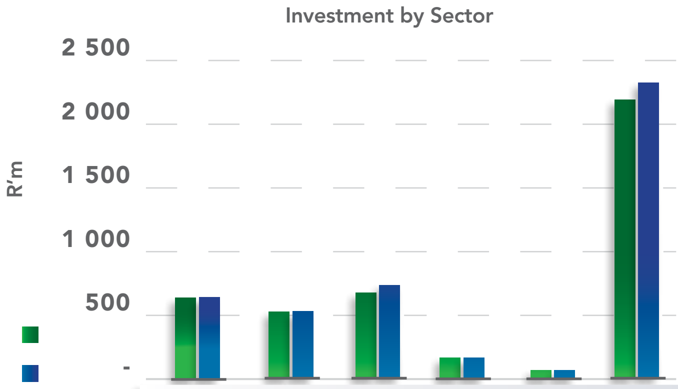
PORTFOLIO OVERVIEW

Our property portfolio consists of industrial, light industrial, retail, commercial and SMME properties, boasting a total gross lettable area of 1,2 million square metres. Some 1 309 business enterprises are accommodated within the portfolio, employing in excess of 45 000 people.

PORTFOLIO BY SECTOR



INVESTMENT OVERVIEW



	Industrial	Light Ind	Retail	Comm	SMME	Total
2015/16	680	555	723	213	48	2 219
2016/17	702	569	796	205	55	2 327

The total market value of our property portfolio grew by an encouraging 5,0% during the year under review, to R2,3 billion.

The industrial and retail portfolios grew by 3,0% and 10,0% respectively, whilst the light industrial portfolio grew by a marginal 2,0% and the commercial portfolio regrettably decreased by 4,0%, the consequence, primarily, of a reduction in the value of Ithala's previous head office, located in Umlazi and known as Corporate Services Centre, which was vacant during the review period.

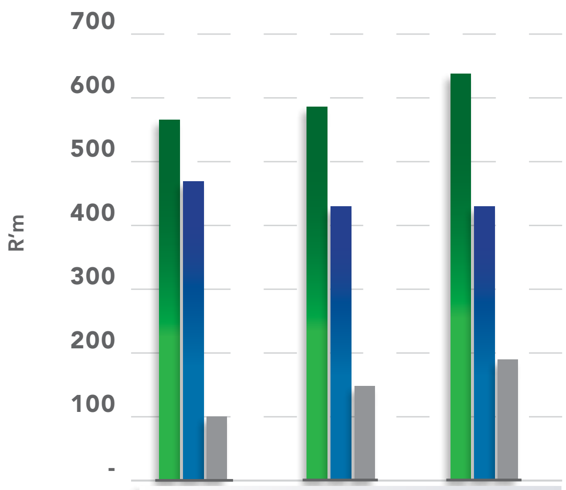
It was identified that our retail portfolio required urgent recapitalisation, given its unfortunately deteriorated physical state. A strategy has identified high-yielding assets for major remodelling and refurbishment and a refurbishment programme, encompassing eight shopping centres, was initiated utilising internal funding. The cost of the major remodelling of seven shopping centres has been estimated at R1 billion, which will need to be funded through a combination of internal and externally-generated capital.

It is clear, too, that the industrial portfolio also requires major recapitalisation, due - in the main - to its age, being an average of 45 years.

Pleasingly, in this regard, work-in-progress in respect of both retail and industrial property refurbishment to the value of approximately R250 million is currently underway, with R73 million spent during the financial year under review.

FINANCIAL OVERVIEW

FINANCIAL PERFORMANCE



	2014/15	2015/16	2016/17
Total Income	565	588	645
Total Expenses	458	442	449
Profits	107	146	196

Net profit, excluding fair value adjustments, grew by 34,0% year-on-year to R196,0 million.This strong financial performance was driven by the following:

- 9,0% growth in rental income, to R323,0 million;
- 32,0% growth in fees and recoveries, to R42,0 million;
- 5,0% growth in gross profit on sale of services (electricity, water and the like), to R59,0 million; and
- 3,0% reduction in operational expenditure, to R259,0 million attributable, primarily, to improved overall cost management.

KEY RISKS

In line with both global and national trends, the economic outlook for KwaZulu-Natal follows a subdued trajectory and is, according to the KwaZulu-Natal Provincial Treasury, expected to grow at 1,1% and 1,5% in 2017 and 2018 respectively.

Such growth rates are well below the targeted 5,0% which is required to achieve significant employment creation, as is outlined in both South Africa's National Development Plan (NDP) and the Provincial Growth and Development Plan (PGDP, 2014).

This signals a steeper trajectory ahead in terms of addressing poverty, unemployment, inequality and other pressing socio-economic challenges which are facing the Province.

The prevailing poor economic environment and sluggish growth rate places pressure on the portfolio, resulting in the following risks:

- Increased business failure, resulting in high vacancy levels;
- Increased rental defaults, resulting in high bad debt levels; and
- Pressure on rentals, resulting in reducing yields.

Ithala's management will continue monitoring the above-detailed risks and will devise and implement strategies to mitigate them.

PROSPECTS FOR 2017/18:

Our repositioning strategy will continue being implemented with the key focus, going forward, being centred on:

- Growing revenue by 10,0%;
- Maintaining operational expenditure at current levels;
- Reducing property vacancy levels to 16,0% by leasing an additional 52 000 square metres;
- Aggressively collecting arrears so as to reduce bad debts;
- Improving the value of the investment portfolio and optimising yield;
- Completing the refurbishment projects for retail and industrial properties; and
- Obtaining funding for the recapitalisation programme.

Looking ahead, the 2017/18 financial year holds the potential to further solidify the sound performance achieved to date, provided that economic conditions do not deteriorate further.

OUR PERFORMANCE (continued)

SUBSIDIARIES

ITHALA SOC LIMITED

The performance of Ithala SOC Limited during the period under review is reflected in the table below:

	Actual 31 March 2016	Actual 31 March 2017
Net loss	(R0,024 million)	(R46,3 million)
Capital adequacy ratio	17,73%	11,93%
Leverage ratio	9,85%	7,70%
Liquid assets ratio	11,00%	10,67%
JAWS ratio	Negative	Negative
Cost-to-income ratio	106,69%	111,60%
Impaired advances ratio	5,69%	6,26%
Return on assets and equity	Negative	Negative

NET LOSS GREATER THAN FORECAST DUE TO:

- Fee and insurance income not meeting targets due to delays in new product launches; and
- Write-off of once-off banking licence application costs intended to be capitalised.

KEY STRATEGIC PROGRAMMES FOR 2017/18

- Acquire a permanent banking licence and lay the foundation to become a State Bank;
- Implement the Public Sector Strategy and build capabilities to bank Municipalities and Public Entities;
- Roll-out electronic banking platforms, including deployment of self-service devices (SSDs) and ATMs;
- Implement the municipal electronic bill payment programme for eThekwini Municipality, as initial client; and
- Invest in technology and deploy the following enabling solutions:
  - Core banking centralisation system;
  - Insurance management system;
  - Corporate banking system; and
  - Customer relationship management system.

ASSOCIATE

NTINGWE TEA ESTATE

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

The prolonged drought, together with minimal access to fertiliser, negatively affected crop yields at Ntingwe Tea Estate during the review period, exacerbated by a reduction in seasonal workers from about 800 to some 550 people.

The KwaZulu-Natal Province is in the process of reviewing the positioning of Provincial Public Entities, including Ntingwe Tea Estate. The outcome of this exercise will indicate the future management and governance model of this entity.

ANNUAL PERFORMANCE REPORT 2016/17

STRATEGIC GOAL 1: FINANCIAL PERSPECTIVE				
Strategic Objective	**Key Performance Indicators**	**2016/17 Target**	**2016/17 Actual**	**Brief Comment on Variance on Preliminary Output**
Financial sustainability	Gross collections (cumulative)	R805,6 million	R889,8 million	Target achieved
	Non-performing loans percentage ceiling	25%	23%	Target achieved
	Net profit (cumulative)	R225,2 million	R227,8 million	Target achieved
Financial efficiency	Cost-to-income ratio ceiling	80%	65%	Target achieved
SMME capacity development	Number of jobs created (cumulative)	1 466	1 984	Target achieved
	Number of new businesses financed (cumulative)	186	266	Target achieved
	Total value of loans advanced (cumulative)	R122,0 million	R182,9 million	Target achieved
Business Support	Number of SMMEs and co-operatives provided with pre-finance and post-finance business support services (cumulative)	170	235	Target achieved
	Number of jobs facilitated (cumulative)	82	0	The majority of the funds allocated to SBGE were recalled by the Department (EDTEA). Therefore no activities could be performed by SBGE

STRATEGIC GOAL 2: CUSTOMER PERSPECTIVE				
Strategic Objective	**Key Performance Indicators**	**2016/17 Target**	**2016/17 Actual**	**Brief Comment on Variance on Preliminary Output**
Property development	Capital and maintenance expenditure (cumulative)	80,0% of budget (R211,9 million)	R141,0 million	Due mainly to delays in the procurement process for the refurbishment programmes managed by external consultants
B-BBEE spend	Percentage spent on B-BBEE-compliant service providers	90%	95%	Target achieved
Forge and sustain strategic partnerships	Sustain community partnerships	2	8	Target achieved
	Sustain business partnerships	2	4	Target achieved
	Sustain Government partnerships	2	8	Target achieved
Customer satisfaction	Business finance customer satisfaction index	60%	88%	Target achieved
	Properties customer satisfaction index	60%	68%	Target achieved
	Stakeholder satisfaction index	60%	Nil	This survey was not carried out for the 2016/17 financial year

OUR PERFORMANCE (continued)

STRATEGIC GOAL 3: INTERNAL BUSINESS PROCESSES				
Strategic Objective	Key Performance Indicators	2016/17 Target	2016/17 Actual	Brief Comment on Variance on Preliminary Output
Clean audit	Unqualified (clean) audit per Auditor-General's audit report	Achieve clean audit status for the 2015/16 financial year	Achieved	Target achieved
Product innovation	Value of new business from innovative development models (cumulative)	R30,0 million	R46,9 million	Target achieved

STRATEGIC GOAL 4: LEARNING AND GROWTH				
Strategic Objective	Key Performance Indicators	2016/17 Target	2016/17 Actual	Brief Comment on Variance on Preliminary Output
Improve human capital	Number of new interns, learners and graduates admitted (cumulative)	15	24	Target achieved
	Training and development spend as a percentage of total staff costs	3,10%	0,82%	The percentage of training spend over staff costs was lower than anticipated. There were training initiatives that were not initiated as planned
Improve information capital	Information technology operating expenditure as a percentage of total expenditure	>7,3%/ <9,09%	6,0%	Spend on IT operations is in line with budget, except for costs that are linked to capital projects. These projects did not occur as budgeted for
	Information technology capital expenditure as a percentage of total capital expenditure	>10,3% <12,91%	8,0%	There was a delay in planned projects

ECONOMIC VALUE CREATION

Our value and wealth contribution for the 2016/17 financial year is depicted below:

VALUE ADDED STATEMENT For the year ended 31 March 2017	2017		2016	
	R'000	%	R'000	%
VALUE ADDED				
Net interest income	245 111	19	321 517	23
Non-interest income	1 031 405	81	1 049 392	77
Other expenditure	(592 295)	(45)	(674 219)	(49)
	684 221	55	696 690	51
VALUE ALLOCATED				
To employees:				
Staff costs	436 147	65	368 816	53
To government:	64 673	9	53 867	8
Skills development levies	2 984	0	2 977	0
Value added taxation	15 496	2	11 521	2
Rates and taxes paid to local authorities	39 506	6	32 865	5
South African normal taxation	6 687	1	6 504	1
To retention for expansion and growth:	183 401	26	274 007	39
Depreciation	31 117	5	35 626	5
Retained income for year	152 284	21	238 381	34
Total value allocated	684 221	100	696 690	100

HUMAN CAPITAL

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

The purpose of our human capital strategy is to ensure optimal human capital enhancement and value creation through:

- Facilitating the development of healthy, positive relationships between management, employees, labour and other relevant stakeholders through constructive engagement;
- Optimising technology and knowledge management information by addressing the growing need for decision-facilitating data at every level of management through real-time, quick-access systems and providing further value-adding eShared services to all employees;
- Building an enabling high-performance culture and meeting the needs of individuals by providing progressive career opportunities and growth;
- Accelerating transformation through entrenching a philosophy that embraces diversity in all its forms and contributing to the richness of our organisational heritage; and
- Providing learning and development initiatives which contribute materially to the creation of a culture of continuous learning.

STAFF PROFILE

The profile of our staff complement of 728 permanent employees (2015/16 was 778) is depicted below:

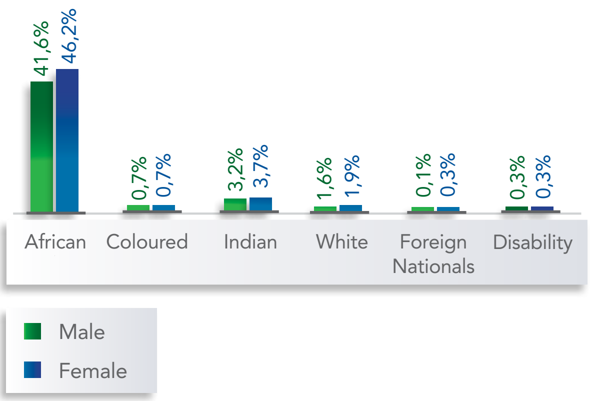
- 98,4% are historically disadvantaged individuals;
- 52,7% are female (an increase of 1,3% from the previous year's 51,4%);
- 32,0% are 35 years and younger (youth) and 9% are 55 years and older;
- 0,6% of our staff have disabilities;
- 100,0% of our staff are employed in KwaZulu-Natal; and
- Total staff turn-over for the year under review was 6,9%, although preventable turn-over (excludes deceased, normal retirement and medical boarding) was only 2,9% of the total turnover.

GROUP EMPLOYEE PROFILE AS AT 31 MARCH 2016/17

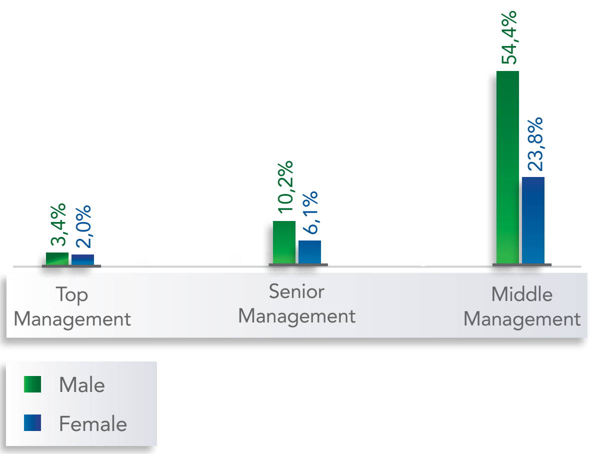
Occupational Levels	Male				Female				Foreign Nationals		
	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female	Total
Top management	4	0	0	1	2	0	1	0	0	0	8
Senior management	11	0	3	1	7	0	2	0	0	0	24
Professionally qualified and experienced specialists and middle-management professionals	54	2	16	8	24	0	6	5	1	1	117
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	98	3	4	2	159	5	17	8	0	1	297
Semi-skilled and discretionary decision-making	103	0	0	0	122	0	1	1	0	0	227
Unskilled and defined decision-making	33	0	0	0	22	0	0	0	0	0	55
TOTAL PERMANENT	303	5	23	12	336	5	27	14	1	2	728
%	41,6%	0,7%	3,2%	1,6%	46,2%	0,7%	3,7%	1,9%	0,1%	0,3%	100,0%

Our staff complement reflects the strides we have made in achieving 50% or greater female employee representation in the Group, which is currently 52,7%, representing a marked increase of 1,3% from the previous reporting period of 51,4%. Female representation at management level increased from 31,6% in the 2015/16 financial year to 32,2% by the end of the 2016/17 financial year, which is insignificant. However, with the continuous increase in females across the board and concerted efforts to develop employees internally for promotion, we will over the next three to five years achieve marked growth in the level of female representation at mangement level.

GROUP 2016/17 EMPLOYMENT EQUITY STATUS GENDER AND GROUP SPLIT



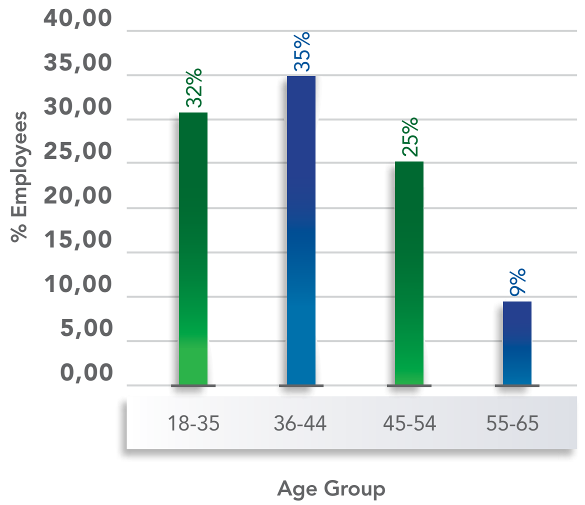
GROUP MANAGERIAL EMPLOYMENT EQUITY STATUS 2016/17 GENDER & GROUP SPLIT



People with disabilities currently represent only 0,6% of our workforce.

Low recruitment activities during the review period have had a negative impact on efforts to recruit more people with disabilities, again affecting our ability to improve our performance within this category.

GROUP EMPLOYEE AGE ANALYSIS 2016/17



We have, however, achieved a noteworthy youth employment profile, with 32% of our workforce being drawn from the youth category and only 9% being older people.

We believe that this profile demonstrates our commitment to contributing towards reducing youth unemployment in South Africa.

Importantly, we remain dedicated to creating and maintaining an environment which provides equal opportunities for all employees, with special consideration afforded to historically disadvantaged groups.

The formal company employment equity policy codifies this commitment and stipulates the promotion of equal opportunity, the elimination of unfair discrimination and the implementation of positive measures specifically designed to redress the disadvantages previously experienced by designated groups.

EMPLOYEE ENGAGEMENT

In our quest to ensure the achievement of fully engaged employees, we regularly connect with our members of staff in order to establish their priorities, needs and expectations.

These include, but are not limited to:
- Career and personal development opportunities;
- Effective performance management and recognition;
- Effective and efficient employee relations;
- Improved employee well-being; and
- A healthy and safe work environment.

HOW WE RESPONDED

- **Performance management and remuneration:**
  A keen focus on continuous performance improvement assists in facilitating business transformation, encourages staff to focus on business and personal objectives, deliver and sustain outstanding performance, whilst consistently behaving in accordance with our core values.

HUMAN CAPITAL (continued)

- **Effective Employee Relations**
  Our approach to employee relations ensures that we recognise our staff members' rights to fair and equitable employment practices and freedom of association.

  The South African Municipal Workers Union (SAMWU) is the recognised collective bargaining agent at Ithala, with a combined representation of 30,8% of all employees. The bargaining unit, however, comprises only those members of staff in the Patterson Grades A to C.

  Pleasingly, we did not experience any serious industrial action during the year under review.

  However, two dismissals occurred during the 2016/17 financial year, one for dishonesty and fraudulent activity and the second for absenteeism by a fixed-term contractor.

- **Employee Wellness**
  Our employee well-being programme (EWP) affords our members of staff professional support and resources in both their professional and personal lives.

  Our wellness strategy is designed to foster a culture of healthy living, based on the premise that healthy staff tend to be happier and more productive.

  Our wellness days, staged on a quarterly basis, focus on an array of health issues, from disability to disease management.

  During the 2016/17 financial year we also embarked on rolling-out executive wellness assessments through one of our medical aid providers.

CHANGE MANAGEMENT

Using a structured methodology in delivering and facilitating change has greatly assisted us in assessing the corporation's change maturity and to understanding whether we are making progress in terms of looking after the interests of our people in times of change, as well as the level of leadership involvement and ownership during such times.

Change management played a key role in the execution of the following big projects:

- Our change management capacity-building programme for senior leadership and middle management;
- Our 'Big Move,' encompassing head office relocation from Umlazi to Durban's Point Waterfront; and
- Our business processes automation programme, which comprises various phases of process automation across the organisation.

Going forward, our change capability programme will see us commencing with and the implementation of the following:

- A supervisory and employee change coaching programme;
- Employee engagement; and
- An ethics, values and culture programme.

LEARNING AND DEVELOPMENT

A total of R2,5 million was spent on training interventions during the course of the 2016/17 financial year. Such interventions focused on improving the knowledge and technical skills of our staff in the furtherance of our commitment to nurturing and developing employee talent. We approved 41 study loans (2015/16: 26) for the benefit of staff. The breakdown of our investment in this respect is depicted in the following table:

Study loans to staff	R503 170-00
Other training (Ithala-funded)	R1 695 871-70
External bursary scheme	R260 927-11
Total	**R2 459 968-81**

In view of budgetary constraints, we reduced the number of bursaries awarded to young students from 11 in the 2015/16 financial year to six during the review period. However, our focus for 2016/17 was on the engineering sciences, with four of the allocated bursaries being for engineering, one for actuarial science and one for accounting. Five of the bursary recipients are based at universities in KwaZulu-Natal, with one studying at the University of the Witwatersrand.

LEARNERSHIPS

During the period under review, we continued utilising learnerships as a solution to addressing scarce skills, in accordance with our workplace skills plan. Working in conjunction with external service providers, we have designed programmes to allow participating employees and unemployed graduates to achieve South African Qualifications Authority-accredited qualifications. In 2015, two learnerships were introduced, being internal audit learnerships from the Institute of Internal Auditors, in terms of which six graduates from the Mangosuthu University of Technology were placed within our internal audit department for a three-year period.

We also continued our tripartite partnership with the Institute of Certified Bookkeepers and South African-German Training Services. This learnership provides for 20 personal assistants and administrators drawn from across both Ithala Group and Ithala SOC Limited. The learners will complete a NQF Level 6 qualification with international recognition. The programme commenced in January 2016 and ends in April 2018.

An approval was also received from the Bank Seta for bank-related learnerships.

INTERNSHIPS

During the 2016/17 financial year, Ithala accepted 24 interns to gain work experience with Ithala. Four interns from our previous and current years' intake were awarded permanent positions within the Corporation, two secured positions with other organisations and one, from our previous year's intake, successfully launched a business.

WORK-INTEGRATED LEARNING

Ithala's contribution towards the need to increase the supply of artisans was the placement of two young electrical engineering graduates at our Isithebe Industrial Estate on a 12-month programme. This is in line with the Government's focus on the continuous development of artisans.

In an effort to align ourselves with the Ministry of Higher Education and Training's national agenda of "converting every workspace into a training space," Ithala has signed Memoranda of Understanding with Technical Vocational Education and Training Colleges and Universities of Technologies across KwaZulu-Natal in a bid to ensure that opportunities are created for students to enter our organisation and enjoy work-integrated learning for 12 to 18 months ahead of their graduation. During the 2016/17 financial year we hosted 24 such students, who were placed in various of our business units. The following table summarises beneficiary numbers impacted by each intervention:

Type of Placement	Number of Incumbents	Permanent or Fixed-Term Contract Placement Opportunities
Artisan programme	2	0
Internship programme	22	*6

* Number of interns who have since received permanent employment or fixed-term contracts within Ithala or with other external employers.

LEADERSHIP DEVELOPMENT

The 2016/17 financial year saw a number of internal middle management employees enrol for two University of KwaZulu-Natal leadership programmes.

Eight registered for a management development programme, whilst a further seven signed-up for an emerging managers programme.

They completed these programmes in December 2016, achieving a 100% pass rate.

The period also saw one of our executives enrol for an executive development programme with the University of Stellenbosch Business School. This will be run during the 2017 calendar year.

SOCIO-ECONOMIC TRANSFORMATION

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

The socio-economic programmes are not, however, limited to these aspects, but also incorporate contributions made by the business finance (see page 27) and human capital departments (see page 34).

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

Being a public entity, Ithala is subject to the requirements of the Public Finance Management Act (PFMA) and the principles behind Broad-Based Black Economic Empowerment (B-BBEE).

Integral to Ithala's mission is the requirement to incorporate historically disadvantaged and marginalised Black people into the economy.

In setting out to achieve this objective, we undertake activities which contribute to B-BBEE, inclusive of corporate social investment, poverty alleviation undertakings, bursary schemes, sponsorships, skills development, employment equity, the application of preferential procurement, female empowerment workshops and the approval of loans to qualifying Black-owned co-operatives and small, medium and micro business enterprises.

In terms of the PFMA, which promotes good financial management in order to maximise service delivery through the effective and efficient use of limited resources, and in line with Section 217 of the Constitution, an appropriate procurement and provisioning system must be maintained, which aims to be fair, equitable, transparent, competitive and cost-effective.

Ithala is a level 2 B-BBEE contributor and is classified as a value-adding supplier, a benefit which accrues to all those who utilise the Corporation as a supplier.

Our 2016/17 procurement spend amounted to R550,0 million, against R547,0 million in 2015/16, whilst our weighted procurement spend from B-BBEE suppliers in 2016/2017 totalled R520,0 million compared against R492,0 million in 2015/16.

The following table reflects an analysis of the 2016/17 procurement spend:

Levels	Procurement Spend (R)	B-BBEE Spend (R)	% B-BBEE Spend
1	81 387 606-22	109 563 095-82	134,62
2	230 867 228-11	289 872 596-86	125,56
3	87 222 143-99	96 659 882-25	110,82
4	20 563 665-66	20 732 179-69	100,82
5	1 474 828-83	1 193 735-70	80,94
6	1 419 699-36	855 614-01	60,27
7	2 480 831-86	1 251 589-85	50,45
8	2 360 103-70	236 748-91	10,03
20	122 336 469-72	-	-
	550 112 577	520 365 443	94,59

In order to ensure alignment with Government's mandate to catalyse radical economic transformation, Ithala has committed itself to enforcing fundamental change by implementing preferential procurement in favour of African exempted micro enterprises (EMEs) and qualifying small business enterprises (QSEs), females, the youth, the disabled and military veterans, wherever practicable.

Our 2017/18 procurement spend will, accordingly, be aligned to favour such groups.

COMMUNITY INVOLVEMENT

As a provincial development agency, Ithala's formal corporate social investment (CSI) programme is designed to be developmental in nature.

It is geared to support specific initiatives within the identified broad categories of financial literacy, entrepreneurship and skills development.

This enables us to invest in development and empowerment projects in support of our development mandate.

In order to create a sustainable environment, it is critical to the organisation's overall strategy that interaction with business, Government and the broad community is achieved.

Ithala was closely involved in social upliftment long before the recognition of the value-add of CSI and for many years ran initiatives aimed at enterprise development and mentorship with a keen focus on the youth and women.

Our 2016/17 CSI programme witnessed involvement in a number of initiatives.

We engaged in a series of Province-wide interactive information and business development workshops, which specifically targeted emerging and aspiring entrepreneurs and which were tailored to educate and inspire SMME owners by sharing ways in which to build and expand sustainable businesses.

This CSI intervention touched 910 entrepreneurs in the 10 municipal regions of KwaZulu-Natal between September 2016 and March 2017.

We also partnered with the Teach a Man to Fish Foundation, the Department of Education and the Saville Foundation, facilitating the School Enterprise Challenge, a learner-led, business start-up competition for schools.

The objective behind the initiative was to enable learners to develop essential business and entrepreneurial skills in a practical, entertaining and innovative manner.

It also enables schools to generate an income, to be invested in the development of their respective schools or in a social cause of their choice. Some 200 schools have participated in this initiative since its inception in 2014, resulting in 10 winners to date.

Ithala also continued with its popular Province-wide Women in SMMEs Development Programme, concentrating attention on, especially, rural areas and townships within KwaZulu-Natal.

This progamme, known as 'Imbokodo Iyazenzela Women in SMMEs' sets out to deliver inspirational talks, advice, direction and opportunities for the benefit of women in business or who aspire to establish business enterprises.

The 2016/17 programme was aligned to the following key priority areas:
- Rural development;
- Township revival; and
- Youth and women empowerment.

Since the programme's inception in 2014, we have reached more than 3 500 women throughout KwaZulu-Natal.

We have successfully attracted strategic partners, inclusive of the South African Revenue Service, the Department of Economic Development, Tourism and Environmental Affairs, KwaZulu-Natal Treasury, the Inkomba Verification Agency, Small Enterprise Development Agency and the Business Women Association of South Africa, to mention but a few.

Teach Children to Save South Africa™ is a national and annual savings campaign championed by the Banking Association of South Africa and the broader financial sector, whose purpose is to educate children to save so as to foster a culture of saving in this country.

The programme highlights the important role that volunteer bankers and financial sector professionals are able to play in educating our nation's youth to become life-long savers. More than 5 000 learners have participated in the programme since its inception in 2014.

As a development agency, Ithala has been involved in the establishment of many initiatives aimed at promoting entrepreneurship and the provision of skills for the benefit of young people.

One of our most recent and ground-breaking projects is the Inkunzi' Isematholeni Youth in Business Competition, whose intention it is to drive innovative business thinking and to change the attitude of the youth, encouraging young people to consider self-employment as a viable career option, instead of seeking the all too few opportunities for employment.

The key focus of the competition is to promote innovation, specifically within the green economy.

Themed 'Think Innovation, Think Green,' the competition has attracted more than 500 entrants and has already unearthed four highly deserving winners whose businesses are currently being incubated.

GROUP INFORMATION TECHNOLOGY

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

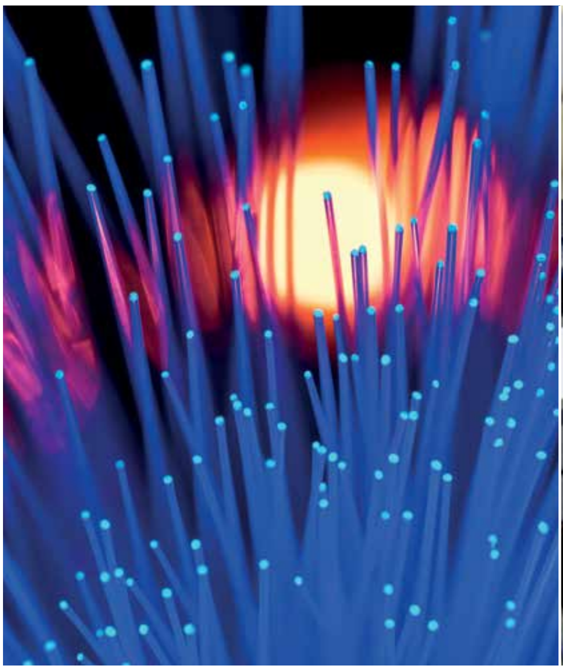
The 2016/17 financial year saw the completion of a number of projects attesting to the successful achievements of set goals.

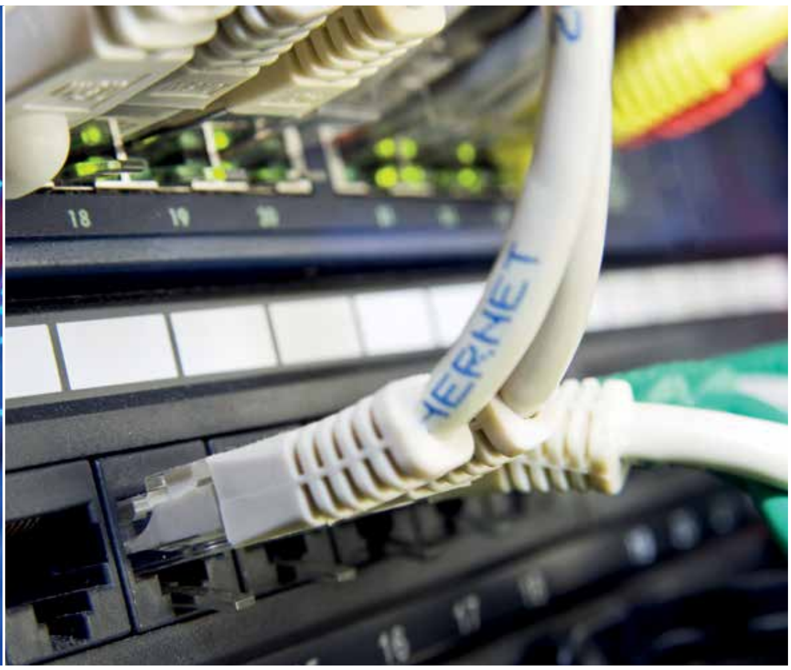
IT achievements in 2016/17 include the following:

- Systems uptime exceeded target (achieved 98,0% against a target of 97,0% in quarter 4);
- Exceeded IT customer satisfaction target (achieved 98,89% against a target of 92,0% in quarter 4);
- Achievement of 97% delivery of projects against a target of 90%. A number of projects and/or sub-projects were implemented during the financial year under review, most notably:
  - o Going-live with the audit command language (ACL) and business intelligence (QlikView) systems;
  - o Completion of the human resources management system;
  - o Completion of the data centre refresh programme;
  - o Continuation of enterprise content management implementation;
  - o Implementation of the business continuation facility;
  - o JDE optimisation, with a focus on properties and finance capabilities;
  - o Finalisation of the unified communications roll-out for Ithala SOC Limited; and
  - o Implementation of the email archiving solution.

Priority activities identified for action in the 2017/18 financial year include:

- Implementation strategies to improve the uptake of newly implemented systems;
- Finalisation of enterprise content management implementation;
- The implementation of the commercial lending system;
- The implementation of the data centre facility; and
- Enhancements (continuous improvements) to various systems.





HEALTH, SAFETY AND ENVIRONMENT

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

HEALTH, SAFETY AND THE ENVIRONMENT ARE AREAS OF GREAT CONCERN TO US AND ARE AFFORDED THE PRIORITY THEY DESERVE. WE, ACCORDINGLY, UNDERTAKE A NUMBER OF ACTIVITIES TO ENSURE A SUSTAINABLE BUSINESS IS MAINTAINED AT ALL TIMES, WHILST SIMULTANEOUSLY ACHIEVING AN OPTIMAL HEALTH, SAFETY AND ENVIRONMENT STRATEGY. SUCH ACTIVITIES, AMONGST OTHERS, INCLUDE THE PROMOTION OF HEALTH, SAFETY AND ENVIRONMENT AWARENESS, ENSURING THE ASSURANCE OF COMPLIANCE AND THE RAISING OF CONFIDENCE AMONGST EMPLOYEES AND OTHER STAKEHOLDERS.

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

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

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

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

HEALTH

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

SAFETY

There were no reportable incidents during the period under review.

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

ENVIRONMENT

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

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

In addition, health, safety and environment sessions are held Corporation-wide to assist with health, safety and environment requirements for business clients and to ensure our organisation's responsible lending to clients and that clients are compliant.

INCIDENTS

The number of lost time injuries suffered in 2016/17 decreased to zero, against five in 2015/16.

GOVERNANCE

Ithala fully embraces the principles behind good governance, recognising that this forms the cornerstone upon which the corporation is built and which provides value for all its stakeholders.

KING CODES

Ithala's board remains wholly-committed to maintaining the highest standards of corporate governance, the promotion of ethical behaviour and the application of zero tolerance for any form of fraud, theft or corruption.

Ithala complies with the principles contained in the King Report on Corporate Governance (King Report) in all material respects, with the exception of areas which are not permissible by the legislative framework, being - in this instance - the KwaZulu-Natal Ithala Development Finance Corporation Act No.5 of 2013.

In terms of the Act, the group chief executive remains the only member of the management team who is an ex-officio member of the board. The balance between non-executive and executive directors is, therefore, not at the level recommended by the King Codes.

BOARD APPOINTMENTS AND RESIGNATIONS

Ithala's board is appointed by the Executive Council of the Province of KwaZulu-Natal. In terms of the KwaZulu-Natal Ithala Development Finance Corporation Act, the board comprises at least seven, but no more than 13 members.

During the period under review, the board continued operating at the minimum level of seven directors. Existing skills gaps which need to be addressed have been communicated to the office of the Member of the Executive Council (MEC) responsible for Ithala. At the last annual general meeting of Ithala, new board members were appointed with effect 01 June 2017. Rev NNA Matyumza, originally appointed to the board in 2011, resigned with effect from 31 December 2016. In addition and given that the term of office of Ms M Mosidi, who was co-opted to the enterprise risk committee as an IT specialist, expired on 31 December 2015 and was not renewed, Ms R Ramdew replaced her as an IT specialist on the enterprise risk committee for a three-year period, effective 1 April 2016. The board also co-opted Ms Ramdew to the board on 24 June 2016 on the same terms as those of the co-option to the enterprise risk committee and was effected so as to create continuity with regard to IT discussions from the committee to the board.

BOARD EFFECTIVENESS

During the 2015/16 financial year the board engaged an independent service provider to evaluate its performance, the results of which indicated that the board was functioning efficiently. During the year under review the performance evaluation focus was on board committees and chairpersons.

ITHALA BOARD OF DIRECTORS

During the 2016/17 financial year, the board of directors monitored the implementation of the repositioning strategy and effective management of associated risks. It further reviewed and approved both a communication policy and a sponsorship policy. The board was, however, of the view that such policies should fall under the umbrella of the Corporation's stakeholder management framework.

The performance of subsidiaries and associated companies, inclusive of Ithala SOC Limited, KwaZulu-Natal Property Development Holdings SOC Limited, Ubuciko Twines & Fabrics (Pty) Limited and Ntingwe Tea (Pty) Limited, were reviewed and remain key areas of focus for the board given the risk associated with the non-performance of such entities to overall group performance. The leasing of the Ubuciko Twines & Fabrics (Pty) Limited equipment to a third party, subject to maintaining operations within KwaZulu-Natal and employing staff from the Province, with preference given to the company's previous employees, was finalised during the review period.

BOARD AND BOARD COMMITTEE MEETING ATTENDANCE 2016/17

BOARD AND COMMITTEES' MEETING ATTENDANCE 2016/17									
Date of first appointment		Board of Directors		Audit Committee		Enterprise Risk Committee		Human Resources & Remuneration Committee	
		Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended
Dr MSV Gantsho	01/06/2011	5	5						
Mr DM McLean	15/09/2009	5	5	6	6	4	4		
Rev NNA Matyumza [1]	01/06/2011	5	4	6	5	4	3		
Ms R Ramdew [2]	01/04/2016	5	4			4	4		
Ms BC Bam	15/09/2009	5	4					9	9
Mr GNJ White	01/12/2015	5	5	6	1	4	3	9	9
Ms NN Afolayan [3]	21/04/2008	5	5	6	6	4	1	9	9

BOARD AND COMMITTEES' MEETING ATTENDANCE 2016/17							
Date of first appointment		Credit & Investment Committee		Nominations, Governance, Social & Ethics Committee		Banking Licence Committee	
		Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended
Dr MSV Gantsho	01/06/2011			4	4	3	3
Mr DM McLean	15/09/2009			4	4	3	3
Rev NNA Matyumza [1]	01/06/2011						
Ms R Ramdew [2]	01/04/2016						
Ms BC Bam	15/09/2009	9	9	4	3		
Mr GNJ White	01/12/2015	9	9			3	3
Ms NN Afolayan [3]	21/04/2008	9	9				

[1] As of 31 December 2016, Rev NNA Matyumza resigned from board and, therefore, all her board committee memberships.

[2] Ms R Ramdew was appointed as a co-opted member of the enterprise risk committee, as of 1 April 2016, for a period of three years and, later, co-opted as a member of the board of directors on the same terms as those of her co-option to the enterprise risk committee.

[3] Ms NN Afolayan was due to retire on 20 April 2017 as a director and all her board committee memberships, having served the board for the maximum period of nine years. Her term was, however, extended by the Shareholder to the end of May 2017 so as to avoid the board composition falling below the minimum number of directors prescribed by the KwaZulu-Natal Ithala Development Finance Corporation Act.

GOVERNANCE (continued)

* **Non-executive directors:** Non-executive directors are appointed for a term of no more than three years and may be re-appointed for a further two terms, subject to a non-executive director serving no more than nine years on the board. Upon the resignation of Rev NNA Matyumza, formerly chairperson of the audit committee, the following changes took effect from 1 January 2017:

- **Audit committee** - Mr DM McLean was appointed chairperson, whilst Ms NN Afolayan (until her retirement from the board as already detailed) and Mr GNJ White remains/was appointed as members of the committee. Due to the appointment of Mr White being effective from 1 January 2017, he only attended one meeting during the year under review;
- **Credit and investment committee** - Mr GNJ White was appointed chairperson, whilst Ms B Bam and Ms NN Afolayan (until her retirement from the board as already detailed) were appointed/remain as members of the committee; and
- **Enterprise risk committee** - Ms NN Afolayan was appointed chairperson (until the expiry of her term), whilst Ms R Ramdew, Mr GNJ White and Mr DM McLean were appointed/remain as members of the committee. Due to the appointment of Ms NN Afolayan being effective from 1 January 2017, she only attended one meeting during the financial year.

CREDIT AND INVESTMENT COMMITTEE

The credit and investment committee focused its attention on the performance of the loan book and, particularly, the strengthening of our credit assessment process ahead of funding so as to ensure the maintenance of Ithala's financial sustainability, in line with our repositioning strategy.

The committee also continued giving close consideration to post-investment initiatives, thus ensuring that businesses in distress and those with a probability of success were afforded assistance via the restructuring of loan terms or referral to turn-around or other business support specialists.

In addition, the independence of credit risk was also addressed by separating the credit approval process from origination.

During the period under review, the credit and investment committee reviewed and made recommendations regarding the following policies, for approval by the board:

- Enterprise Development Fund; and
- Ithala Fund.

ENTERPRISE RISK COMMITTEE (ERC)

The issue of health, safety and environment remains a top priority for Ithala, with the committee focusing on occupational health, safety and environmental risk during the year under review.

The rehabilitation of and remedial work at sites also continued receiving the priority attention of the committee in order to ensure that Ithala complies with the requirements of the Occupational Health and Safety Act, No. 85 of 1993.

The remediation of the Lanxess Isithebe production site was completed and handed back to Ithala at the end of April 2016. Lanxess excavated and removed contaminated soil and rubble from the factory site to the hazardous landfill site. Thereafter, soil samples were taken and analysed to determine if any contamination remained and the conclusion was that no significant residual contamination remained on site. The clean-up of the production site at Thukela Refractories Isithebe was completed and the tenant vacated the premises. However, Thukela Refractories Isithebe and Ithala await the final clearance certificate from the National Nuclear Regulator.

Effective health and safety within the workplace both ensures that members of staff are happy and productive, and assists in reducing human and business costs, as well as unnecessary lawsuits. Having made health and safety a priority, some 86 members of staff underwent baseline and periodic medical surveillance at our Isithebe, Ezakheni and Madadeni Industrial Estates during April 2016. An occupational health specialist examined the employees' medical files and provided recommendations as and where necessary.

The 2016/17 financial year saw significant progress being made against the detailed deliverables in spite of the prevailing economic conditions.

During the year under review, the committee also reviewed and recommended the following for approval by the board:

- Risk Management Plan; and
- Compliance Plan.

ENTERPRISE RISK MANAGEMENT

The effective management of risks and opportunities is a critical component of Ithala's strategy of expanding access to development finance and effectively integrating and implementing development solutions for, primarily, the historically disadvantaged in KwaZulu-Natal.

Accordingly, risk management plays a crucial role in ensuring that Ithala delivers on its mandate, while remaining financially sustainable. The board is ultimately accountable for the effective management of risks and has mandated the enterprise risk committee to assist it in executing its responsibilities, with specific respect to risk management. The committee's approach to managing risk exposures has been developed and involves the embedding of frameworks, policies, methodologies, processes and systems for the successful management of all risk exposures inherent in Ithala' s strategies, operations and business processes.

The key components of our enterprise risk management framework include risk governance, assurance, control and oversight.

An enterprise risk management assessment was conducted during the year under review by an external service provider. In normal practice only the executives and enterprise risk committee members would be interviewed. However, during the assessment, the committee requested that interviews be extended to encompass the entire board, leading to seven executives and five non-executive directors being interviewed.

A report was finalised and issued on 31 March 2017. The enterprise risk committee noted the report and requested a plan on how the entity intended to move to a risk-managed level.

Risk is managed on two levels, namely strategic and operational.

The former includes the management of strategic risks, processes and systems, regulatory compliance, legal risk and business continuity, whereas the latter includes the impact of operational risk issues on Ithala's day-to-day operations. Risk and compliance training initiatives were undertaken during the review period.

Ithala's management has committed itself to seeing that the risk management process remains robust, thus ensuring that the Corporation's assets are protected and, where necessary, risk is mitigated through adequate insurance.

A workshop for the re-assessment of risks was held in February 2017, during which the risk register was revisited, revised and mapped to align with Ithala's strategy.

Controls are in place for identified risks and where additional controls are required, management has developed detailed risk mitigation plans to address residual risk exposure. All risks are reviewed on a monthly basis and the status of the mitigation plans are considered, together with the outcomes of the scheduled reviews conducted by group risk and compliance, and then reported to the executive committee. Quarterly update reports are submitted to the enterprise risk committee, ensuring that management is able to execute its risk management responsibility in terms of the PFMA and King Codes.

INTERNAL CONTROL

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

The board is ultimately responsible for governance, risk management and internal control. Management is accountable to the board for designing, implementing and monitoring the effectiveness of internal financial controls, the general control environment and compliance.
Ithala's internal audit function is responsible for providing independent, objective assurance about the adequacy and effectiveness of our systems of governance, risk management and internal controls to the board and executive management and, in so doing, assists in enhancing the controls culture within the Corporation. Furthermore, consultative and forensic investigation services are provided by our internal audit function.

The independence and objectivity of internal audit is underpinned by functional reporting to the audit committee and, administratively, to the group chief executive.

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

We apply the 'three lines of defence' approach as part of our combined assurance model.

This model allocates responsibility for risk and control activities according to the three lines of defence principle, with management as the first line of defence, the control functions (other than internal audit) as the second line of defence and internal audit and other external assurance providers as the third line of defence.

Management is deemed to own the controls, whereas the other lines of defence are to assist in ensuring their application and viability. Internal audit - the third line of defence - provides independent and objective assurance to management and the board about the adequacy and effectiveness of the control environment.

Internal audit co-ordinates and liaises with all assurance providers in order to enhance efficiencies in terms of combined assurance and then reports to both the audit committee and the enterprise risk committee.

IT GOVERNANCE

In keeping with the King Codes guidelines, the board assumes responsibility for Information Technology (IT) governance, delegating the oversight role of IT risk and governance to the enterprise risk committee by way of:

- Delegated powers of authority, as set out in the approved terms of reference of the enterprise risk committee, which terms specifically include responsibilities for information communication and technology governance;
- The appointment of a co-opted IT specialist member, who is included in the composition of the enterprise risk committee, fulfilling the primary purpose of ensuring the effectiveness of and providing assurance for the IT function;
- Ensuring that the group chief executive has appointed a suitably qualified and experienced group chief information officer, responsible for the management of IT; and

GOVERNANCE (continued)

- Ensuring that IT governance is integrated into Ithala's operations and governance practices and frameworks, which are reviewed as part of the annual internal audit plan.

The enterprise risk committee reports on a quarterly basis to the board with regard to its oversight responsibilities, including that of IT governance. In terms of IT governance, significant deliberations of the committee centred around IT strategy, disaster recovery planning and testing, together with business continuity. In addition, the enterprise content management project, focusing on the digitisation of paper documents and forms is still underway.

During the review period, the JDE optimisation project was tested and the User Acceptance Testing report completed.

AUDIT COMMITTEE

During 2016/17, the audit committee focused on the group's financial performance, together with its performance against the Annual Performance Plan, as agreed with the Department of Economic Development, Tourism and Environmental Affairs and the Provincial Treasury in March 2016.

A key area of attention addressed by the audit committee was that of internal and external audit findings, to which management continuously attends. Such issues are closely monitored by internal audit and reported to the audit committee. Non-adherence to supply chain management processes and which result in instances of irregular expenditure, remain a key focal point for the audit committee.

During the course of the 2016/17 financial year, the audit committee reviewed and made recommendations for board approval regarding the following:
- A revised supply chain management/procurement policy; and
- The corporate plan 2017/18.

NOMINATIONS, GOVERNANCE, SOCIAL AND ETHICS COMMITTEE

The committee used a skills matrix to review the range and relevance of the directors' skills and interests regarding the business of the Corporation, so as to determine whether the mix enables them to bring independent judgement to board deliberations and decisions. This assignment confirmed the results of a similar exercise undertaken two years ago which identified that the board was lacking in IT, legal and property development (particularly in agricultural and tourism) expertise. This was the reason why Ms Ramdew, an IT Specialist initially co-opted to the enterprise risk committee, was also later co-opted to Ithala's board.

With regard to employment equity, the committee expressed dissatisfaction with the placing of coloured persons, disabled persons and white women within all levels of employment and requested that a plan be developed to address this concern for presentation to the committee every six months.

The committee continued monitoring fraud, ethics and corruption trends within the Corporation. Management was directed to develop fraud and ethics awareness programmes, inclusive of educating employees on the purpose and importance of adhering to internal controls.

Additionally, a new hotline for reporting fraud, in terms of which the successful identification of a transgression could result in a reward for the informant, was launched during the year under review. The committee also approved a fraud, corruption prevention and ethics strategy.

It continued monitoring the implementation of marketing and corporate social investment plans. The corporate social investment plan concentrated on three areas of operation, being employment creation, skills development, with particular emphasis on financial wellness, and entrepreneurship, with special emphasis on the youth. The ultimate goal is to align the Corporation's corporate social investment programmes with its business investment activities.

The committee chairman continued engaging the shareholder, who, in terms of the KwaZulu-Natal Ithala Development Finance Corporation Act, is responsible for the appointment of board members and the filling of vacancies.

The committee also recommended a revised training plan, which was based on the directors' development needs for the approval of the board. The board approved the plan and lifted the embargo on training, which had been put in place during the previous financial year.

ANTI-FRAUD AND CORRUPTION

Ithala strictly applies a zero tolerance policy with regard to any incidents of fraud and unethical behaviour.

Accordingly, the corporation places great store in efforts made to prevent, detect and combat fraud and unethical behaviour. The anti-fraud and ethics committee, operating under the guidance of the nominations, governance, social and ethics committee, is responsible for overseeing the group's anti-fraud and ethics framework.

This covers our code of ethics and business conduct, the declaration of interest framework, internal controls, physical and information security management, risk management and internal audit.

The anti-fraud and ethics committee is an executive oversight structure, chaired by the group chief risk officer and is responsible for dealing with any and all incidents of fraud and unethical behaviour within the Corporation.

In carrying out its responsibilities, it engages with various assurance units and relevant divisions within the Corporation, inclusive of the forensic investigation unit, which itself works in collaboration with law enforcement agencies.

The committee monitored the implementation of a fraud and ethics awareness plan, being a collaboration between the compliance and risk and marketing and communications divisions.

The plan has been based on findings and recommendations emanating from an ethics risk survey, which was conducted during the course of the previous financial year.

We encourage both members of staff and external stakeholders to make use of our anonymous fraud reporting line, Tip-Offs Anonymous, which is provided by an independent, external service provider and administered by the group internal audit division, to report any incidents of impropriety .

BANKING LICENCE COMMITTEE

The banking licence committee continued its focus on the regularisation of Ithala SOC Limited's banking activities, with special emphasis on compliance with the Memorandum of Understanding to which Ithala is a signatory.

Whilst the committee continued deliberating and making recommendations with regard to the capitalisation requirements of the wholly-owned subsidiary, it recommended that there be implemented a parallel process for the sourcing of a technical partner.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

During the past financial year the committee provided extensive guidance and support in respect of an organisational cost rationalisation programme, which became an unavoidable move in the quest to contain operational costs and to safe-guard the future financial viability and sustainability of Ithala.

The first phase of this programme was implemented and finalised during the review period on a voluntary retirement incentive basis for qualifying employees aged 55 and older.

The committee reviewed Ithala's human resource management policies and procedures, which were significantly improved following a robust and detailed assessment exercise of the existing 47 separate policies, which were reorganised and consolidated into seven structured overall policies.

The policies and their procedures were approved and rolled-out to the organisation in January 2017.

The committee continued overseeing Ithala's employee wellness programmes and, in addition, gave consideration to a proposal for an executive health risk assessment programme, with the support of wellness partners. This is regarded as an important initiative in terms of preserving the wellness of Ithala's leadership.

The programme was approved with a budget allocation.

On the basis of achieved performance objectives, which are aligned to Ithala's strategic objectives, the committee recommended the payment of applicable retention incentives.

Furthermore and as part of Ithala's remuneration, retention and performance improvement strategies, the committee reviewed and recommended to the board a well-defined incentive bonus scheme policy, inclusive of organisational, departmental and individual performance criteria for implementation from 1 April 2017.

The committee undertook a self-evaluation assessment of its effectiveness, the results of which identified several minor matters for improvement. There were no changes to the composition of the committee during the period under review.

GROUP EXECUTIVE COMMITTEE

The group executive committee (EXCO) is led by the group chief executive with the objective of providing day-to-day leadership for the business activities of Ithala.

It assumes overall responsibility for developing and delivering against Ithala's corporate and business plans. It is the most critical of management's operational committees and its role is to assist the group chief executive in the execution of the executive function, as delegated by the board.

The committee comprises the group chief executive, as chairperson, all executives and the group company secretary. The head of internal audit and the chief executive officer of Ithala SOC Limited are standing invitees to meetings of EXCO.

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

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


ORDINARY
SOUTH
AFRICANS
WEALTH

JOURNEYING AHEAD, PAVING THE WAY

2016/17
ANNUAL FINANCIAL STATEMENTS

ANNUAL **FINANCIAL** STATEMENTS

CONTENTS

The Annual Financial Statements are audited by the Auditor-General, as an independent auditor, in terms of the Public Audit Act (Act No. 25 of 2004) and the Public Finance Management Act (Act No. 1 of 1999).

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

REPORT OF THE AUDIT COMMITTEE

Report of the Audit Committee of the Board of Directors 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]

We are pleased to present our report for the financial year ended 31 March 2017.

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 of Directors 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.

At 31 March 2017 the Audit Committee comprised:

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

For the detailed qualifications of the afore-mentioned Audit Committee members, please refer to pages 13 to 14 of the Integrated Annual Report.

The Group Chief Executive Officer, the Group Chief Financial Officer, Chief Risk Officer, Head of Internal Audit and representatives from the external audit attend 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 reflected in the table below:

Members	Dates of meetings					
	24 May 2016	20 June 2016	29 July 2016	21 Sep 2016	9 Nov 2016	2 Feb 2017
Rev NNA Matyumza	√	√	√	√	√	Resigned 31 Dec 2016
Mr DM McLean	√	√	√	√	√	√
Ms NN Afoloyan	√	√	√	√	√	√
Mr GNJ White	n/a	n/a	n/a	n/a	n/a	√

√ = Present n/a = member appointed 1 January 2017

STATUTORY DUTIES

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

- Understands that the appointment of the Auditor-General (South Africa) as an auditor complies with the relevant provisions of the Companies Act and Public Finance Management Act;
- Determined the fees to be paid to the Auditor-General (SA) as disclosed in Note 21.1 of the Annual Financial Statements;
- Determined the terms of engagement of the Auditor-General (SA);
- Reviewed the 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 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.

INTERNAL CONTROLS

The Audit Committee has:

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

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

REGULATORY COMPLIANCE

The Audit Committee has:

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

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

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

FINANCE FUNCTION

The Audit Committee:

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

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

COMBINED ASSURANCE MODEL

In compliance with the King Codes on Corporate Governance, the Audit Committee adopted a combined assurance model to provide a co-ordinated approach to all assurance activities and addressed significant risks facing the company.

Combined assurance is used to provide the Audit Committee with the comfort that significant risks, including strategic risks and the actions to mitigate the risks, have been subjected to assurance procedures.

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

Reporting on combined assurance principles continued during this financial year, providing the Audit Committee an overall assurance on the adequacy and effectiveness of controls on strategic risks for the organisation.

SUBSEQUENT EVENTS

Subsequent to the completion of this report, new members of Ithala's Board of Directors were appointed with effect from 1 June 2017. The new Board reconstituted the committees, creating, among others, the Audit and Risk Committee whose members are:

- Ms PN Sibiya (Chairman) - CA(SA);
- Ms KG Mbonambi - B.Comm Honours (Accounting), B. Accounting;
- Mr S Mkhize - CA(SA); and
- Mr SL Ndlovu - MBA, Professional Accountant (SAIPA), Advanced Diploma in Management Accounting (CIMA), National Diploma in Cost and Management Accounting (CMA), Doctorate in Business Administration DBA (PHD) third-year candidate at UKZN.

On behalf of the Audit and Risk Committee, I acknowledge the work done by the previous Audit Committee.

Sibiya

Ms PN Sibiya
Chairman: Audit and Risk Committee

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

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

The Directors acknowledge that they are required by the KwaZulu-Natal Ithala Development Finance Corporation Act No. 5 of 2013 and the Public Finance Management Act 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.

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 safe-guarded 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 believe that the Corporation and the Group will 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's Annual Financial Statements and the Group Annual Financial Statements. Their report is presented on pages 54 to 57.

The Annual Financial Statements which appear on pages 58 to 123 were approved by the Board of Directors on 28 August 2017 and are signed on its behalf by:

Mr R Morar
Chairman

Mr BTT Mathe
Acting Group Chief Executive

GROUP COMPANY SECRETARY'S CERTIFICATION

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

Ms LS Mahamba
Group Company Secretary

REPORT OF THE AUDITOR-GENERAL

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

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OPINION

1. I have audited the consolidated and separate financial statements of the Ithala Development Finance Corporation Limited (IDFC) and its subsidiaries (the group) set out on pages 60 to 126 , which comprise the consolidated and separate statement of financial position as at 31 March 2017, the consolidated and separate statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 March 2017, and their financial performance and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

BASIS FOR OPINION

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

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

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

EMPHASIS OF MATTERS

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

Significant uncertainties

7. As disclosed in note 25.2 to the consolidated and separate financial statements, the group was the defendant in various claims as at 31 March 2017. The ultimate outcome of these matters cannot currently be determined and therefore no provision for any liability has been made in the consolidated and separate financial statements.

Material losses

8. As disclosed in note 1.3 to the consolidated and separate financial statements, losses of R21,70 million (2016: R47,28 million) were reported by the group as a result of a write-off of previously impaired loans and advances. This included a write-off of capital amounting to R13,59 million (2016: R33,01 million) and a further R8,10 million (2016: R14,27 million) relating to non-realisable revenue.

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

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

10. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the group or cease operations, or there is no realistic alternative but to do so.

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

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

12. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to the auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

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

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

15. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the entity for the year ended 31 March 2017:

Objectives	Pages in the annual performance report
Financial Sustainability	31
SMME Development	31

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

17. I did not identify any material findings on the usefulness and reliability of the reported performance information for the financial sustainability and the SMME development objective.

OTHER MATTER

18. I draw attention to the matter below.

Achievement of planned targets

19. The annual performance report on pages 31 to 32 includes information on the achievement of planned targets for the year and explanations provided for the under- achievement of a significant number of targets.

REPORT ON AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

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

21. The material finding in respect of the compliance criteria for the applicable subject matter is as follows:

ANNUAL FINANCIAL STATEMENTS

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

OTHER INFORMATION

23. The accounting authority of Ithala Development Finance Corporation Limited and its subsidiaries are responsible for the other information. The other information comprises the information included in the annual report, which include the directors' report and the audit committee's report. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

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

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

REPORT OF THE AUDITOR-GENERAL (continued)

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

26. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation. However, my objective was not to express any form of assurance thereon. The matter reported below is limited to the significant internal control deficiency that resulted in the finding on compliance with legislation included in this report.

FINANCIAL MANAGEMENT

27. Management did not perform a proper review of the impairment calculations and the loans maturity analysis to ensure that they were correctly recorded on the consolidated and separate financial statements.

OTHER REPORTS

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

INVESTIGATIONS

29. The group's internal audit and risk assurance services conducted a number of investigations during the period 01 April 2016 to 31 March 2017. The investigations were initiated based on the allegations of irregularities arising from deviation from internal controls, the outcomes of which were communicated and are currently being attended to by management.

AUDIT-RELATED SERVICES

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

Auditor-General

Auditor-General
Pietermaritzburg
15 September 2017

AUDITOR-GENERAL SOUTH AFRICA
Auditing to build public confidence

ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

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

FINANCIAL STATEMENTS

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

- identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority.

- conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2017

The Directors have pleasure in presenting this report as part of the Annual Financial Statements (AFS) of Ithala Development Finance Corporation Limited (The Corporation) and the consolidated financial statements of the Corporation and its subsidiaries (referred to as The Group) for the financial year ended 31 March 2017.

A. LEGAL FORM AND DOMICILE

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

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

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

B. NATURE OF OPERATIONS

A general overview of The Corporation's business operations is included in the Group Chief Executive's Review on pages 8 and 9.

In addition to its core business activities, the Corporation from time to time makes equity investments in various subsidiaries and associated companies located in the KwaZulu-Natal Province in keeping with its legislated development mandate.

These are outlined in Notes 6 and 7 and Annexures 2 and 3 of the AFS.

C. FINANCIAL RESULTS

A financial overview of the Corporation's results is presented in the Group Chief Financial Officer's Review on pages 10 to 12.

The results of the Corporation and the Group for the year ended 31 March 2017 are disclosed in the Annual Financial Statements set out on pages 60 to 126.

For more details on the financial results of the Subsidiaries and Associated Companies, refer to the separate Annual Financial Statements of these companies and see Note 6 and 7 Annexure 2 and 3 of the Group Financial Statements for a summary of financial information between the Corporation and these companies.

D. POLICY DIRECTIVES

No policy directives were received from the MEC: Economic Development, Tourism and Environmental Affairs during the financial year ended 31 March 2017.

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

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

New members of Ithala's board of directors were also appointed subsequent to the 2016/17 financial year-end. Their term of office commenced on 1 June 2017 with an acknowledgement of the excellent performance achieved by the outgoing board of directors.

FAIR VALUE OF INVESTMENTS

The fair value of listed investment in SA Corporate Real Estate, as disclosed in Note 10 is R20,5 million at year-end (2016: R18 million) and was quoted at R20,9 million on 28 July 2017.

F. ORDINARY SHARE CAPITAL

The Share Capital of the Corporation has remained unchanged during the financial year under review. The authorised and issued share capital of the company is R1 billion (2016: R1 billion).

G. DIVIDENDS

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

H. INTERESTS IN CONTRACTS

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

I. SOURCES OF FUNDING

The Corporation did not raise any new long-term borrowings during the year under review (2016: R50 million) - refer to Annexure 1 of the AFS for more details on existing Borrowings.

During the year under review, the Corporation received Government grants of R66,009 million (2016: R148 million) from EDTEA for Small, Medium and Micro Enterprise (SMME) on-lending.

The Corporation received a grant of R5 million from the EDTEA during the year for the KZN Industrial Economic Hub.

The Corporation also received a grant of R28,2 million from the Department of Trade and Industry for the refurbishment of roofs in the Isithebe Industrial Estate.

J. GOING CONCERN BASIS OF ACCOUNTING

- **Corporation**
  The Corporation's business activities, together with the factors likely to affect its future development, performance and position as at 31 March 2017, have been assessed by the Directors. The financial position of the Corporation, its cash flows, liquidity position and

borrowing facilities are described in the relevant sections of the financial statements. In addition, Note 33 to the financial statements includes the company's policies, processes for managing its capital, details of its financial instruments and its exposures to credit and liquidity risk. As highlighted in Notes 8 and 33 to the financial statements, the Corporation meets its day-to-day working capital requirements from its own cash resources and has open unutilised lines of credit of R71,5 million from major financial banking institutions. The Group posted a profit of R166,8 million for the year ended 31 March 2017 (2016 restated: R239,0 million).

The Group is solvent, since its total assets exceeded its total liabilities by R3,9 billion (2016 restated: R3,7 billion) with a solvency ratio of 2,3:1 (2016 restated: 2,3:1). The Group is able to pay its debts as they become due and its liquidity is evident by its current assets exceeding its current liabilities by R1,7 billion (2016: R1,7 billion) with a liquidity ratio of 17,3% (2016: 9,9%).

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 for the ensuing 12 months.

  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. The Annual Financial Statements of Sibaya have been prepared on a liquidation basis. In December 2016, the MEC directed the Chairman of Ithala, the sole shareholder of KwaZulu-Natal Property Development Holdings SOC Limited (KPDH) to wind up KPDH as per its legal duty as the shareholder of the entity. Consequently, in February 2017, the Ithala Board of Directors, by written resolution, instructed the KPDH Board of Directors to cease carrying on business by the end of March 2017, except to the extent necessary to the wind up of the business. The shareholder further resolved that KPDH must be deregistered from the companies register held at the office of the Companies and Intellectual Property Commission (CIPC) in order to effect the winding up of the entity. Accordingly, KPDH is not considered a going concern at 31 March 2017.

  The shareholder further directed KPDH to hand over the two projects that the company was undertaking at the time of notice to wind up, as well as transferring all assets of the entity to the shareholder with the intention of continuing those operations in Ithala. Disclosure is, therefore, made in the financial statements of KPDH of the cessation of the entity, but continuation of its functions/services as part of the operations of Ithala. The legal entity KwaZulu-Natal Property Development Company (SOC) Ltd will be wound up completely.

  The adoption of the going concern basis to prepare the KPDH financial statements are, therefore, considered appropriate, based on the ongoing continuation of its activities in Ithala.

BANKING LICENCE EXEMPTION OF ITHALA SOC LIMITED

Ithala SOC Limited submitted its application for a Section 12 permanent banking licence in November 2016. An exemption licence of two years has been received, whilst the application for the full banking licence is finalised.

K. BOARD OF DIRECTORS

Information pertaining to Board Members and Committees is covered in the Corporate Governance Report, on pages 42 to 47.

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

CORPORATION

Rev NNA Matyumza - 31 December 2016 (Resigned).

ITHALA SOC LIMITED

There were no changes to the Board of Directors during the period under review:

KWAZULU NATAL PROPERTY DEVELOPMENT HOLDINGS SOC LIMITED

The following movements occurred regarding the Board of Directors during the period under review:
Ms CM Cronje - 17 October 2016 (Resigned); and
Prof BA Khumalo - 23 August 2016 (Resigned).

L. COMPANY SECRETARIAT

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

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

- There was no fruitless and wasteful expenditure incurred during the year, as disclosed in Note 30. Irregular expenditure incurred is disclosed in Note 32 of the AFS.
- In the ordinary course of business and in accordance with prevailing business rules, the Group wrote-off bad loans of R21,7 million (2016: R47,3 million), comprising a capital portion of R13,6 million (2016: R33 million) and non-realised revenue (NRR) of R8,1 million (2016: R14,3 million). All bad debts written-off were fully provided for.
- Despite the write-off of these bad debts, the Company continues to pursue these defaulters and no effort is spared in trying to recover monies owed to the Corporation. During the year under review a total of R8,4 million (2016: R20,1 million) was recovered from bad debts previously written-off.

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

	Note	Group			Corporation		
		2017	2016	2015	2017	2016	2015
		R'000	R'000	R'000	R'000	R'000	R'000
			Restated	Restated		Restated	Restated
ASSETS							
Non-current assets		4 651 674	4 593 079	4 518 095	3 578 072	3 462 498	3 325 638
Loans and advances	1.1	1 685 193	1 838 436	1 940 282	437 740	523 415	576 861
Properties in possession	1.4	8 703	8 731	8 878	-	389	1 212
Investment properties	2	2 530 762	2 350 601	2 289 947	2 319 595	2 156 099	2 108 433
Property, plant and equipment	3	302 579	271 640	173 661	268 739	228 701	128 131
Intangible assets	4	55 752	65 978	38 446	35 575	50 885	30 184
Straightlining of operating lease income	5	45 008	38 740	48 163	35 913	30 320	39 708
Subsidiaries	6.2	-	-	-	456 833	453 736	422 391
Goodwill	6.3	300	300	299	300	300	299
Joint ventures	7.3	2 796	-	-	2 796	-	-
Investments	10	20 550	18 047	18 308	20 550	18 047	18 308
Associated companies	7.1	31	606	111	31	606	111
Current assets		2 138 599	1 850 456	1 537 066	766 005	599 583	459 974
Loans and advances	1.1	395 244	238 500	224 915	243 822	160 716	133 758
Straightlining of operating lease expenditure	5	344	2 266	2 673	344	2 089	3 227
Cash and cash equivalents	8.1	1 447 705	1 362 369	1 037 328	419 305	344 505	217 889
Statutory liquid assets	8.2	177 769	129 882	152 493	-	-	-
Trade and other receivables	9	111 622	113 039	113 067	98 052	87 873	100 240
Inventory and contracts in progress	11	5 915	4 400	6 590	4 482	4 400	4 860
Total assets		6 790 273	6 443 535	6 055 161	4 344 077	4 062 081	3 785 612
EQUITY AND LIABILITIES							
Capital and reserves		3 870 525	3 718 241	3 479 860	3 862 546	3 644 449	3 400 010
Ordinary share capital	12	1 008 582	1 008 582	1 008 582	1 008 582	1 008 582	1 008 582
Retained income		2 861 943	2 709 659	2 471 278	2 853 964	2 635 867	2 391 428
Non-controlling interest	13	(166)	(262)	(881)	-	-	-
Total equity		3 870 359	3 717 979	3 478 979	3 862 546	3 644 449	3 400 010
Non-current liabilities		2 564 158	2 536 224	2 353 554	224 754	291 037	232 449
Borrowings	14	66 998	86 279	54 514	64 923	84 204	52 438
Deposits due to customers	15	2 285 509	2 193 805	2 072 977	-	-	-
Post-retirement medical obligation	16.1	95 973	87 477	80 646	62 247	57 234	53 153
Long service obligation	16.3	26 438	26 410	24 964	13 443	14 193	13 190
Government grants	17	65 147	127 638	102 139	65 147	127 638	102 139
Straightlining of operating lease expense	24.2	2 187	542	6 012	2 187	2 260	5 556
Deferred tax	26	1 150	1 403	986	-	-	-
Provision for landfill restoration	35	16 807	5 508	5 973	16 807	5 508	5 973
Cell captive insurance fund	36	3 949	7 162	5 343	-	-	-
Current liabilities		355 756	189 332	222 628	256 777	126 595	153 153
Borrowings	14	19 045	18 541	23 175	19 045	18 541	23 175
Post-retirement medical obligation	16.1	4 641	3 389	3 130	3 478	2 473	2 385
Long service obligation	16.3	3 799	2 040	1 647	2 036	924	1 049
Trade and other payables	18	327 515	163 102	194 676	232 143	104 582	126 544
Straightlining of operating lease income	24.2	756	2 260	-	75	75	-
Total liabilities		2 919 914	2 725 556	2 576 182	481 531	417 632	385 602
Total equity and liabilities		6 790 273	6 443 535	6 055 161	4 344 077	4 062 081	3 785 612

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

	Note	Group		Corporation	
		2017	2016	**2017**	2016
		R'000	R'000 Restated	**R'000**	R'000 Restated
Interest income	19.1	**353 925**	321 517	**95 616**	91 264
Interest expenditure	19.2	**108 814**	92 279	**9 699**	5 777
Net interest income before credit impairment charges		**245 111**	229 238	**85 917**	85 487
Credit impairment charges		**66 832**	29 400	**46 255**	38 611
Loans and advances	1.3	**50 914**	(11 997)	**33 663**	(712)
Properties in possession	1.4	**382**	(1 301)	**(438)**	(717)
Straightlining of operating lease income	5	**(1 039)**	894	**(661)**	609
Trade and other receivables	9	**16 575**	41 804	**13 691**	39 431
Net interest income after credit impairment charges		**178 279**	199 838	**39 662**	46 876
Other operating income	20	**1 031 405**	1 049 392	**847 295**	863 851
Operating income before operating expenditure		**1 209 684**	1 249 230	**886 957**	910 727
Operating expenditure	21	**1 050 263**	1 003 805	**668 254**	666 784
Operating expenses		**1 041 558**	1 000 828	**664 731**	658 055
Non-credit related impairments	21.4	**5 721**	-	**1 654**	6 836
Indirect taxation	22.1	**2 984**	2 977	**1 869**	1 893
Equity accounting loss		**(606)**	496	**(606)**	496
Operating profit before taxation		**158 815**	245 921	**218 097**	244 439
Taxation expense	22.2	**6 435**	6 921	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**152 380**	239 000	**218 097**	244 439
Attributable to:					
Equity holders of the parent		**152 284**	238 381	**218 097**	244 439
Non-controlling interest		**96**	619	**-**	-
		152 380	239 000	**218 097**	244 439

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

	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
2017					
Group					
Restated balance at 31 March 2016	**1 008 582**	**2 709 659**	**3 718 241**	**(262)**	**3 717 979**
Income attributable to the shareholder	**-**	**152 284**	**152 284**	**96**	**152 380**
Balance at 31 March 2017	**1 008 582**	**2 861 943**	**3 870 525**	**(166)**	**3 870 359**
Corporation					
Restated balance at 31 March 2016	**1 008 582**	**2 635 867**	**3 644 449**	**-**	**3 644 449**
Restated income attributable to the shareholder	**-**	**218 097**	**218 097**	**-**	**218 097**
Balance at 31 March 2017	**1 008 582**	**2 853 964**	**3 862 546**	**-**	**3 862 546**
2016					
Group					
Balance at 31 March 2015	1 008 582	2 471 278	3 479 860	(881)	3 478 979
Restated income attributable to the shareholder	-	238 381	238 381	619	239 000
Restated balance at 31 March 2016	1 008 582	2 709 659	3 718 241	(262)	3 717 979
Corporation					
Balance at 31 March 2015	1 008 582	2 391 428	3 400 010	-	3 400 010
Restated income attributable to the shareholder	-	244 439	244 439	-	244 439
Restated balance at 31 March 2016	1 008 582	2 635 867	3 644 449	-	3 644 449

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

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 MARCH 2017

	Note	Group 2017	Group 2016	Corporation 2017	Corporation 2016
		R'000	R'000 Restated	**R'000**	R'000 Restated
Cash flow from operating activities					
Cash generated from operating activities	23.1	**68 871**	68 187	**101 359**	71 878
Decrease/(increase) in working capital	23.2	**165 544**	(29 204)	**117 300**	(9 139)
Taxation paid	23.3	**(7 916)**	(6 558)	**-**	-
Net cash generated from operating activities		**226 498**	32 425	**218 659**	62 739
Cash flow from investing activities					
Investments to promote economic development in KwaZulu-Natal:					
Loans and advances					
- granted		**(454 768)**	(357 197)	**(178 636)**	(167 318)
- repaid		**670 042**	723 661	**223 965**	271 472
- other loan movements		**(265 583)**	(266 854)	**(73 873)**	(76 889)
Additions to and transfers from investment properties		**(136 091)**	31 130	**(131 123)**	31 518
Additions to property, plant and equipment		**(66 777)**	(125 108)	**(59 805)**	(115 521)
Additions to intangible assets		**6 163**	(36 867)	**13 289**	(28 592)
Additions to properties in possession		**(4 206)**	(2 013)	**(388)**	(248)
Proceeds on disposal of investment properties and property, plant and equipment		**1 882**	300	**1 977**	289
Proceeds on disposal of properties in possession		**4 591**	3 641	**1 895**	2 309
Increase in goodwill		**-**	(1)	**-**	(1)
Decrease/(increase) in cell captive insurance fund		**(3 213)**	1 819	**-**	-
Decrease/(increase) in liquid assets		**(47 887)**	22 611	**-**	-
Decrease/(increase) in subsidiaries, associated companies joint ventures		**(2 221)**	(495)	**(5 318)**	(31 840)
Net cash generated/(utilised) by investing activities		**(298 068)**	(5 373)	**(208 017)**	(114 821)
Cash flow from financing activities					
Borrowings received/(capital repaid)		**(18 777)**	27 131	**(18 777)**	27 132
Increase in fixed, short-term deposits and savings accounts		**91 704**	120 828	**-**	-
Post-retirement medical paid		**(5 304)**	(4 349)	**(4 113)**	(3 428)
Long service obligations paid		**(2 128)**	(1 701)	**(960)**	(1 086)
Net Government grants received/(utilised)		**91 411**	156 080	**88 008**	156 080
Net cash generated/(utilised) by financing activities		**156 906**	297 989	**64 158**	178 698
Net increase/(decrease) in cash and cash equivalents		**85 336**	325 041	**74 800**	126 616
Cash and cash equivalents at beginning of year		**1 362 369**	1 037 328	**344 505**	217 889
Cash and cash equivalents at end of year	8.1	**1 447 705**	1 362 369	**419 305**	344 505

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2017

1. REPORTING ENTITY

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

2. STATEMENT OF COMPLIANCE

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

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

3. BASIS OF PREPARATION

3.1 BASIS OF MEASUREMENT

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

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

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

3.2 FUNCTIONAL AND PRESENTATION CURRENCY

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

3.3 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of asset, liabilities, income and expenses. These also concern the future and will thus affect the reported amounts of assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods' revisions affect both current and future periods.

3.4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

GOING CONCERN

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

IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES AND PROPERTIES IN POSSESSION

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

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

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

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

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

IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS

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

DEFINED BENEFIT AND DEFINED CONTRIBUTION PENSION PLAN

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

3.5 COMPARATIVE FIGURES

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

3.6 SIGNIFICANT ACCOUNTING POLICIES

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

3.6.1 BASIS OF CONSOLIDATION

The consolidated financial statements include those of the company, its subsidiaries, associates and joint ventures. The financial statements of the subsidiaries, associates and joint ventures are prepared for the same reporting year as the company, using consistent accounting policies.

(a) BUSINESS COMBINATIONS

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

(b) SUBSIDIARIES

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group. All inter-group transactions, balances, income and expenses are eliminated in full on consolidation. Goodwill arising from the excess of the purchase consideration paid over the fair value of the net identifiable assets on acquisition is not amortised and is tested for impairment annually. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interest consists of the amount of those interests at the date of original business combination and the non-controlling interest's share of changes in equity since the date of the business combination. Investments in subsidiaries are recognised at cost, in the Corporation accounts, and are reviewed annually and written-down for impairment where considered necessary. Losses applicable to the non-controlling interest, in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Group, except to the extent that the non-controlling interest has a binding obligation and the financial ability to cover such losses.

(c) SPECIAL PURPOSE ENTITIES

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

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

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2017 (continued)

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

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

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

(d) LOSS OF CONTROL

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

(e) TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

(f) ASSOCIATES AND JOINT VENTURES

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

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

3.6.2 INTANGIBLE ASSETS

Intangible assets, other than goodwill (refer to basis of consolidation policy above), are recognised if it is probable that future economic benefits will flow to the entity from the intangible assets and the costs of the intangible assets can be reliably measured. Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite life are not amortised. At each date of the consolidated statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. Intangible assets with an indefinite useful life are tested annually for impairment and whenever there is an indication that the asset may be impaired.

(a) COMPUTER SOFTWARE AND LICENCES

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

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

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

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

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

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

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

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

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

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

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

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

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2017 (continued)

3.6.6 IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

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

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

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

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

3.6.7 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE GROUP

(a) SPLIT BETWEEN DEBT OR EQUITY

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

(b) EQUITY INSTRUMENTS

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

(c) OTHER FINANCIAL LIABILITIES

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

3.6.8 DERECOGNITION OF FINANCIAL LIABILITIES

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

3.6.9 OFFSETTING

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under GAAP, or for gains and losses arising from a group of similar transactions, such as in the Group's trading activity.

3.6.10 AMORTISED COST MEASUREMENT

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

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

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

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

SUBSEQUENT COSTS
Subsequent costs are included in the assets carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

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

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

For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2017 (continued)

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

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

3.6.15 INVENTORIES AND CONTRACTS IN PROGRESS

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

3.6.16 EMPLOYEE BENEFITS

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

(a) DEFINED BENEFITS PLANS

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

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

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

(b) DEFINED CONTRIBUTION PLANS

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

(c) POST-RETIREMENT MEDICAL BENEFITS

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

(d) LONG SERVICE AWARD BENEFITS

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

3.6.17 BORROWING COSTS

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

3.6.18 GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that the Group has complied with the conditions attached to the grant and that the grant has been received. Government grants whose primary condition is that the Group should purchase, construct or acquire non-current assets are deducted in arriving at the carrying amount of the assets. Except for non-current assests that are measured at fair value, the grants are recognised as income over the periods necessary to match the grant with the costs for which they are intended to compensate, on a systematic basis. Other Government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purposes of giving immediate financial support to the Group with no future related cost are recognised in profit or loss in the period in which they are received. Government grants received for specific loans and advances programmes are recognised as income when all the conditions of the grant have been fulfilled and there is reasonable assurance that the grant will be received.

3.6.19 TAXATION

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

3.6.20 PROVISIONS AND CONTINGENT LIABILITIES

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

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

3.6.21 REVENUE AND OTHER OPERATING INCOME

(a) RENTAL INCOME

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

(b) INTEREST INCOME AND INTEREST EXPENSE

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

(c) FEE INCOME

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

(d) COMMISSION INCOME

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

(e) SALE OF GOODS

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

(f) DIVIDENDS RECEIVED

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

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2017 (continued)

3.6.22 LEASED ASSETS

OPERATING LEASE

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

FINANCE LEASE

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

3.7 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

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

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

SUMMARY OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 MARCH 2017 (continued)

Standard	Description	Annual periods beginning on or after
IFRS 15 (not adopted into SA GAAP)	**Revenue from Contracts from Customers** New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers. • The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. • The new Standard supersedes: (a) IAS 11 Construction Contracts; (b) IAS 18 Revenue; (c) IFRIC 13 Customer Loyalty Programmes; (d) IFRIC 15 Agreements for the Construction of Real Estate; (e) IFRIC 18 Transfers of Assets from Customers; and (f) SIC-31 Revenue - Barter Transactions Involving Advertising Services	1 January 2018
IFRS 16 (AC105)	**Leases** • New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows. • IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. • IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. • IFRS 16 supersedes the following Standards and Interpretations: (a) IAS 17 Leases; (b) IFRIC 4 Determining whether an Arrangement contains a Lease; (c) SIC-15 Operating Leases - Incentives; and (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. • Given the nature of the Group's operations, this Standard is expected to have a significant impact on the Group's Annual Financial Statements when applied.	1 January 2019
IAS 1 (AC 101) (amendment not adopted into SA GAAP)	**Presentation of Financial Statements** • Disclosure Initiative: Amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures.	1 January 2016
IAS 7 (AC 118)	**Statement of Cash Flows** • Disclosure Initiative: Amendments requiring entities to disclose information about changes in their financing liabilities. The additional disclosures will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).	1 January 2017
IAS 12 (AC 102)	**Income Taxes** • Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12): Narrow-scope amendment to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017

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

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2017 (continued)

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

3.8 AMENDMENTS TO THE BASIS OF ACCOUNTING

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
1. LOANS AND ADVANCES				
1.1. Sectoral analysis				
Housing and commercial property	**1 401 661**	1 388 913	**-**	-
Micro-finance - secured	**63 913**	61 718	**-**	-
Micro-finance - unsecured	**37 979**	41 729	**14 920**	11 775
Agri-finance	**269 995**	238 343	**269 995**	238 343
Franchise finance	**17 890**	21 942	**17 890**	21 942
Procurement finance	**43 175**	42 227	**43 175**	42 227
Commercial property finance	**208 321**	237 375	**208 321**	237 375
Asset finance	**133 587**	142 950	**133 587**	142 950
Structured finance	**185 469**	154 079	**185 469**	154 079
	2 361 990	2 329 276	**873 357**	848 691
Credit impairment for loans and advances	**(281 554)**	(252 340)	**(191 795)**	(164 560)
Net loans and advances including current portion	**2 080 436**	2 076 936	**681 562**	684 131
Less: current portion included under current assets	**(395 244)**	(238 500)	**(243 822)**	(160 716)
Net loans and advances	**1 685 192**	1 838 436	**437 740**	523 415
Non-performing loans	**309 575**	240 162	**201 598**	138 362
Impairment of loans and advances	**(151 061)**	(181 571)	**(151 001)**	(122 477)
Unimpaired portion of non-performing loans	**158 514**	58 591	**50 597**	15 885

* Included in Primary Agriculture business loans and advances are amounts totaling R269,9 million (2016: R196,2 million) which have been ceded and assigned to the Land and Agricultural Bank of South Africa.

1.2. Maturity analysis

	Group 2017	Group 2016	Corporation 2017	Corporation 2016
Maturing:				
Up to 1 month	**268 991**	197 802	**212 002**	139 740
From 1 month to 6 months	**68 438**	69 780	**21 130**	20 641
From 6 months to 1 year	**57 815**	51 202	**10 690**	4 146
From 1 year to 5 years	**530 233**	571 629	**205 689**	244 091
After 5 years	**1 436 513**	1 438 863	**423 846**	440 073
	2 361 990	2 329 276	**873 357**	848 691

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Group		Corporation	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
1.3. Credit impairment for loans and advances				
Balance at beginning of the year	252 340	311 612	164 560	172 775
Amounts written-off	(21 701)	(47 275)	(6 429)	(7 503)
Bad debt write-off	(13 598)	(33 007)	(4 278)	(4 150)
Non-realised revenue (NRR) write-off	(8 103)	(14 268)	(2 151)	(3 353)
Charge to income statement	50 914	(11 997)	33 663	(712)
Balance at end of the year	281 554	252 340	191 795	164 560
Comprising:				
Impairment for performing loans (IBNR)*	57 201	70 513	35 290	41 827
Impairment for non-performing loans	224 353	181 827	156 505	122 733
Impairment for loans and advances	281 554	252 340	191 795	164 560

* 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 2017	Group 2016	Corporation 2017	Corporation 2016
1.4. Properties in possession				
Balance at beginning of the year	16 545	17 993	3 698	5 238
Acquisitions	4 206	2 013	388	248
Disposals	(3 852)	(3 461)	(1 215)	(1 788)
Carrying amount before impairment	16 899	16 545	2 871	3 698
Accumulated impairment loss	(8 196)	(7 814)	(2 871)	(3 309)
Net carrying amount	8 703	8 731	-	389
Accumulated impairment loss				
Balance at beginning of the year	7 814	9 115	3 309	4 026
Reversal of impairment to income statement	382	(1 301)	(438)	(717)
Balance at end of the year	8 196	7 814	2 871	3 309

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.

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
		Restated		Restated
2. INVESTMENT PROPERTIES				
Cost				
Land and buildings	**2 407 069**	2 234 748	**2 195 942**	2 041 182
Work-in-progress	**123 693**	115 853	**123 653**	114 917
Net book value	**2 530 762**	2 350 601	**2 319 595**	2 156 099

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

2.1. Amounts recognised in profit or loss for:				
- Rental income from investment properties	**320 832**	296 717	**284 727**	257 019
- Direct operating expenses arising from investment property that generated rental income	**272 423**	183 010	**237 327**	181 662
- Direct operating expenses arising from investment property that did not generate rental income	**27**	11	**27**	6

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 2017 (continued)

	Land & buildings	Work-in-progress	Total
	R'000	R'000	R'000
2.3. Movement in investment properties			
2017			
Group			
Net book value at beginning of year	**2 234 748**	**115 853**	**2 350 601**
Additions	**10 932**	**125 159**	**136 091**
Disposals	**(1 140)**	**-**	**(1 140)**
Fair value movements	**45 210**	**-**	**45 210**
Transfers	**117 319**	**(117 319)**	**-**
Net book value at end of year	**2 407 069**	**123 693**	**2 530 762**
Corporation			
Net book value at beginning of year	**2 041 182**	**114 917**	**2 156 099**
Additions	**10 930**	**120 193**	**131 123**
Disposals	**(1 141)**	**-**	**(1 141)**
Fair value movements	**33 514**	**-**	**33 514**
Transfers	**111 457**	**(111 457)**	**-**
Net book value at end of year	**2 195 942**	**123 653**	**2 319 595**
2016			
Group			
Net book value at beginning of year	2 040 681	249 266	2 289 947
Additions	6 352	69 887	76 239
Fair value movements	91 784	-	91 784
Transfers	95 931	(203 300)	(107 369)
Net book value at end of year	2 234 748	115 853	2 350 601
Corporation			
Net book value at beginning of year	1 859 771	248 662	2 108 433
Additions	6 296	69 555	75 851
Fair value movements	79 184	-	79 184
Transfers	95 931	(203 300)	(107 369)
Net book value at end of year	2 041 182	114 917	2 156 099

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
				Restated
3. PROPERTY, PLANT AND EQUIPMENT				
Cost	**571 552**	510 665	**403 266**	348 455
Land, infrastructure and buildings	**248 191**	219 175	**248 191**	219 175
Buildings on leasehold land	**12 665**	12 665	**12 665**	12 665
Plant, equipment and vehicles	**308 150**	272 051	**139 863**	109 841
Work-in-progress	**2 546**	6 774	**2 546**	6 774
Accumulated depreciation	**248 934**	224 707	**125 119**	110 347
Infrastructure and buildings	**61 329**	55 627	**61 329**	55 627
Buildings on leasehold land	**3 259**	3 258	**3 258**	3 258
Plant, equipment and vehicles	**184 346**	165 822	**60 532**	51 462
Accumulated impairment				
Land, infrastructure and buildings	**9 407**	9 407	**9 407**	9 407
Plant, equipment and vehicles	**10 362**	4 911	**-**	-
Net book value	**302 579**	271 640	**268 739**	228 701
Fair value of land and buildings in property, plant and equipment	**143 469**	112 204	**143 469**	112 204

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				
Original Cost	**51 528**	69 381	**17 730**	36 863

This represents property, plant and equipment that are still in use and have a nil book value and relates mainly to assets with a cost of R2 000 and below that have been fully depreciated in line with the Group's policy.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Land, infrastructure and 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				
2017				
Group				
Net book value at beginning of year	**163 559**	**101 307**	**6 774**	**271 640**
Additions	**31 352**	**11 647**	**5 162**	**48 161**
Depreciation charge	**(5 702)**	**(21 352)**	**-**	**(27 054)**
Impairment charge	**-**	**(5 721)**	**-**	**(5 721)**
Disposals	**(126)**	**(2 937)**	**-**	**(3 063)**
Transfers	**(2 222)**	**30 228**	**(9 390)**	**18 616**
Net book value at end of year	**186 861**	**113 172**	**2 546**	**302 579**
Corporation				
Net book value at beginning of year	**163 547**	**58 380**	**6 774**	**228 701**
Additions	**31 364**	**4 663**	**5 162**	**41 189**
Depreciation charge	**(5 702)**	**(11 002)**	**-**	**(16 704)**
Disposals	**(126)**	**(2 937)**	**-**	**(3 063)**
Transfers	**(2 222)**	**30 228**	**(9 390)**	**18 616**
Net book value at end of year	**186 861**	**79 332**	**2 546**	**268 739**
2016				
Group				
Net book value at beginning of year	78 099	67 034	28 528	173 661
Additions	1 623	14 510	1 634	17 767
Depreciation charge	(4 663)	(21 661)	-	(26 324)
Disposals	-	(805)	-	(805)
Transfers	88 500	42 229	(23 388)	107 341
Net book value at end of year	163 559	101 307	6 774	271 640
Corporation				
Net book value at beginning of year	79 114	20 490	28 527	128 131
Additions	1 625	5 949	1 634	9 208
Depreciation charge	(4 663)	(9 874)	-	(14 537)
Disposals	-	(414)	-	(414)
Transfers	87 471	42 229	(23 387)	106 313
Net book value at end of year	163 547	58 380	6 774	228 701

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
4. INTANGIBLE ASSETS				
Cost	**120 510**	128 187	**56 879**	71 022
Software	**50 977**	38 734	**34 820**	23 798
System development costs (WIP)	**66 132**	86 041	**18 658**	43 811
Other	**1 600**	1 600	**1 600**	1 601
Licences and warranties	**1 801**	1 812	**1 801**	1 812
Accumulated amortisation	**31 992**	29 443	**21 303**	20 137
Software	**29 370**	26 942	**18 681**	17 636
Other	**821**	689	**821**	689
Licences and warranties	**1 801**	1 812	**1 801**	1 812
Accumulated impairments				
System development costs	**32 766**	32 766	**-**	-
Net book value	**55 752**	65 978	**35 575**	50 885

	Software	System development costs (WIP)	Licences & other	Total
	R'000	R'000	R'000	R'000
4.1. Movement in intangible assets				
2017				
Group				
Net book value at beginning of year	11 795	53 272	911	65 978
Additions	836	11 597	-	12 433
Amortisation	(3 932)	-	(131)	(4 063)
Disposals	-	-	-	-
Transfers	12 905	(31 502)	-	(18 597)
Net book value at end of year	21 605	33 367	780	55 752
Corporation				
Net book value at beginning of year	6 165	43 811	909	50 885
Additions	12	6 348	-	6 360
Amortisation	(1 892)	-	(129)	(2 021)
Disposals	-	-	-	-
Transfers	11 853	(31 502)	-	(19 649)
Net book value at end of year	16 138	18 657	780	35 575

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Software	System development costs (WIP)	Licences & other	Total
	R'000	R'000	R'000	R'000
2016				
Group				
Net book value at beginning of year	16 671	19 367	2 408	38 446
Additions	2 234	34 850	115	37 199
Amortisation	(7 690)	-	(1 612)	(9 302)
Disposals	(33)	-	-	(33)
Transfers	613	(945)	-	(332)
Net book value at end of year	11 795	53 272	911	65 978
Corporation				
Net book value at beginning of year	12 226	15 552	2 406	30 184
Additions	218	28 591	115	28 924
Amortisation	(6 246)	-	(1 612)	(7 858)
Disposals	(33)	-	-	(33)
Transfers	-	(332)	-	(332)
Net book value at end of year	6 165	43 811	909	50 885

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
5. STRAIGHT-LINING OF OPERATING LEASE INCOME				
Opening balance	**41 006**	50 831	**32 409**	42 931
Straight-line accrual during the year	**3 307**	(8 931)	**3 187**	(9 913)
Decrease/(increase) in provision for bad debts	**1 039**	(894)	**661**	(609)
	45 352	41 006	**36 257**	32 409
Current portion of long-term debtor	**(344)**	(2 266)	**(344)**	(2 089)
Closing balance	**45 008**	38 740	**35 913**	30 320
Minimum future rental receivable under non-cancellable operating leases are as follows:				
Next 12 months	**1 004**	2 266	**344**	2 089
From 2 to 5 years	**27 431**	20 704	**22 730**	17 342
Later than 5 years	**18 350**	20 508	**14 371**	14 827
	46 785	43 478	**37 445**	34 258
Less: Provision for doubtful debts	**(1 433)**	(2 472)	**(1 188)**	(1 849)
	45 352	41 006	**36 257**	32 409
Analysis of provisions				
Balance at the beginning of the year	**2 472**	1 578	**1 849**	1 240
Reversal/(charge) to income statement	**(1 039)**	894	**(661)**	609
Balance at end of the year	**1 433**	2 472	**1 188**	1 849

Operating leases relate to investment property owned by the Group with lease terms of between 3 and 10 years and an average escalation rate of 7%. Some operating lease contracts contain an option to renew for a further 3 to 10 years at market-related rates. The lessees do not have an option to purchase the property at the expiry of the lease period.

	Group		Corporation	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
6. SUBSIDIARIES (ANNEXURE 2)				
6.1. Cowslip Investments (Pty) Ltd				
Shares at cost	3	3	3	3
Share premium	2 778 928	2 778 928	2 778 928	2 778 928
Grants applied	(2 778 931)	(2 778 931)	(2 778 931)	(2 778 931)
	-	-	-	-
6.2. Other subsidiaries	-	-	364 061	364 061
Shares at cost	-	-	375 061	375 061
Less provisions	-	-	(11 000)	(11 000)
Net loans	-	-	92 772	89 675
Loans to subsidiaries	-	-	178 310	173 558
Less provisions	-	-	(85 538)	(83 883)
Total investment in subsidiaries	-	-	456 833	453 736
6.3. Goodwill	300	300	300	300

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

	Group		Corporation	
	2017	2016	2017	2016
7. ASSOCIATED COMPANIES (ANNEXURE 3)				
7.1. Unlisted Investments				
Shares at cost	3	3	3	3
Less: provisions	(2)	(2)	(2)	(2)
Group carrying value	1	1	1	1
Net loans	30	605	30	605
Loans to associates	57 333	57 302	57 333	57 302
Less: provisions	(57 303)	(56 697)	(57 303)	(56 697)
Total interest in associated companies	31	606	31	606

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

	Group		Corporation	
	2017	2016	2017	2016
7.2. Significant financial information of associated companies				
Total assets	45 629	21 147	45 629	21 147
Total non-current assets	34 327	13 353	34 327	13 353
Total current assets	11 302	7 794	11 302	7 794
Total liabilities	227 367	120 590	227 367	120 590
Total non-current liabilities	197 046	114 088	197 046	114 088
Total current liabilities	30 321	6 502	30 321	6 502
Net liabilities	(181 738)	(99 443)	(181 738)	(99 443)
Group's share of net liabilities of associates	(67 186)	(49 285)	(67 186)	(49 285)
Total revenue	12 400	2 950	12 400	2 950
Total losses	(14 036)	(6 408)	(14 036)	(6 408)
Unrecognised share of losses:				
- Current period	(4 931)	(6 392)	(4 931)	(6 392)
- Cumulative	(55 157)	(50 244)	(55 157)	(50 244)

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Group		Corporation	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
7.3 JOINT VENTURES (ANNEXURE 4)				
Shares at cost	-	-	-	-
Loans to joint venture	2 796	-	2 796	-
	2 796	-	2 796	-
8. CASH AND LIQUID ASSETS				
8.1. Cash and cash equivalents				
Coin and bank notes	87 235	79 255	58	12
Investment and balance with banks	1 360 470	1 283 114	419 247	344 493
	1 447 705	1 362 369	419 305	344 505

Included in cash is an amount of R8,0 million (2016: R12,8 million) relating to cash in transit at year-end to be delivered by security company to branches. Also, included in cash is an amount of R6 million relating to ring-fenced collections derived from advances made from the EDTEA Fund. The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings ranging from AA- to AAA+ excluding those with Ithala SOC Limited, which is not independently rated, but has been approved as an authorised intermediary by the Directors. Due to investments being held in institutions that are highly-rated, these instruments are neither past due nor impaired.

	Group 2017 R'000	Group 2016 R'000	Corporation 2017 R'000	Corporation 2016 R'000
8.2. Statutory liquid assets				
Treasury bill	177 769	129 882	-	-
	177 769	129 882	-	-
Undrawn facilities available are as follows:				
Absa Bank				
Overdraft facility	71 463	93 800	71 463	93 800
Financial guarantees	22 337	9 200	22 337	6 200
Other facilities	-	-	-	-
Day light facility	25 000	25 000	-	-
	118 800	128 000	93 800	100 000

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
9. TRADE AND OTHER RECEIVABLES				
Trade receivables	**63 239**	72 008	**56 450**	66 568
Other receivables	**105 897**	119 060	**93 365**	94 280
	169 136	191 068	**149 815**	160 848
Provision	**(57 514)**	(78 029)	**(51 763)**	(72 975)
Net trade and other receivables	**111 622**	113 039	**98 052**	87 873
Ageing of past due but not impaired trade and other receivables				
<30 days	**46 476**	63 740	**38 371**	52 525
30 to 60 days	**3 551**	2 351	**3 113**	1 906
60 to 90 days	**9 965**	1 409	**9 778**	1 409
>90 days	**43 995**	36 333	**37 186**	22 917
	103 987	103 833	**88 448**	78 757
Ageing of past due and impaired trade and other receivables				
<30 days	**647**	4 073	**2 208**	3 701
30 to 60 days	**7 480**	3 118	**6 518**	2 783
60 to 90 days	**7 010**	2 612	**5 261**	2 370
>90 days	**50 012**	77 432	**47 380**	73 237
	65 149	87 235	**61 367**	82 091
Analysis of provisions				
Balance at beginning of year	**78 029**	84 751	**72 975**	77 886
Amounts written-off	**(37 090)**	(48 526)	**(34 903)**	(44 342)
Charge to income statement	**16 575**	41 804	**13 691**	39 431
Balance at end of year	**57 514**	78 029	**51 763**	72 975
10. INVESTMENTS				
Designated at fair value through profit and loss				
Balance at beginning of year	**18 047**	18 308	**18 047**	18 308
Fair value movement	**2 503**	(261)	**2 503**	(261)
Balance at end of year	**20 550**	18 047	**20 550**	18 047

Investments comprise of 3 736 400 units in SA Corporate Real Estate Fund (2016: 3 736 400).
Fair value is determined by reference to stock exchange-quoted bid prices.

	Group 2017	Group 2016	Corporation 2017	Corporation 2016
11. INVENTORY AND CONTRACTS IN PROGRESS				
Consumables	**4 427**	2 937	**2 994**	2 937
Contracts in progress	**1 488**	1 463	**1 488**	1 463
	5 915	4 400	**4 482**	4 400

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
12. ORDINARY SHARE CAPITAL				
Authorised				
1 008 582 361 (2016: 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 (2016: 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	**(262)**	(881)	-	-
Movement	**96**	619	-	-
Balance at end of year	**(166)**	(262)	-	-

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

	Group		Corporation	
	2017	2016	**2017**	2016
14. BORROWINGS (ANNEXURE 1)				
At amortised cost				
Total borrowings	**86 043**	104 820	**83 968**	102 745
Portion repayable within 12 months	**(19 045)**	(18 541)	**(19 045)**	(18 541)
Long-term portion	**66 998**	86 279	**64 923**	84 204

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
15. DEPOSITS DUE TO CUSTOMERS				
Call deposit accounts	**72 601**	121 135	**-**	-
Savings accounts	**871 760**	798 799	**-**	-
Term deposits	**1 341 148**	1 273 871	**-**	-
	2 285 509	2 193 805	**-**	-
Maturity analysis repayable:				
On demand	**1 026 676**	1 004 561	**-**	-
Up to 1 month	**185 357**	175 689	**-**	-
From 1 month to 6 months	**676 242**	633 607	**-**	-
From 6 months to 1 year	**359 623**	337 539	**-**	-
From 1 year to 5 years	**37 611**	42 409	**-**	-
	2 285 509	2 193 805	**-**	-

The maturity analysis is based on the remaining periods to contractual maturity from year end. At 31 March 2017, 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*	**622 554**	565 852	**-**	-
Trust accounts	**56 661**	59 478	**-**	-
Debit card	**168 105**	136 162	**-**	-
Corporate	**24 440**	37 307	**-**	-
Total savings	**871 760**	798 799	**-**	-

Term deposits are further analysed as follows:

Retail accounts	**892 513**	882 389	**-**	-
Corporate accounts	**448 635**	391 482	**-**	-
Total term deposits	**1 341 148**	1 273 871	**-**	-

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Group				
	2017	2016	2015	2014	2013
	R'000	R'000	R'000	R'000	R'000

16. EMPLOYEE BENEFITS
16.1. Post-retirement medical obligations (closed fund)

The Group provides post-retirement medical benefits to substantially all employees who commenced employment prior to 1 August 2000. An actuarial valuation of post-retirement medical obligations at 31 March 2017 quantified the present value of unfunded obligations at R118,4 million (2016: R113,8 million) for Group and R79,3 million (2016: R76,4 million) for Corporation. These actuarial valuations are conducted annually, as at balance sheet date. The principal actuarial assumptions used included a discount rate of 9,80% (2016: 10,40%), and a health care cost inflation rate of 9,90% (2016: 9,20%).

	2017	2016	2015	2014	2013
The movement in the liability recognised in the balance sheet is as follows:					
Balance at beginning of year	**90 866**	83 776	77 001	71 591	67 619
Expensed during the year	**15 052**	11 439	10 649	8 989	7 084
Contributions paid	**(5 304)**	(4 349)	(3 874)	(3 579)	(3 112)
Balance at end of year	**100 614**	90 866	83 776	77 001	71 591
Amounts recognised in the balance sheet are as follows:					
Present value of unfunded obligations	**118 386**	113 817	102 033	90 355	80 894
Unrecognised actuarial (loss)/gain	**(17 772)**	(22 951)	(18 257)	(13 354)	(9 303)
Liability at end of year	**100 614**	90 866	83 776	77 001	71 591
Short-term portion	**4 641**	3 389	3 130	2 876	2 674
Long-term portion	**95 973**	87 477	80 646	74 125	68 917
Liability at end of year	**100 614**	90 866	83 776	77 001	71 591
Amounts recognised in the income statements are as follows:					
Current service cost	**1 828**	1 805	1 766	1 623	1 548
Interest cost	**11 547**	8 577	8 037	6 794	5 536
Net actuarial gain/(loss) recognised in the year	**1 677**	1 057	846	572	-
	15 052	11 439	10 649	8 989	7 084
Membership statistics:					
In-service members	**105**	131	145		
Continuation members	**175**	162	161		
	280	293	306		

Sensitivity Analysis - unfunded accrued liability

Assumptions	**Change**				
Central assumptions:		**118 386**	**113 817**	102 032	90 354
CPI Inflation	+1%	**135 280**	**130 536**	102 168	90 495
	+1,50%	**145 126**	**114 001**	102 249	90 585
	+1,75%	**150 455**	**113 980**	102 224	90 557
	-1%	**104 524**	**100 154**	101 868	90 190
Post-retirement mortality	+1 year	**115 372**	**110 195**	93 851	93 851
Average retirement age	-1 year	**121 428**	**117 518**	105 556	90 354

	Corporation				
	2017	2016	2015	2014	2013
	R'000	R'000	R'000	R'000	R'000
Balance at beginning of year	**59 707**	55 539	51 490	48 302	46 245
Expensed during the year	**10 131**	7 596	7 293	6 225	4 681
Contributions paid	**(4 113)**	(3 428)	(3 245)	(3 037)	(2 624)
Balance at end of year	**65 725**	59 707	55 538	51 490	48 302
Amounts recognised in the balance sheet are as follows:					
Present value of unfunded obligations	**79 260**	76 374	68 823	63 040	57 927
Unrecognised actuarial (loss)/gain	**(13 535)**	(16 667)	(13 285)	(11 550)	(9 625)
Liability at end of year	**65 725**	59 707	55 538	51 490	48 302
Short-term portion	**3 478**	2 473	2 385	2 270	2 228
Long-term portion	**62 247**	57 234	53 153	49 220	46 074
Liability at end of year	**65 725**	59 707	55 538	51 490	48 302
Amounts recognised in the income statements are as follows:					
Current service cost	**957**	918	866	811	789
Interest cost	**7 718**	5 763	5 581	4 844	3 892
Net actuarial gain/(loss) recognised in the year	**1 456**	915	846	570	-
	10 131	7 596	7 293	6 225	4 681
Membership statistics:					
In-service members	**50**	64	70		
Continuation members	**138**	126	127		
	188	190	197		

Sensitivity Analysis - unfunded accrued liability

Assumptions	**Change**				
Central assumptions:		**79 261**	76 374	68 824	63 040
CPI Inflation	+1%	**89 201**	86 238	68 940	74 474
	+1,50%	**94 917**	76 535	69 011	63 210
	+1,75%	**97 988**	76 517	68 989	63 234
	-1%	**70 959**	68 162	68 687	56 140
Post-retirement mortality	+1 year	**77 712**	74 368	64 802	64 802
Average retirement age	-1 year	**80 718**	78 412	70 702	63 040

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Group				
	2017	2016	2015	2014	2013
	R'000	R'000	R'000	R'000	R'000

16.2. Pension and Provident Fund Schemes

The Group provides retirement benefits substantially to all employees by contributing to pension and provident funds. Membership of either pension or provident fund is compulsory for all Corporation and Ithala SOC Limited permanent employees.

The defined benefit pension fund and the defined benefit provident fund are governed by the Pension Funds Act of 1956, with retirement benefits being determined with reference to both pensionable remuneration and years of service. Both funds are closed to new members.

The defined contribution pension fund and defined contribution provident fund are governed by the Pension Funds Act of 1956, and are open to new members and members who have elected to transfer from the defined benefit funds.

Actuarial valuations of the defined benefit pension and provident funds were conducted as at the end of each of the three preceding financial years and the actuary found the funds to be in a sound financial position. An actuarial review conducted as at 31 March 2017 showed that in respect of the defined benefit pension fund and the defined benefit provident fund, the present value of the obligation was adequately covered by the fair value of the scheme assets.

The most recent actuarial valuation of plan assets and present value of defined benefits obligations were carried out for the current and prior annual financial years by Old Mutual Corporate Consultants, fellow of the Institute of Actuaries of South Africa. The present value of the defined benefits obligations and the related current service cost were measured using the Projected Unit Credit Method.

16.2.1 Defined Benefit Pension Fund (closed fund)

	2017	2016	2015	2014	2013
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**1 469**	1 304	1 071	27 945	44 128
Fair value of plan assets	**(17 301)**	(14 243)	(11 883)	(32 960)	(44 644)
	(15 832)	(12 939)	(10 812)	(5 015)	(516)
Unrecognised actuarial gain	**15 832**	12 939	10 812	5 015	516
Liability at end of year	**-**	-	-	-	-
The movement in the defined benefit obligation over the year is as follows:					
Balance at beginning of year	**1 304**	1 071	27 945	44 128	66 871
Interest cost	**131**	78	1 313	2 364	4 151
Current service cost	**-**	-	-	-	-
Benefits paid	**-**	-	(25 518)	(15 775)	(30 541)
Contributions by plan participants (employees)	**-**	-	-	-	-
Actuarial (gain)/loss on obligation	**34**	155	(2 669)	(2 772)	3 647
Balance at end of year	**1 469**	1 304	1 071	27 945	44 128
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**14 243**	11 883	32 960	44 644	71 825
Expected return on assets	**1 424**	867	1 741	2 030	5 119
Contributions received	**-**	-	-	-	-
Benefits paid	**-**	-	(25 518)	(15 775)	(30 541)
Investment gain/(loss) on assets	**1 634**	1 493	2 700	2 061	(1 759)
Balance at end of year	**17 301**	14 243	11 883	32 960	44 644
Amounts recognised in the income statement are as follows:					
Current service cost	**-**	-	-	-	-
Interest cost	**131**	78	1 313	2 364	4 151
Expected return on plan assets	**(1 424)**	(867)	(1 741)	(2 030)	(5 119)
Recognised actuarial losses	**-**	-	-	-	532
	(1 293)	(789)	(428)	334	(436)

		Group				
		2017	2016	2015	2014	2013
		R'000	R'000	R'000	R'000	R'000
Plan assets portfolio:						
Investment assets		**23 926**	19 426	35 588	32 878	42 514
Annuity contracts		**-**	-	-	-	-
Current (liabilities)/assets		**(6 625)**	(5 183)	(23 705)	82	2 130
		17 301	14 243	11 883	32 960	44 644
Effective rate of return on plan assets (actual)		**13,21%**	9,82%	16,02%	20,67%	7,48%
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (annualised yield on R186, 2016: R202)		**9,00%**	10,00%	7,30%	8,50%	6,50%
Expected rate of return on plan assets		**9,00%**	10,00%	7,30%	8,50%	9,00%
Future salary increases (inflation plus 1%)		**7,50%**	9,00%	6,90%	7,60%	7,40%
Inflation		**6,50%**	8,00%	5,90%	6,60%	6,40%
Sensitivity analysis (Fund liability)	**Change**					
At valuation assumptions:		**1 469**	1 304	1 071	27 945	44 128
Discount rate	+1%	**1 469**	1 304	1 071	27 945	44 128
	-1%	**1 469**	1 304	1 071	27 945	44 128
Expected rate of salary increases	+1%	**1 469**	1 304	1 071	27 945	44 128
	-1%	**1 469**	1 304	1 071	27 945	44 128
No salary increases		**1 469**	1 304	1 071	27 945	44 128

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Corporation				
	2017	2016	2015	2014	2013
	R'000	R'000	R'000	R'000	R'000
16.2.1. Defined Benefit Pension Fund (Closed Fund) (continued)					
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**661**	587	482	12 574	19 856
Fair value of plan assets	**(7 785)**	(6 409)	(5 347)	(14 831)	(20 090)
	(7 124)	(5 822)	(4 865)	(2 257)	(234)
Unrecognised actuarial gain	**7 124**	5 822	4 865	2 257	234
Liability at end of year	-	-	-	-	-

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

	2017	2016	2015	2014	2013
The movement in the defined obligation is as follows:					
Balance at beginning of year	**587**	482	12 574	19 856	44 746
Interest cost	**59**	35	591	1 063	1 868
Current service cost	-	-	-	-	-
Benefits paid	-	-	(11 482)	(7 098)	(13 742)
Contributions by plan participants (employees)	-	-	-	-	-
Actuarial (gain)/loss on obligation	**15**	70	(1 201)	(1 247)	(13 016)
Balance at end of year	**661**	587	482	12 574	19 856
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**6 409**	5 347	14 831	20 090	48 061
Expected return on assets	**641**	390	783	914	2 304
Contributions received	-	-	-	-	-
Benefits paid	-	-	(11 482)	(7 098)	(13 742)
Investment gain/(loss) on assets	**735**	672	1 215	925	(16 533)
Balance at end of year	**7 785**	6 409	5 347	14 831	20 090
Amounts recognised in the income statement are as follows:					
Current service cost	-	-	-	-	-
Interest cost	**59**	35	591	1 063	1 868
Expected return on plan assets	**(641)**	(390)	(783)	(1 068)	(2 304)
Recognised actuarial losses	-	-	-	5	436
	(582)	(355)	(192)	-	-
Plan assets portfolio					
Investment assets	**10 766**	8 741	16 013	14 794	19 132
Annuity contracts	-	-	-	-	-
Current assets/(liabilities)	**(2 981)**	(2 332)	(10 666)	37	958
	7 785	6 409	5 347	14 831	20 090
Effective rate of return on plan assets (actual)	**13,27%**	9,29%	15,96%	21,53%	7,34%

		Corporation				
		2017	2016	2015	2014	2013
		R'000	R'000	R'000	R'000	R'000
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (annualised yield on R186, 2016: R202)		**9,00%**	10,00%	7,30%	8,50%	6,50%
Expected rate of return on plan assets		**9,00%**	10,00%	7,30%	8,50%	9,00%
Future salary increases (Inflation plus 1%)		**7,50%**	9,00%	6,90%	7,60%	7,40%
Inflation		**6,50%**	8,00%	5,90%	6,60%	6,40%
Sensitivity analysis (Fund liability)	**Change**					
At valuation assumptions:		**661**	587	482	12 574	19 856
Discount rate	+1%	**661**	587	482	12 574	19 856
	-1%	**661**	587	482	12 574	19 856
Expected rate of salary increases	+1%	**661**	587	482	12 574	19 856
	-1%	**661**	587	482	12 574	19 856
No salary increases		**661**	587	482	12 574	19 856

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Group				
	2017	2016	2015	2014	2013
	R'000	R'000	R'000	R'000	R'000
16.2.2. Defined Benefit Provident Fund (Closed Fund)					
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**28 134**	45 903	46 409	50 683	55 557
Fair value of plan assets	**(51 234)**	(63 993)	(66 395)	(63 444)	(53 159)
	(23 100)	(18 090)	(19 986)	(12 761)	2 398
Unrecognised actuarial gain	**23 100**	18 090	19 986	12 761	(2 398)
Liability at end of year	**-**	-	-	-	-
Balance at beginning of year	**45 903**	46 409	50 683	55 557	44 011
Interest cost	**3 700**	3 152	3 104	3 506	3 432
Current service cost	**1 156**	1 455	1 676	1 675	1 739
Benefits paid	**(20 015)**	(8 569)	(8 390)	(5 654)	(4 663)
Contributions by plan participants (employees)	**612**	569	757	677	676
Benefit increase	**-**	-	-	-	(2 436)
Actuarial (gain)/loss on obligation	**(3 222)**	2 887	(1 421)	(5 078)	12 798
Balance at end of year	**28 134**	45 903	46 409	50 683	55 557
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**63 993**	66 395	63 444	53 159	51 172
Expected return on assets	**5 480**	4 583	3 915	3 331	4 498
Contributions received	**1 193**	1 199	1 845	1 809	2 170
Benefits paid	**(20 015)**	(8 569)	(8 390)	(5 654)	(4 663)
Investment gain/(loss) on assets	**583**	385	5 581	10 799	(18)
Balance at end of year	**51 234**	63 993	66 395	63 444	53 159
Amounts recognised in the income statement are as follows:					
Current service cost	**1 156**	1 455	1 676	1 675	1 739
Interest cost	**3 700**	3 152	3 104	3 506	3 433
Expected return on plan assets	**(5 480)**	(4 583)	(3 915)	(3 331)	(4 498)
Benefit increase	**-**	-	-	(3 292)	5 440
Recognised actuarial (gains)/losses	**-**	-	-	-	-
	(624)	24	865	(1 442)	6 114
Plan assets portfolio					
Investment assets	**50 814**	65 779	69 402	61 685	53 514
Net current liabilities	**420**	(1 786)	(3 007)	1 759	(355)
	51 234	63 993	66 395	63 444	53 159
Effective rate of return on plan assets (actual)	**13,21%**	9,82%	16,02%	20,67%	7,34%

		Group				
		2017	2016	2015	2014	2013
		R'000	R'000	R'000	R'000	R'000
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (annualised yield on R186, 2016: R208)		**9,00%**	10,00%	7,30%	8,50%	6,50%
Expected rate of return on plan assets		**9,00%**	10,00%	7,30%	8,50%	9,50%
Future salary increases (inflation plus 1%)		**7,50%**	9,00%	6,90%	7,60%	7,40%
Inflation		**6,50%**	8,00%	5,90%	6,60%	6,40%
Sensitivity analysis (Fund liability)	**Change**					
At valuation assumptions:		**28 134**	47 207	46 000	49 996	54 975
Discount rate	+1%	**26 984**	45 901	44 568	48 333	52 630
	-1%	**29 387**	48 636	47 570	51 815	57 561
Expected rate of salary increases	+1%	**29 093**	48 176	47 061	51 276	56 912
	-1%	**27 240**	46 318	45 052	48 819	53 180
No salary increases		**22 908**	41 827	41 225	43 431	44 941

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Corporation				
	2017	2016	2015	2014	2013
	R'000	R'000	R'000	R'000	R'000
16.2.2 Defined Benefit Provident Fund (Closed Fund) (continued)					
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**9 972**	30 066	29 445	28 380	29 929
Fair value of plan assets	**(22 206)**	(41 915)	(42 126)	(35 525)	(28 637)
	(12 234)	(11 849)	(12 681)	(7 145)	1 292
Unrecognised actuarial gain	**12 234**	11 849	12 681	7 145	1 292
Liability at end of year	**-**	-	-	-	-
Balance at beginning of year	**30 066**	29 445	28 380	29 929	26 145
Opening adjustment	**(10 171)**	-	-	-	-
Interest cost	**1 604**	2 065	1 969	1 962	1 848
Current service cost	**501**	954	1 063	938	937
Benefits paid	**(8 675)**	(5 613)	(5 323)	(3 165)	(2 512)
Contributions by plan participants (employees)	**265**	372	480	380	365
Benefit increase/(decrease)	**-**	-	-	1 179	(2 435)
Actuarial (gain)/loss on obligation	**(3 618)**	2 843	2 876	(2 843)	5 581
Balance at end of year	**9 972**	30 066	29 445	28 380	29 929
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**41 915**	42 126	35 525	28 637	30 399
Opening adjustment	**(14 179)**	-	-	-	-
Expected return on assets	**2 375**	3 002	2 484	2 995	2 422
Contributions received	**517**	785	1 171	1 012	1 169
Benefits paid	**(8 675)**	(5 613)	(5 323)	(3 165)	(2 512)
Investment gain/(loss) on assets	**253**	1 615	8 269	6 046	(2 841)
Balance at end of year	**22 206**	41 915	42 126	35 525	28 637
Amounts recognised in the income statement are as follows:					
Current service cost	**501**	954	1 063	938	937
Interest cost	**1 604**	2 065	1 969	1 962	1 849
Expected return on plan assets	**(2 375)**	(3 002)	(2 484)	(1 865)	(2 422)
Benefit (decrease)/increase	**-**	-	-	(3 292)	2 931
Recognised actuarial (gains)/losses	**-**	-	-	-	-
	(270)	17	548	(2 257)	3 295
Plan assets portfolio:					
Investment assets	**22 024**	43 085	44 034	34 540	28 828
Net current liabilities	**182**	(1 170)	(1 908)	985	(191)
	22 206	41 915	42 126	35 525	28 637
Effective rate of return on plan assets (actual)	**13,27%**	15,96%	15,96%	21,53%	7,48%

		Group				
		2017	2016	2015	2014	2013
		R'000	R'000	R'000	R'000	R'000
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (annualised yield on R186, 2016: R202)		**9,00%**	10,00%	7,30%	8,50%	6,50%
Expected rate of return on plan assets		**9,00%**	10,00%	7,30%	8,50%	9,50%
Future salary increases (inflation plus 1%)		**7,50%**	9,00%	6,90%	7,60%	7,40%
Inflation		**6,50%**	8,00%	5,90%	6,60%	6,40%
Sensitivity analysis (Fund liability)	**Change**					
At valuation assumptions:		**12 194**	30 066	29 186	28 932	29 616
Discount rate	+1%	**11 695**	29 211	28 277	27 955	28 352
	-1%	**12 737**	31 003	30 182	30 001	31 009
Expected rate of salary increases	+1%	**12 609**	30 702	29 859	29 692	30 659
	-1%	**11 806**	29 484	28 584	28 236	28 654
No salary increases		**9 929**	26 542	26 156	25 040	24 210

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	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000

16.3. Long service obligation

The Company provides long service awards to permanent employees in the form of cash from 10 years of continuous service and every five years thereafter. An actuarial valuation of the provision for long service awards is conducted annually. The principal actuarial assumptions used included a discount rate of 8,8% (2016: 9,5%) and an average salary inflation of 7,2% (2016: 8,1%).

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

	Group 2017 R'000	Group 2016 R'000	Corporation 2017 R'000	Corporation 2016 R'000
Balance at beginning of year	**28 450**	26 611	**15 117**	14 239
Expensed during the year	**6 143**	5 300	**3 375**	2 996
Contributions paid	**(2 128)**	(1 701)	**(960)**	(1 086)
Unrecognised actuarial gain	**(2 228)**	(1 760)	**(2 053)**	(1 032)
Balance at end of year	**30 237**	28 450	**15 479**	15 117
Amounts recognised in the balance sheet are as follows:				
Present value of unfunded obligations	**32 465**	30 210	**17 532**	16 149
Unrecognised actuarial gain	**(2 228)**	(1 760)	**(2 053)**	(1 032)
Liability at end of year	**30 237**	28 450	**15 479**	15 117
Short-term portion	**3 799**	2 040	**2 036**	924
Long-term portion	**26 438**	26 410	**13 443**	14 193
Liability at end of year	**30 237**	28 450	**15 479**	15 117

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

		Group		Corporation	
		2017	2016	2017	2016
		R'000	R'000	R'000	R'000
Amounts recognised in the income statements are as follows:					
Current service cost		3 546	3 376	1 990	1 970
Interest cost		2 597	1 926	1 385	1 027
Net actuarial loss recognised in the year		(2 228)	(1 760)	(2 053)	(1 032)
		3 915	3 542	1 322	1 965
Membership statistics:					
In-service members		733	797	351	418
Sensitivity analysis - unfunded accrued liability					
Assumptions	Change				
Central assumptions:		30 234	28 450	15 479	15 117
CPI Inflation	+1%	32 427	30 557	16 532	16 172
	-1%	28 268	24 862	14 529	13 304
Average retirement age	-2 years	26 409	24 522	13 318	12 576
	+2 years	33 827	31 843	17 638	17 349
17. GOVERNMENT GRANTS					
17.1. Government grants - deferred income					
BEE risk fund		6 599	6 599	6 599	6 599
Share participation		7 098	12 685	7 098	12 685
Co-operatives - business		10 675	13 339	10 675	13 339
Co-operatives - agriculture		170	170	170	170
DTI grant		8 963	10 232	8 963	10 232
SMME onlending		27 218	71 827	27 218	71 827
Hubs		299	-	299	-
Ndumo		2 648	4 880	2 648	4 880
Ntingwe		-	6 228	-	6 228
Drakensberg cable car		1 369	1 566	1 369	1 566
		65 036	127 526	65 036	127 526
17.2. Government grants - other					
EDTEA equity fund		110	112	110	112
Total Government grants		65 147	127 638	65 147	127 638
18. TRADE AND OTHER PAYABLES					
Trade creditors		11 126	25 896	7 335	20 670
Accruals		91 332	38 090	81 484	24 002
South African Revenue Service		22 212	7 631	(2)	11
Audit fee accrual		6 560	7 390	2 499	3 270
Sundry creditors		161 856	51 971	122 065	36 447
Leave pay accrual		31 497	30 582	17 304	18 659
Bonus pay accrual		2 932	1 542	1 458	1 523
		327 515	163 102	232 143	104 582

The audit fee accrual is in repect of the audit fee to be incurred for the financial year under review. The audit fee is approved by the Audit Committee. The bonuses accrual relates to a "13th cheque" payable to "A – C band" employees only that are employed by the Company at the time of payment being annually in November each year.

	Group		Corporation	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
19. INTEREST				
19.1. Interest income				
Balances with banks and short-term funds	120 230	87 632	25 880	16 437
Advances	233 695	233 855	69 736	74 797
Other	-	30	-	30
	353 925	321 517	95 616	91 264
Analysis per financial instrument category				
Interest on financial assets at amortised cost	353 925	321 517	95 616	91 264
19.2. Interest expenditure				
Interest on:				
Savings and deposit accounts	90 093	80 812	-	-
Borrowings	18 721	11 167	9 699	5 777
Other	-	300	-	-
	108 814	92 279	9 699	5 777
Analysis per financial instrument category				
Interest on financial liabilities at amortised cost	108 814	92 279	9 699	5 777
20. OTHER OPERATING INCOME	1 031 405	1 049 392	847 295	863 851
Other operating income is stated after crediting the following items:				
20.1. Surplus/(loss) on sale of investment properties, property, plant and equipment and properties in possession	2 621	(288)	2 658	424
20.2. Profit/(loss) on valuation of listed investments	2 503	(261)	2 503	(261)
20.3. Dividends received	1 326	1 367	17 227	39 529
Listed investments	1 326	1 367	1 326	1 366
Unlisted investments	-	-	15 901	38 163
20.4. Grants applied	153 902	130 581	150 499	130 581
SMME onlending	113 282	100 544	113 282	100 544
Projects	28 282	137	28 282	137
Share participation	5 590	-	5 590	-
SBGE operations	3 345	-	3 345	-
KPDH operations	3 403	-	-	-
Share capital Ithala SOC Limited	-	29 900	-	29 900
20.5. Rental received	321 530	294 823	285 445	262 850
20.6. Sale of electricity, water and sewage	249 282	227 378	249 282	227 378
20.7. Fees, commission and services recovered	150 433	140 704	41 034	31 379
20.8. Fair value adjustment	45 210	91 784	33 514	71 955

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Group		Corporation	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
21. OPERATING EXPENDITURE	**1 050 263**	1 003 805	**668 254**	666 784
Operating expenditure is stated after charging/(crediting) the following items:				
21.1. Auditor's remuneration				
Audit fees - current year	**6 792**	8 256	**2 549**	3 616
21.2. Depreciation of property, plant and equipment	**27 054**	26 324	**16 704**	14 537
21.3. Amortisation of intangible assets	**4 063**	9 302	**2 021**	7 858
21.4. Non-credit related impairments				
Impairment of machinery	**5 721**	-	-	-
Amounts due from subsidiaries	-	-	**1 654**	6 836
21.5. Professional fees	**20 496**	27 096	**11 188**	19 613
21.6. Purchases of electricity, water and sewage	**190 276**	171 199	**190 276**	171 199
21.7. Rent, rates and utilities	**134 815**	125 666	**98 524**	92 767
21.8. Directors' emoluments				
Emoluments paid to Executive Directors:				
YEN Zwane - Chief Executive Officer	**3 554**	3 161	**3 554**	3 161
Emoluments paid to Non-Executive Directors:				
MSV Gantsho - Chairperson	**999**	689	**999**	689
NNA Matyumza (Resigned 31 December 2016 from IDFC)	**632**	512	**282**	324
B Bam	**440**	327	**440**	327
R Ramdew (Appointed 1 April 2016)	**198**	-	**198**	-
B Ngonyama	**579**	517	-	-
DM McLean	**854**	1 146	**647**	648
GNJ White	**554**	45	**554**	45
G Simelane	**203**	102	-	-
P Langeni	**720**	93	-	-
BA Khumalo	**60**	43	-	-
CM Cronje	**166**	53	-	-
M Kekana	**934**	880	-	-
M Mia	**624**	619	-	-
MC Clark (Resigned 31 December 2015)	-	161	-	-
M Mosidi (Resigned 31 December 2015)	-	22	-	22
NN Afolayan	**522**	285	**522**	285
RS Garach	**340**	205	-	-
S Ngidi	**340**	330	-	-
T Nyoka (Appointed 24 March 2016)	**571**	-	-	-
P Radebe (Appointed 11 August 2015)	**510**	263	-	-
W Jacobs (Resigned 31 December 2015)	-	185	-	185
VJ Klein (Resigned 1 August 2015)	-	134	-	-
	9 246	6 611	**3 642**	2 525

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
21. OPERATING EXPENSES (continued)				
21.9. Executive management remuneration				
BTT Mathe	**2 350**	2 020	**2 350**	2 020
B Silungwe (Resigned 10 November 2015)	**-**	1 417	**-**	1 417
F Ferguson (Resigned 30 April 2015)	**-**	224	**-**	224
F Amod	**1 957**	1 610	**1 957**	1 610
GNJ White (Resigned 1 December 2015)	**-**	3 060	**-**	-
MM Matibe	**2 165**	2 020	**2 165**	2 020
NF Dikgale	**1 527**	1 050	**-**	-
NW Nhlangulela	**2 772**	2 426	**2 772**	2 426
M Muthusamy (Acting 1 April 2015)	**1 450**	1 314	**1 450**	1 314
EB Mokgatle	**1 616**	1 479	**1 616**	1 479
P Ireland	**2 617**	1 883	**-**	-
	16 454	18 503	**12 310**	12 510
21.10. Personnel costs	**409 586**	340 581	**238 564**	224 581
21.11. Contribution to retirement benefit schemes				
Defined benefit schemes	**1 255**	1 226	**814**	748
Defined contribution schemes	**42 545**	19 539	**24 696**	10 420
	43 800	20 765	**25 510**	11 168
22. TAXATION				
22.1. Indirect taxation				
Skills development levies	**2 984**	2 977	**1 869**	1 893
	2 984	2 977	**1 869**	1 893
22.2. Direct taxation				
South African normal taxation	**6 687**	6 505	**-**	-
Deferred taxation	**(252)**	416	**-**	-
	6 435	6 921	**-**	-

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Group		Corporation	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
23. NOTES TO CASH FLOW STATEMENT				
23.1. Cash generated from operating activities				
Net income before taxation	**158 815**	245 921	**218 097**	244 439
Adjustment for non-cash items:				
Grants applied	**(153 902)**	(130 581)	**(150 499)**	(130 581)
Landfill sites provision	**11 299**	(465)	**11 299**	(465)
Straightlining of operating lease income and expenditure	**(4 205)**	6 619	**(3 921)**	7 305
Depreciation and amortisation	**31 117**	35 626	**18 725**	22 395
Impairment of assets and inventory	**5 721**	-	**1 654**	-
Fair value adjustments	**(45 210)**	(91 784)	**(33 514)**	(79 184)
Credit impairment for loans and advances	**50 914**	(11 997)	**33 663**	(712)
Movement in other provisions	**382**	(1 301)	**(438)**	(717)
(Profit)/loss on disposal of assets	**(2 621)**	288	**(2 658)**	(424)
Post-retirement provision	**15 052**	11 439	**10 131**	7 596
Long service provision	**3 915**	3 542	**1 322**	1 965
Movement in non-controlling interest	**96**	619	**-**	-
Revaluation of shares	**(2 503)**	261	**(2 503)**	261
	68 871	68 187	**101 359**	71 878
23.2. Decrease/(increase) in working capital				
Trade and other payables	**165 642**	(31 418)	**127 561**	(21 962)
Trade and other receivables	**1 417**	28	**(10 179)**	12 367
Inventory and contracts in progress	**(1 515)**	2 186	**(82)**	456
	165 544	(29 204)	**117 300**	(9 139)
23.3. Taxation paid				
Opening balance	**728**	674	**-**	-
Charge for the year	**(6 687)**	(6 504)	**-**	-
Closing balance	**(1 957)**	(728)	**-**	-
Taxation paid	**(7 916)**	(6 558)	**-**	-
24. COMMITMENTS				
24.1. Capital commitment				
Authorised but not yet contracted	**150 000**	100 000	**150 000**	100 000
Authorised and contracted	**112 746**	33 393	**103 967**	17 786
	262 746	133 393	**253 967**	117 786

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
24. COMMITMENTS (continued)				
24.2. Operating lease commitments				
The future minimum lease payments under non-cancellable leases are as follows:				
Next 12 months	**12 902**	12 918	**75**	525
From 1 - 5 years	**8 327**	11 791	**298**	2 627
Later than 5 years	**1 889**	13 311	**1 889**	13 311
Total future cash flows	**23 118**	38 020	**2 262**	16 463
Straight-lining of operating lease expenditure accrued on balance sheet:	**(2 943)**	(2 802)	**(2 262)**	(2 335)
Short-term portion	**(756)**	(542)	**(75)**	(75)
Long-term portion	**(2 187)**	(2 260)	**(2 187)**	(2 260)
Future expenses	**20 175**	35 218	**-**	14 128
Total commitments	**282 921**	168 611	**253 967**	131 914

ITHALA SOC LIMITED

The Company as a lessee has entered into 1 (2016: 16) related party lease agreements with the holding company. These contracts, in aggregate, amount to R0,06 million (2016: R2,8 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 R2,1 million (2016: R2,1 million)

	Group 2017	Group 2016	Corporation 2017	Corporation 2016
25. CONTINGENT LIABILITIES				
25.1. Guarantees issued				
Loans by petrol companies to service station operators	**131**	131	**131**	131
South African Insurance Association	**6 000**	6 000	**3 000**	3 000
Eskom guarantees	**19 306**	5 985	**19 225**	5 904
EThekwini Municipality	**111**	111	**111**	111
WBHO Construction *	**1 006**	-	**1 006**	-
Total	**26 554**	12 227	**23 473**	9 146

* Builders guarantees issued in the ordinary course of business.

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

25.2. Legal matters

The Company is currently opposing (defendent) certain claims that have been instituted against it by various parties. At year-end, the outcome of the following legal disputes is considered uncertain.

ITHALA CORPORATION

- Claim for damages of R0,3 million in respect for evicting a tenant.
- Claim of R0,1 million by an employee for relocation costs.
- Claim of R14,2 million by a tenant for damages suffered when premises were renovated.
- Claim of R0,06 million by a supplier for professional services rendered.
- Claim of R0,2 million by a supplier for professional services rendered.
- Claim of R0,6 million by a supplier for electrical installation.
- Claim R4,5 million for illegal termination of contract.
- Claim of R0,7 million for damages suffered due to Ithala misrepresentation.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

ITHALA SOC LIMITED
- Claim for R0,3 million for a property in possession sold to, but not transferred to a client.
- Claim for R0,9 million by a client for monies released from the client's bank account
- Claim for R0,3 million for damages suffered as a result of a client receiving incorrect investment advice.
- Claim for R2,8 million by a supplier for breach of contract for early termination.
- Claim for R0,06 million by a former employee for misappropriation of funds from the former employee's savings account.
- Claim for R0,7 million by a former landlord for arrear rentals and damages for failure to repair the premises.

26. DEFERRED TAXATION

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
Deferred taxation liability comprises:				
- Provision for doubtful debts	**(1 449)**	(1 095)	-	-
- Straight-line rental debtors	**2 684**	2 691	-	-
- Provision for straight-line rental debtors	**(82)**	(187)	-	-
- Assessed losses	**(3)**	(6)	-	-
	1 150	1 403	-	-
The movement is reconciled as follows:				
Balance at beginning of year	**(1 403)**	(986)	-	-
Movement during the year:				
- Provision for doubtful debts	**340**	(223)	-	-
- Straight-line rental debtors	**4**	(10)	-	-
- Provision for straight-line rental debtors	**(104)**	(267)	-	-
- Assessed losses	**13**	83	-	-
	(1 150)	(1 403)	-	-

27. RELATED PARTIES

Parent/holding company

Ithala Development Finance Corporation Limited (The Corporation) is a 100% held subsidiary of the KwaZulu-Natal Provincial Government, reporting to the Department of Economic Development, Tourism and Environmental Affairs. The Corporation and its subsidiaries, in the ordinary course of business enter into various transactions with related parties. These occur under terms and conditions that are no more favourable to those entered into with third parties in arms length transactions.

27.1. Loans to Members of the Provincial Legislature, senior management of the Department of Economic Development, Tourism and Environmental Affairs

Entities controlled or jointly controlled or significantly influenced by any individual referred to above:

	Loans granted	Outstanding balance	Arrears	Specific impairment charge	Security amount	Interest received
	R'000	R'000	R'000	R'000	R'000	R'000
2017						
Corporation	**14 175**	**12 574**	**988**	-	**12 260**	**641**
2016						
Corporation	14 175	13 046	-	-	12 260	638

	Loans granted	Outstanding balance	Arrears	Specific impairment charge	Security amount	Interest received
	R'000	R'000	R'000	R'000	R'000	R'000
27.2. Loans to key management personnel						
These are individuals responsible for planning, directing and controlling the activities of the Ithala Development Finance Corporation, its subsidiaries and associated companies.						
2017						
Corporation	**35 385**	**30 726**	**2 987**	**8 712**	**18 375**	**3 151**
Ithala SOC Limited	**75 000**	**4 942**	**-**	**-**	**4 766**	**433**
2016						
Corporation	39 016	29 263	-	-	18 685	2 819
Ithala SOC Limited	2 429	6 017	-	-	6 548	415

R8,7 million relating to specific credit impairments (2016: 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%

	2017	2016
	R'000	R'000
27.3. Transactions between the Corporation and its subsidiaries		
These are transactions with wholly-owned subsidiaries of the Corporation. These amounts are only included in the Corporation accounts and are eliminated on consolidation.		
a) Ithala SOC Limited		
Bank charges received	**5**	106
Interest paid on customer deposits and retention accounts	**4 656**	2 807
Shared services	**(12 682)**	(14 789)
Rental	**(4 915)**	(4 996)
Recovery of operating expenses	**1 812**	2 603
Insurance recovery	**-**	2 496
The outstanding balances of the current and shareholders loan accounts:		
Outstanding balance on savings and fixed deposits	**67 668**	45 308
Ithala Development Finance Corporation inter-company balance	**4 455**	7 945
b) KwaZulu-Natal Property Development Holdings (KPDH)		
Balance owed to KPDH - grant income and interest	**-**	7 593
Balance owed by KPDH	**(614)**	(1 709)
c) Property subsidiaries		
Dividends received	**15 901**	33 484
Rental	**4 266**	4 851
Sale of refuse	**426**	440
Management fees	**1 773**	1 716
Distribution	**5 451**	4 716
Bank charges paid	**(4)**	(3)
Interest received on loans	**5 323**	4 943

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	2017	2016
	R'000	R'000
27.4. Transactions between the Corporation and other subisidiaries under the Department of Economic Development, Tourism and Environmental Affairs		
Rental	**3 909**	405
Parking	**593**	87
Recovery of operating expenses	**731**	34

	Deposits due	Interest expense	Outstanding balance	Fees received
	R'000	R'000	R'000	R'000
27.5. KwaZulu-Natal Provincial Government				
2017				
Group				
Department of Corporate Governance and Traditional Affairs	27 416	1 857	-	-
Department of Agriculture	1 183	24	-	-
Department of Human Settlements	-	-	-	-
KZN Growth Fund Trust	27 800	2 347	-	-
Ezemvelo - KZN Wildlife	-	1 970	-	-
KZN Municipalities	94 156	10 144	-	-
Department of Health	3 096	13	-	-
Total	153 651	16 355	-	-
Corporation				
Department of Education	-	-	-	-
Department of Health	-	-	-	-
Total	-	-	-	-
2016				
Group				
Department of Corporate Governance and Traditional Affairs	28 023	1 659	-	-
Department of Agriculture	1 160	24	-	-
Department of Human Settlements	-	94	-	-
KZN Growth Fund Trust	47 879	2 602	-	-
Ezemvelo - KZN Wildlife	31 780	1 780	-	-
KZN Municipalities	67 525	2 072	-	-
Department of Health	1 843	6	-	-
Total	178 210	8 237	-	-
Corporation				
Department of Education	-	-	5 484	-
Department of Health	-	-	9 852	-
Total	-	-	15 336	-

	Group		Corporation	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
28. PRIOR YEAR ADJUSTMENTS				
28.1. Investment property				

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, this policy was applied in the prior financial year. However, it was discovered that this is only applicable to depreciable assets, not to non-depreciable assets as is the case with our investment property. Therefore the Group policy has changed to address non-depreciable assets, as follows: non-current assets that are measured at fair value, the grants are recognised as income over the periods necessary to match the grant with the costs for which they are intended to compensate, on a systematic basis. In addition, it was discovered that certain vacant land held as investment property was not valued from 2015. Valuations were subsequently retrospectively obtained for these investment properties. This has resulted in investment property increasing in 2015 and 2016 from the resultant fair value adjustments.

	Group 2016	Group 2015	Corporation 2016	Corporation 2015
Effect on statement of financial position:				
Increase in investment property	**130 252**	115 711	**130 676**	116 135
Effect on statement of comprehensive income:				
Increase in other operating income	**14 107**	115 701	**14 541**	116 135

28.2. Property, plant and equipment/trade and other payables

Errors relating to property, plant and equipment and trade and other payables in respect of the 2016 year were identified and corrected in the 2017 year.

	Group 2016	Group 2015	Corporation 2016	Corporation 2015
Effect on statement of financial position:				
Decrease in property, plant and equipment	**(776)**	-	-	-
Increase in trade and other payables	**100**	-	-	-
Effect on statement of comprehensive income:				
Increase in operating expenses	**676**	-	-	-
28.3. Reconciliation of the impact on retained income				
Retained income as previously reported	**2 580 083**	2 355 567	**2 505 191**	2 275 293
Increase in operating income (cumulative)	**130 252**	115 711	**130 676**	116 135
Increase in operating expenses	**(676)**	-	-	-
Restated retained income	**2 709 659**	2 471 278	**2 635 867**	2 391 428

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
29. CHANGE IN ESTIMATES				
29.1. Property, plant and equipment				

Equipment is depreciated over its useful life taking into account their residual values, where appropriate. The remaining useful lives of assets were reassessed during the current year. The effect of the change in estimate during the current year is as follows:

	Group 2017	Group 2016	Corporation 2017	Corporation 2016
Effect on statement of financial position:				
Increase in net book value - equipment	**7 306**	756	**5 375**	223
Effect on statement of comprehensive income:				
Decrease in depreciation	**(7 306)**	(756)	**(5 375)**	(223)

The remaining useful life of the landfill site was also re-assessed, resulting in the useful life reducing from 14,5 years to nine years with a revised carrying amount of R9,5 million. Depreciation raised on the landfill site amounted to R1,4 million and it is estimated that the future depreciatioin to be raised will be R9,5 million. See Note 35 for further information.

	Group 2017	Group 2016	Corporation 2017	Corporation 2016
30. FRUITLESS AND WASTEFUL EXPENDITURE	**-**	201	**-**	30

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

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

There were no events subsequent to year-end that may have a significant impact on the Annual Financial Statements.
New members of Ithala's Board of Directors were also appointed subsequent to the 2016/17 financial year-end. Their term of office commenced on 1 June 2017 with an acknowledgement of the performance achieved by the outgoing Board of Directors, whose term of office ended on 31 May 2017.

32. IRREGULAR EXPENDITURE

		Group		Corporation	
		2017	2016	2017	2016
		R'000	R'000	R'000	R'000
Opening balance		1 218	8 192	596	2 109
Add: Irregular expenditure - current year		5 536	2 543	3 919	1 921
Add: Prior year amounts identified in current year		20 260	51	19 314	51
Less: Amounts condoned		(1 237)	(9 568)	(614)	(3 485)
Irregular expenditure awaiting condonation		25 777	1 218	23 215	596
Analysis of expenditure awaiting condonation per age classification					
Current year		5 517	1 218	3 901	596
Prior years		20 260	-	19 314	-
Total		25 777	1 218	23 215	596
Incident	**Action taken**				
Non-compliance with supply chain management policies	Employee dismissed	179	13	-	13
Non-compliance with supply chain management policies	Under investigation	4 279	-	3 171	-
Non-compliance with supply chain management policies	Disciplinary action	19 077	-	19 077	-
Non-compliance with supply chain management policies	No action taken	1 269	1 933	949	1 933
Non-compliance with supply chain management policies	Warnings given	973	1 272	18	649
Total		25 777	3 218	23 215	2 595
Incident	**Condoned by**				
Non-compliance with supply chain management policies	Accounting authority	1 237	9 568	614	3 485
Total		1 237	9 568	614	3 485

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.

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000

33.1. Credit risk

Credit risk is the risk of potential loss from the failure of customers, clients or counter-parties to fulfill obligations to the Group. In order to minimise the potential for loss, the Group has adopted a credit risk management philosophy, which is based on the principle of assessing the serviceability of individual loans granted and the recoverability of such loans through cash flows and the underlying security. Loans advanced are secured by tangible assets and other forms of security.

The Board of Directors has delegated responsibility for the oversight of credit risk to the Credit and Investment Committee. A separate Management Credit 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 merit, depending on the value and type of transaction under consideration, may be considered progressively by Delegated Line function, Management Credit Committee and the Board Credit and Investment Committee. The transaction-based approach is in keeping with Ithala's risk management strategy throughout the Group while ensuring compliance with credit policies set by the Board.

Problem exposures, when they arise, are initially dealt with by Line Management unless further degeneration occurs, whereupon they are attended to by the Corporation's business support, legal and collections staff who then administer the recovery process. Exposures are considered to be non-performing when amounts due are unpaid for more than three months or a counter-party is under judicial management or declared insolvent and management believes that further recoveries are no longer probable.

Credit risk concentration

The Group monitors concentrations of credit risk by sector and location. The Group does not have significant exposure to any single counter-party or to any group of counter-parties with similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed R50 million per counterparty at any time during the year. The credit risk on liquid funds and non-derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies, excluding those invested with Ithala SOC Limited.

	Group 2017	Group 2016	Corporation 2017	Corporation 2016
Concentration risk by product				
Housing and commercial property	**1 401 661**	1 388 913	-	-
Micro finance - secured	**63 913**	61 718	-	-
Micro finance - unsecured	**37 979**	41 729	**14 920**	11 775
Agri finance	**269 995**	238 343	**269 995**	238 343
Franchise finance	**17 890**	21 942	**17 890**	21 942
Procurement finance	**43 175**	42 227	**43 175**	42 227
Commercial property finance	**208 321**	237 375	**208 321**	237 375
Asset finance	**133 587**	142 950	**133 587**	142 950
Structured finance	**185 469**	154 079	**185 469**	154 079
	2 361 990	2 329 276	**873 357**	848 691
Concentration risk by location				
Staff Loans	**4 185**	4 457	**4 185**	4 457
Amajuba District	**30 819**	30 543	**30 819**	30 543
Ilembe District	**122 507**	130 965	**122 507**	130 965
Sisonke District	**30 985**	30 270	**30 985**	30 270
EThekwini Metropolitan	**401 365**	388 548	**401 365**	388 548
Ugu District	**60 234**	60 903	**60 234**	60 903
Umgungundlovu District	**35 043**	42 251	**35 043**	42 251
Umkhanyakude District	**35 096**	34 445	**35 096**	34 445
Umzinyathi District	**2 928**	2 518	**2 928**	2 518
Uthukela District	**4 038**	4 309	**4 038**	4 309
Uthungulu District	**118 623**	87 969	**118 623**	87 969
Zululand District	**27 534**	31 513	**27 534**	31 513
Ithala Limited Loans - KZN Province	**1 488 633**	1 480 585	-	-
	2 361 990	2 329 276	**873 357**	848 691

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Group		Corporation	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000

Ithala SOC Limited does not currently have the concentration risk by location, but is amending its procedures to include this in future.

Credit risk exposure
The Group's maximum exposure to credit risk is represented by the balance of outstanding advances, before taking into account the provision for impairment and value of collateral held as security against such exposures and application of grants.

	Group 2017 R'000	Group 2016 R'000	Corporation 2017 R'000	Corporation 2016 R'000
Credit risk exposures relating to on-balance sheet assets are as follows:				
Assets	**4 177 150**	4 037 770	**1 463 027**	1 379 219
Loans and advances	**2 361 990**	2 329 276	**873 357**	848 691
Investments	**20 550**	18 047	**20 550**	18 047
Trade and other receivables	**169 136**	198 196	**149 815**	167 976
Statutory liquid funds	**177 769**	129 882	**-**	-
Cash and cash equivalents	**1 447 705**	1 362 369	**419 305**	344 505
Exposure	**4 177 150**	4 037 770	**1 463 027**	1 379 219
Credit risk exposures relating to off-balance sheet items are as follows:				
Loan commitments:	**34 824**	73 678	**30 810**	71 556
Housing and commercial property	**4 014**	2 122	**-**	-
Micro finance	**259**	1 282	**259**	1 282
Agri finance	**10 408**	18 731	**10 408**	18 731
Franchise finance	**-**	-	**-**	-
Procurement finance	**6 415**	6 562	**6 415**	6 562
Commercial property finance	**4 202**	12 107	**4 202**	12 107
Asset finance	**9 526**	32 874	**9 526**	32 874
Structured finance	**-**	-	**-**	-
Exposure	**34 824**	73 678	**30 810**	71 556

	2017			2016		
	Original carrying amount	**Impairment**	**Carrying amount**	Original carrying amount	Impairment	Carrying amount
	R'000	**R'000**	**R'000**	R'000	R'000	R'000
33.1. Credit Risk (continued)						
Analysis of impairment provisions per product						
			Group			
Housing and commercial property	**1 401 661**	**57 498**	**1 344 163**	1 388 913	68 338	1 320 575
Micro finance - secured	**63 913**	**15 706**	**48 207**	61 718	2 936	58 782
Micro finance - unsecured	**37 979**	**19 024**	**18 955**	41 729	17 828	23 901
Agri finance	**269 995**	**18 788**	**251 207**	238 343	13 914	224 429
Franchise finance	**17 890**	**3 336**	**14 554**	21 942	2 183	19 759
Procurement finance	**43 175**	**30 082**	**13 093**	42 227	32 061	10 166
Commercial property finance	**208 321**	**33 474**	**174 847**	237 375	19 293	218 082
Asset finance	**133 587**	**44 019**	**89 568**	142 950	42 837	100 113
Structured finance	**185 469**	**59 627**	**125 842**	154 079	52 950	101 129
	2 361 990	**281 554**	**2 080 436**	2 329 276	252 340	2 076 936
Analysis of impairment provisions per product						
			Corporation			
Micro finance	**14 920**	**2 469**	**12 451**	11 775	1 322	10 453
Agri finance	**269 995**	**18 788**	**251 207**	238 343	13 914	224 429
Franchise finance	**17 890**	**3 336**	**14 554**	21 942	2 183	19 759
Procurement finance	**43 175**	**30 082**	**13 093**	42 227	32 061	10 166
Commercial property finance	**208 321**	**33 474**	**174 847**	237 375	19 293	218 082
Asset finance	**133 587**	**44 019**	**89 568**	142 950	42 837	100 113
Structured finance	**185 469**	**59 627**	**125 842**	154 079	52 950	101 129
	873 357	**191 795**	**681 562**	848 691	164 560	684 131

Individually assessed exposures

The Group considers certain exposures to be individually significant warranting an assessment of impairment individually. Furthermore, the Group individually assesses other loans and advances for impairment on a case-by-case basis where they are long overdue, the client shows signs of financial distress and when there is objective evidence that the client is in financial difficulties, and where necessary, a top-up provision is created for such loans.The Corporation's large exposures are all loans greater than R2,0 million whilst Ithala SOC Limited's large exposures are the commercial property loans, property development loans and housing loans exceeding R500 000.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Loan balance	Impairment	Carrying amount	Collateral
	R'000	R'000	R'000	R'000
2017		**Group**		
Housing and commercial property	**539 418**	**20 061**	**519 357**	**422 915**
Agri finance	**25 144**	**4 279**	**20 865**	**15 981**
Franchise finance	**-**	**-**	**-**	**-**
Procurement finance	**2 790**	**2 721**	**69**	**123**
Commercial property finance	**-**	**-**	**-**	**-**
Asset finance	**15 797**	**5 888**	**9 909**	**6 792**
Structured finance	**48 058**	**41 666**	**6 392**	**16 123**
	631 207	**74 615**	**556 592**	**461 934**
2016				
Housing and commercial property	67 548	16 500	51 048	401 802
Agri finance	31 099	6 421	24 678	22 157
Franchise finance	-	-	-	-
Procurement finance	8 118	8 118	-	-
Commercial property finance	74 736	17 066	57 670	58 410
Asset finance	25 355	19 460	5 895	8 840
Structured finance	47 929	45 749	2 180	18 287
	254 785	113 314	141 471	509 496
2017		**Corporation**		
Agri finance	**25 144**	**4 279**	**20 865**	**15 981**
Franchise finance	**-**	**-**	**-**	**-**
Procurement finance	**2 790**	**2 721**	**69**	**123**
Commercial property finance	**-**	**-**	**-**	**-**
Asset finance	**15 797**	**5 888**	**9 909**	**6 792**
Structured finance	**48 058**	**41 666**	**6 392**	**16 123**
	91 789	**54 554**	**37 235**	**39 019**
2016				
Agri finance	31 099	6 421	24 678	22 157
Franchise finance	-	-	-	-
Procurement finance	8 118	8 118	-	-
Commercial property finance	74 736	17 066	57 670	58 410
Asset finance	25 355	19 460	5 895	8 840
Structured finance	47 929	5 749	42 180	18 287
	187 237	56 814	130 423	107 694

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	Bonds over properties
	Equipment
	Fixed deposit certificates
	Cession over life assurance
	Cession over income
	Cession over shares
	Deeds of suretyship

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
Valuation of collateral				
The fair value of collateral held at balance sheet date was as follows:				
Housing and commercial property finance	**1 177 722**	1 265 310	**-**	-
Micro finance	**328 223**	36	**46**	36
Agri finance	**251 807**	235 566	**251 807**	235 566
Franchise finance	**7 044**	7 046	**7 044**	7 046
Procurement finance	**5 742**	5 631	**5 742**	5 631
Commercial property finance	**198 064**	181 992	**198 064**	181 992
Asset finance	**58 275**	61 336	**58 275**	61 336
Structured finance	**24 167**	26 889	**24 167**	26 889
	2 051 044	1 783 806	**545 145**	518 496
Enforcement of collateral				
Carrying amounts of assets held as a result of enforcement of collateral were as follows:				
Properties in possession:				
Opening balance	**16 545**	17 993	**3 698**	5 238
Acquisitions	**4 206**	2 013	**388**	248
Disposals	**(3 852)**	(3 461)	**(1 215)**	(1 788)
Closing balance	**16 899**	16 545	**2 871**	3 698

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 2017 (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
Loans and advances past due and not impaired					
2017			**Group**		
Housing and commercial property finance	**11 786**	**9 305**	**10 339**	**40 229**	**71 659**
Micro finance	**411**	**289**	**1 283**	**2 217**	**4 200**
Agri finance	**-**	**181**	**419**	**4**	**604**
Franchise finance	**103**	**-**	**-**	**-**	**103**
Procurement finance	**22**	**345**	**102**	**-**	**469**
Commercial property finance	**64**	**-**	**9 583**	**-**	**9 647**
Asset finance	**-**	**402**	**-**	**384**	**786**
Structured finance	**-**	**-**	**-**	**-**	**-**
	12 386	**10 522**	**21 726**	**42 834**	**87 468**
2016			Group		
Housing and commercial property finance	13 643	12 627	11 433	46 955	84 658
Micro finance	400	75	-	-	475
Agri finance	-	82	113	-	195
Franchise finance	-	-	341	-	341
Procurement finance	96	584	1 135	-	1 815
Commercial property finance	9	1 017	1 422	-	2 448
Asset finance	-	85	-	444	529
Structured finance	-	475	-	-	475
	14 148	14 945	14 444	47 399	90 936
2017			**Corporation**		
Micro finance	**21**	**83**	**211**	**-**	**315**
Agri finance	**-**	**181**	**419**	**4**	**604**
Franchise finance	**103**	**-**	**-**	**-**	**103**
Procurement finance	**22**	**345**	**102**	**-**	**469**
Commercial property finance	**64**	**-**	**9 583**	**-**	**9 647**
Asset finance	**-**	**402**	**-**	**384**	**786**
Structured finance	**-**	**-**	**-**	**-**	**-**
	210	**1 011**	**10 315**	**388**	**11 924**
2016			Corporation		
Micro finance	400	75	-	-	475
Agri finance	-	82	113	-	195
Franchise finance	-	-	341	-	341
Procurement finance	96	584	1 135	-	1 815
Commercial property finance	9	1 017	1 422	-	2 448
Asset finance	-	85	-	444	529
Structured finance	-	475	-	-	475
	505	2 318	3 011	444	6 278

	< 30 days past due	30 - 60 days past due	60 - 90 days past due	> 90 days past due	Total
	R'000	R'000	R'000	R'000	R'000
33.1. Credit risk (continued)					
Loans and advances past due and impaired					
2017			**Group**		
Housing and commercial property	-	-	-	**69 159**	**69 159**
Micro finance	-	-	-	**28 054**	**28 054**
Agri finance	-	-	-	**4 318**	**4 318**
Franchise finance	-	-	-	**2 311**	**2 311**
Procurement finance	-	-	-	**28 360**	**28 360**
Commercial property finance	-	-	-	**7 928**	**7 928**
Asset finance	-	-	-	**22 786**	**22 786**
Structured finance	-	-	-	**30 231**	**30 231**
	-	-	-	**193 147**	**193 147**
2016			Group		
Housing and commercial property	-	-	-	70 318	70 318
Micro finance	-	-	-	614	614
Agri finance	-	-	-	3 041	3 041
Franchise finance	-	-	-	931	931
Procurement finance	-	-	-	30 940	30 940
Commercial property finance	-	-	-	183	183
Asset finance	-	-	-	18 910	18 910
Structured finance	-	-	-	27 218	27 218
	-	-	-	152 155	152 155
2017			**Corporation**		
Micro finance	-	-	-	**1 255**	**1 255**
Agri finance	-	-	-	**4 318**	**4 318**
Franchise finance	-	-	-	**2 311**	**2 311**
Procurement finance	-	-	-	**28 360**	**28 360**
Commercial property finance	-	-	-	**7 928**	**7 928**
Asset finance	-	-	-	**22 786**	**22 786**
Structured finance	-	-	-	**30 231**	**30 231**
	-	-	-	**97 189**	**97 189**
2016			Corporation		
Micro finance	-	-	-	614	614
Agri finance	-	-	-	3 041	3 041
Franchise finance	-	-	-	931	931
Procurement finance	-	-	-	30 940	30 940
Commercial property finance	-	-	-	183	183
Asset finance	-	-	-	18 910	18 910
Structured finance	-	-	-	27 218	27 218
	-	-	-	81 837	81 837

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
Fair value of collateral for loans past due and impaired				
Housing and commercial property finance	**63 216**	63 703	**-**	-
Micro finance	**2 366**	36	**46**	36
Agri finance	**9 483**	13 198	**9 483**	13 198
Franchise finance	**525**	422	**525**	422
Procurement finance	**4 387**	4 693	**4 387**	4 693
Commercial property finance	**38 910**	66 762	**38 910**	66 762
Asset finance	**14 033**	16 858	**14 033**	16 858
Structured finance	**22 101**	24 741	**22 101**	24 741
	155 021	190 413	**89 485**	126 710

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 2017	Group 2016	Corporation 2017	Corporation 2016
Continuing to be impaired after rescheduling:				
Micro finance	**-**	**8 475**	**-**	8 475
Non-impaired after rescheduling - would otherwise have been impaired:				
Agri finance	**2 047**	66 052	**2 047**	66 052
Procurement finance	**283**	585	**283**	585
Asset finance	**3 027**	3 911	**3 027**	3 911
Non-impaired after rescheduling - would otherwise not have been impaired:				
Micro finance	**226**	68 433	**226**	68 433
Agri finance	**3 091**	44	**3 091**	44
Procurement finance	**4 058**	521	**4 058**	521
Commercial property finance	**-**	12 817	**-**	12 817
Asset finance	**2 880**	-	**2 880**	-
Structured finance	**-**	28 683	**-**	28 683
	15 612	189 521	**15 612**	189 521

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 in a timely manner 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 funded in a timely manner.

The key focus areas in managing liquidity risk include, inter alia:
- The continuous monitoring of actual and projected net cash flows;
- The maintenance of a liquidity "buffer" to fund unforeseen cash flows;
- Daily management of liquidity to support operations and fund asset growth;
- Periodic assessment of sources of funding to fund liquidity shortfalls; and
- Advising management on trends emerging from variance analysis to reassess, where necessary, business plans and assumptions.

The details of the Group's expected contractual maturity for its financial liabilities has been drawn-up based on the summary of the undiscounted contractual maturities of financial liabilities, including interest that would be payable. A summary of the Group liquidity profile and the contractual maturity is reflected in the table opposite:

	Group				
	On demand to 1 month	1 to 6 months	6 months to 1 year	From 1 to 5 years	After 5 years
	R'000	R'000	R'000	R'000	R'000
33.2. Liquidity risk (continued)					
2017					
Financial assets					
Loans and advances	268 991	68 438	57 815	530 233	1 436 513
Investments at fair value through profit and loss	20 550	-	-	-	-
Trade receivables	47 123	122 013	-	-	-
Statutory liquid assets	177 769	-	-	-	-
Cash and cash equivalents	673 881	594 502	18 700	160 622	-
Total assets	1 188 314	784 953	76 515	690 855	1 436 513
Financial liabilities					
Borrowings	437	7 601	10 704	40 502	26 789
Liability to depositors	1 212 033	676 242	359 623	37 611	-
Trade payables	327 515	-	-	-	-
Total liabilities	1 539 985	683 843	370 327	78 113	26 789
Net liquidity excess/(shortfall)	(351 671)	101 110	(293 812)	612 742	1 409 724
Cumulative liquidity	(351 671)	(250 561)	(544 373)	68 369	1 478 093
2016			Group		
Financial assets					
Loans and advances	39 444	104 581	94 475	677 378	1 413 398
Investments at fair value through profit and loss	18 047	-	-	-	-
Trade receivables	67 812	130 384	-	-	-
Statutory liquid assets	129 882	-	-	-	-
Cash and cash equivalents	968 309	285 205	48 036	60 819	-
Total assets	1 223 494	520 170	142 511	738 197	1 413 398
Financial liabilities					
Borrowings	420	7 517	10 604	72 126	14 153
Liability to depositors	1 180 250	633 607	337 539	42 409	-
Trade payables	163 102	-	-	-	-
Total liabilities	1 343 772	641 124	348 143	114 535	14 153
Net liquidity excess/(shortfall)	(120 278)	(120 954)	(205 632)	623 662	1 399 245
Cumulative liquidity	(120 278)	(241 232)	(446 864)	176 798	1 576 043

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Corporation				
	On demand to 1 month	1 to 6 months	6 months to 1 year	From 1 to 5 years	After 5 years
	R'000	R'000	R'000	R'000	R'000
2017					
Financial assets					
Loans and advances	212 002	21 130	10 690	205 689	423 846
Investments at fair value through profit and loss	20 550	-	-	-	-
Trade receivables	40 579	109 236	-	-	-
Cash and cash equivalents	210 474	208 831	-	-	-
Total assets	483 605	339 197	10 690	205 689	423 846
Financial liabilities					
Borrowings	437	7 601	10 704	40 502	24 724
Trade payables	232 143	-	-	-	-
Total liabilities	232 580	7 601	10 704	40 502	24 724
Net liquidity excess/(shortfall)	251 025	331 596	(14)	165 187	399 122
Cumulative liquidity	251 025	582 621	582 607	747 794	1 146 916
2016			Corporation		
Financial assets					
Loans and advances	32 662	71 974	56 080	371 328	316 647
Investments at fair value through profit and loss	18 047	-	-	-	-
Trade receivables	56 226	111 749	-	-	-
Cash and cash equivalents	215 505	128 989	-	-	-
Total assets	322 440	312 712	56 080	371 328	316 647
Financial liabilities					
Borrowings	420	7 517	10 604	72 126	12 078
Trade payables	104 582	-	-	-	-
Total liabilities	105 002	7 517	10 604	72 126	12 078
Net liquidity excess/(shortfall)	217 438	305 195	45 476	299 202	304 569
Cumulative liquidity	217 438	522 633	568 109	867 311	1 171 880

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 it's holdings of financial instruments.

33.3.1. Interest rate risk
Interest rate risk refers to the potential adverse impact on earnings as a result of changes in interest rates. Yields on assets and liabilities are monitored monthly. In addition, interest rate shock analysis is performed to assess the sensitivity on net interest due to unanticipated movement in interest rates.

Interest rate forecasts are reviewed monthly taking into account market and economic data available. Pricing of assets is informed by the trends emerging from the review of interest rates and maturity profiles of assets and liabilities.

Interest rate sensitivity
The sensitivity analysis 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 2017 would increase by R7,1 million (2016: R5,2 million) or decrease by R7,1 million (2016: R5,2 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 2017. Fair value is determined by reference to stock exchange quoted bid prices. The Group applies a critical judgement of 5% on the valuation of these investments. If the valuation of the investment at year-end had been 5% higher or lower while other variables were held constant, the fair value of investment and fair value gains would have increased or decreased by R1,0 million (2016: R0,9 million).

33.3.3. Foreign exchange risks
The Group has no exposure to transactions or balances traded or denominated in foreign currencies.

33.4. Operational risk
Operational risk arises from human or system error within daily product and service delivery. It transcends all divisions and products. This risk includes the potential that inadequate technology and information systems, operational problems, insufficient human resources, breaches of integrity or non-compliance with regulations and laws will result in direct or indirect losses.

The primary responsibility for managing operational risk forms part of the day-to-day responsibilities of management and employees at all levels. Business line management is ultimately responsible for owning and managing risks resulting from their activities. The lending unit has, as part of preventive controls, operational policies and procedures with clear segregation of functions and duties and clear and independent reporting structures. Furthermore, the Group Internal Audit and Compliance functions 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, the Executive Committee and submitted to the Audit Committee and the Enterprise Risk Committee.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
34. PROVISION FOR LANDFILL RESTORATION				
Balance at beginning of year	**5 508**	5 973	**5 508**	5 973
Finance costs	**951**	(465)	**951**	(465)
Change in estimated useful life	**10 348**	-	**10 348**	-
Balance at end of year	**16 807**	5 508	**16 807**	5 508

The useful life of the landfill site was reduced from 14,5 years to nine years and an interest rate of 6,0% was used to determine the finance cost raised.

	Group		Corporation	
	2017	2016	**2017**	2016
	R'000	R'000	**R'000**	R'000
35. CELL CAPTIVE INSURANCE FUND				
Balance at beginning of year	**7 162**	5 343	-	-
Movements:				
Unearned premium provision	**(4 067)**	3 398	-	-
Re-insurance unearned provision	**684**	(352)	-	-
Gross outstanding claims	**977**	(2 599)	-	-
Deferred acquisition cost	**(204)**	1 238	-	-
Gross incurred but not reported	**(744)**	192	-	-
Re-insurance incurred but not reported	**141**	(58)	-	-
Balance at end of year	**3 949**	7 162	-	-

BORROWINGS - ANNEXURE 1
FOR THE YEAR ENDED 31 MARCH 2017

	Instalment	Date of final repayment	Interest rate	Group 2017	Group 2016	Corporation 2017	Corporation 2016
	R'000	repayment	%	R'000	R'000	R'000	R'000
Development Bank of Southern Africa Ltd							
Repayable in half-yearly instalments	2 395	2018	10,16	3 648	7 295	3 648	7 295
	5 084	2020	9,51	17 963	25 148	17 963	25 148
				21 611	32 443	21 611	32 443
Land and Agricultural Development Bank of South Africa							
Repayable in annual instalments	2 844	2017	7,50	2 746	5 485	2 746	5 485
Nedbank							
Repayable in monthly instalments	652	2026	9,75	47 118	50 239	47 118	50 239
Khula Enterprise Finance Ltd							
Repayable in monthly instalments	241	2025	5,95	12 493	14 578	12 493	14 578
Sundumbili Plaza Ltd							
No fixed terms of repayment	-	-	11,25	227	227	-	-
Nongoma Plaza Ltd							
No fixed terms of repayment	-	-	11,25	65	65	-	-
Sibaya Conservation Projects (Pty) Ltd							
No fixed terms of repayment	-	-	-	1 783	1 783	-	-
Total borrowings				86 043	104 820	83 968	102 745

SUBSIDIARIES - ANNEXURE 2
FOR THE YEAR ENDED 31 MARCH 2017

	Issued share capital		Percentage interest		Shares		Dividends		Loans	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Unlisted										
Property development										
Sundumbili Plaza Ltd	**7 570**	7 570	**98**	98	**7**	7	**5 928**	17 203	**19 397**	20 193
Nongoma Plaza Ltd	**48 016**	48 016	**99**	99	**47**	47	**9 973**	16 281	**29 157**	26 028
Sibaya Conservation Projects (Pty) Ltd	**1 900**	1 900	**-**	-	**-**	-	**-**	-	**4 162**	-
Durban Wharfside Trust	**-**	-	**100**	100	**6**	6	**-**	-	**38 811**	35 412
Other										
Ithala SOC Ltd	**190 045 400**	190 040 400	**100**	100	**363 900**	363 900	**-**	-	**4 455**	7 945
2001/2002	**150 000 000**	150 000 000			**139 000**	139 000				
2009/2010	**40 000 000**	40 000 000			**40 000**	40 000				
2013/2014	**10 500**	10 500			**105 000**	105 000				
2014/2015	**5 000**	5 000			**50 000**	50 000				
2015/2016	**29 900**	29 900			**29 900**	29 900				
Cowslip Investments (Pty) Ltd	**4 318**	4 047	**100**	100	**-**	-	**-**	-	**-**	-
Ubuciko Twines & Fabrics (Pty) Ltd	**100**	100	**100**	100	**-**	-	**-**	-	**-**	-
KZN Property Development Holdings (Pty) Ltd	**100**	100	**100**	100	**-**	-	**-**	-	**-**	-
					363 960	363 960	**15 901**	33 484	**95 982**	89 578

Nongoma Plaza Ltd has declared and paid a dividend of R208.30 per share over the period 1 April 2015 to 31 March 2016. The dividend was received in 2016. Ithala holds 47 885 shares (99,7% shareholding) in this related party. Sundumbili Plaza Ltd has declared and paid a dividend of R7.93 per share over the period 1 April 2015 to 31 March 2016. The dividend was received in 2016. Ithala holds 747 956 shares (98,81% shareholding) in this related party. Ithala Ltd is exempt from income tax in terms of S10 (1) (cA) (i) (cc) of the Income Tax Act and is, hence, exempt from dividends tax as well.

ASSOCIATED COMPANIES - ANNEXURE 3
FOR THE YEAR ENDED 31 MARCH 2017

	Number of shares held		Percentage holding		Shares		Loans	
	2017	2016	2017	2016	2017	2016	2017	2016
			%	%	R'000	R'000	R'000	R'000
UNLISTED								
Golden Ribbon Trading 303 (Pty) Ltd t/a Port Shepstone Quarries	**30**	30	**30**	30	**-**	-	**531**	531
Banzi Pan Development Co (Pty) Ltd		826	**42**	42	**-**	-	**-**	-
Rocktail Bay Devco (Pty) Ltd	**763**	763	**42**	42	**-**	-	**-**	-
Mabibi Devco (Pty) Ltd	**460**	460	**8**	8	**1**	1	**74**	74
Ntingwe Tea (Pty) Ltd	**384**	384	**38**	38	**-**	-	**-**	-
					1	1	605	605

JOINT VENTURES - ANNEXURE 4
FOR THE YEAR ENDED 31 MARCH 2017

	Number of shares held		Percentage holding		Shares		Loans	
	2017	2016	2017	2016	2017	2016	2017	2016
			%	%	R'000	R'000	R'000	R'000
UNLISTED								
Ulundi Shopping Centre (Pty) Ltd	**49**	-	**50%**	-	**-**	-	**2 796**	-

CAPITAL MANAGEMENT - ITHALA SOC LIMITED - ANNEXURE 5 FOR THE YEAR ENDED 31 MARCH 2017

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 11,93% (2016: 18,33%). This level is above the minimum capital adequacy ratio stipulated by the South African Reserve Bank (SARB).

Capital planning is an integral part of capital management. The Enterprise Risk Committee has been tasked with assisting the Board in discharging its capital management responsibility and, as such, should there be a need for additional capital this Committee will drive the necessary processes in line with contingency capital planning.

Capital adequacy	Regulatory limit	2017	2016
Capital adequacy ratio	≥11,25%	**11,93%**	18,33%
Primary share capital and reserve funds adequacy ratio	≥7,5%	**11,43%**	17,55%
Risk weighted assets			
Risk weighted assets		**1 294 127**	889 957
Risk weighted other assets		**56 706**	76 870
Operational risk		**467 392**	467 392
Total risk weighted assets		**1 818 225**	1 434 219
Capital structure			
Share capital		**190**	190
Share premium		**374 710**	374 710
Reserves		**(146 088)**	(108 051)
Prescribed deductions against capital and reserve funds		**(20 177)**	(15 094)
Total tier 1 capital		**208 635**	251 755
General provisions		**16 176**	11 124
Total Tier II capital		**16 176**	11 124
Total qualifying capital		**224 811**	262 879

2016/17 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES

As a state-owned entity, Ithala, each year agrees its performance objectives, measures and indicators, as well as its annual targets with its ultimate shareholder, the Department of Economic Development, Tourism and Environmental Affairs and Provincial Treasury, in line with the PFMA. This section presents actual performance against targets for Ithala SOC Limited.

FINANCIAL & SHAREHOLDER PERSPECTIVE (WEIGHTING = 25%)

OBJECTIVES	KEY PERFORMANCE INDICATORS	ACTUAL VALIDATED ANNUAL OUTPUT 2015/16	TARGET 2016/17	ACTUAL 2016/17	MANAGEMENT COMMENT
Increase & Enhance Capital Base & Assets	Achieve the budgeted capital adequacy ratio (CAR) by 31 March 2017	18,33%	16,58%	12,32%	Target not achieved Ithala identified and queried an issue with the South African Reserve Bank ("SARB") relating to a large exposure to Nedgroup Investments Corporate Money Market Fund (Pty) Limited. The SARB subsequently informed Ithala that the investment should be risk weighted at 100% instead of 20% per regulation 23(8)(a) of the Regulations relating to Banks. The new weighting was applied in March 2017 resulting in the capital adequacy ratio falling below the target. This was, however, temporary as the investments were restructured accordingly in the new financial year.
	Achieve the budgeted return on equity (ROE) by 31 March 2017	0,01%	0,40%	-15,35%	Target not achieved The failure to achieve these targets is attributable to: • The negative variance in new advances which resulted in interest and fee income from advances being below budget; • The customer deposit target was not achieved, resulting in the return on surplus funds being below budget; • The growth in active debit cards was not achieved, resulting in debit card fee income being below budget; and • The negative variance in insurance income was due to certain insurance products performing below expectations.
	Achieve the budgeted return on assets (ROA) by 31 March 2017	0,001%	0,04%	-1,464%	
Sustainable Profitability	Achieve the budgeted annual net profit (R'000)	24	4,362	(38,037)	
	Achieve the budgeted cost to income ratio (CTIR) by 31 March 2017	106,69%	96,02%	109,81%	
Sound Governance & Stakeholder Management	Resolution of the outstanding internal and external audit issues within the agreed upon timeframes	New KPI not in 2015/16	100% completed within the stipulated timeframe	80,11% completed within the stipulated timeframe	Target not achieved Management failed to achieve this target due to the focus on other urgent deliverables required by the business e.g. banking licence application project and revenue-generating initiatives.

CUSTOMER PERSPECTIVE (WEIGHTING = 25%)

OBJECTIVES	KEY PERFORMANCE INDICATORS	ACTUAL VALIDATED ANNUAL OUTPUT 2015/16	TARGET 2016/17	ACTUAL 2016/17	MANAGEMENT COMMENT
Increase Market Share	Achieve the budgeted total number of active^ debit cards by 31 March 2017	New KPI not in 2015/16	146 870	87 558	Target not achieved The failure to achieve the target is attributable to the lower than budgeted sales volumes and account activation.
	Achieve the budgeted total number of active insurance policies sold by 31 March 2017	6 005	51 325	2 426	Target not achieved Over-reliance on a single affinity and failure to conduct proper due diligence prior to the product launch resulted in this target not being achieved.
	Achieve the budgeted customer deposits amount by 31 March 2017 (R'000)	New KPI not in 2015/16	2 846 913	2 285 509	Target not achieved The growth in customer deposits was linked to the growth in transactional accounts (book-based savings and debit card) customers.
	Achieve the budgeted new advances amount by 31 March 2017 (R'000)	New KPI not in 2015/16	418 904	276 132	Target not achieved The effect of the changes to the pricing and affordability matrix has increased our loans paid out. However, not to the extent that the budget could be achieved.
Establish Public Sector Banking Services	Achieve the budgeted total value of deposits from public sector clients (R'000)	331 693	413 750	328 174	Target not achieved There has been reduced liquidity in the market from public sector due to the number of community upliftment projects being instituted by Government
Sound Customer Relationship Management	Achieve the targeted score per the customer satisfaction measure by 31 March 2017	100%	95%	87,00%	Target not achieved Negative perceptions by customers regarding customer service levels due to long queues and waiting time have had an adverse effect on the customer satisfaction survey.

^ An active debit card is defined as an account which has a deposit balance greater than zero (0)

BUSINESS PROCESS PERSPECTIVE (WEIGHTING = 25%)

OBJECTIVES	KEY PERFORMANCE INDICATORS	ACTUAL VALIDATED ANNUAL OUTPUT 2015/16	TARGET 2016/17	ACTUAL 2016/17	MANAGEMENT COMMENT
Effective Distribution Channels	Deploy the budgeted number of new self-service devices (SSDs) by 31 March 2017	New KPI not in 2015/16	100	0	Target not achieved Delays were experienced in implementing core banking capability to settle SSD merchants due to capacity constraints within our hosted banking system service provider.
	Deploy the budgeted number of new automatic teller machines (ATMs) by 31 March 2017	0	50	9	Target not achieved Poor planning and an inadequate deployment strategy resulted in a failure to acquire ATM sites that would achieve the minimum number of required transactions needed to recover the capital investment made, therefore delaying any further roll-out.
Enhanced Business Effectiveness through Technology	Achieve the core banking system centralisation milestones by March 2017	New KPI not in 2015/16	100% adherence to the implementation milestones	42,50% adherence to the implementation milestones	Target not achieved Delays were experienced due to changes in business priorities and the reassignment of resources.
	Achieve the insurance management system (IMS) implementation milestones by 31 March 2017	39,68% adherence to the implementation milestones	100% adherence to the implementation milestones	86,05% adherence to the implementation milestones	Target not achieved Delays were experienced due to changes in the project scope, as well as resource constraints.

PEOPLE, LEARNING AND GROWTH PERSPECTIVE (WEIGHTING = 25%)

OBJECTIVES	KEY PERFORMANCE INDICATORS	ACTUAL VALIDATED ANNUAL OUTPUT 2015/16	TARGET 2016/17	ACTUAL 2016/17	MANAGEMENT COMMENT
An Organisational Culture that Promotes Excellence	Implementation of the Board-approved employee incentive scheme by 31 March 2017	100% adherence to the implementation milestones	100% adherence to the implementation milestones	71,43% adherence to the implementation milestones	Target not achieved The scheme has been finalised and approved by the Remuneration Committee ("REMCO") with the support of the Human Resources, Social and Ethics Committee ("HRSEC"). REMCO requested an external service provider be appointed to validate and benchmark the scheme. Once updated for the service provider's recommendations, the final employee incentive scheme will be presented to the Board of Directors for final approval.

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